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EXEGENICS INC  
Form DEF 14A  
April 16, 2002

SCHEDULE 14A  
(RULE 14A-101)

INFORMATION REQUIRED IN PROXY STATEMENT

SCHEDULE 14A INFORMATION

PROXY STATEMENT PURSUANT TO SECTION 14(A) OF THE SECURITIES  
EXCHANGE ACT OF 1934 (AMENDMENT NO. )

Filed by the Registrant ☒ [X]

Filed by a Party other than the Registrant ☐ [ ]

Check the appropriate box:

☐ [ ] Preliminary Proxy Statement ☐ [ ] Confidential, for Use of the  
Commission Only (as permitted by  
Rule 14a-6(e)(2))

☒ [X] Definitive Proxy Statement

☐ [ ] Definitive Additional Materials

☐ [ ] Soliciting Material Pursuant to sec. 240.14a-11(c) or sec. 240.14a-12

EXEGENICS INC.

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(Name of Registrant as Specified in its Charter)

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(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

☒ [X] No fee required.

☐ [ ] Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and  
0-11.

(1) Title of each class of securities to which transaction applies:

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(2) Aggregate number of securities to which transaction applies:

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(3) Per unit price or other underlying value of transaction computed  
pursuant to Exchange Act Rule 0-11 (Set forth the amount on which the filing fee  
is calculated and state how it was determined):

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(4) Proposed maximum aggregate value of transaction:

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(5) Total fee paid:

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☐ [ ] Fee paid previously with preliminary materials.

☐ [ ] Check box if any part of the fee is offset as provided by Exchange Act  
Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid  
previously. Identify the previous filing by registration statement number, or  
the Form or Schedule and the date of its filing.

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(1) Amount Previously Paid:

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(2) Form, Schedule or Registration Statement No.:

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(3) Filing Party:

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(4) Date Filed:

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EXEGENICS INC.  
2110 RESEARCH ROW  
SUITE 621  
DALLAS, TEXAS 75235

April 12, 2002

Dear Stockholder,

You are cordially invited to attend the 2002 Annual Meeting of Stockholders of EXEGENICS INC. (the "Company") to be held at 9:00 a.m. on Monday, May 13, 2002 at the Company's office, which is located at 2110 Research Row, Dallas, Texas.

There will be two proposals presented at the Annual Meeting. First will be a proposal to elect seven persons to the Board of Directors. Second, the Company will ask the stockholders to ratify the selection of Ernst & Young LLP as the Company's independent public accountants. The Board of Directors recommends the approval of both of these proposals. Such other business will be transacted as may properly come before the Annual Meeting.

We hope you will be able to attend the Annual Meeting. Whether you plan to attend the Annual Meeting or not, it is important that your shares are represented. Therefore, you are urged to complete, sign, date and return the enclosed proxy card promptly in accordance with the instructions set forth on the card. This will ensure your proper representation at the Annual Meeting.

Sincerely,

/s/ RONALD L. GOODE, PH.D.

-----  
Ronald L. Goode, Ph.D.  
President and Chief Executive Officer

YOUR VOTE IS IMPORTANT.  
PLEASE RETURN YOUR PROXY CARD PROMPTLY.

EXEGENICS INC.

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS  
TO BE HELD MAY 13, 2002

To the Stockholders of EXEGENICS INC.:

NOTICE IS HEREBY GIVEN that the Annual Meeting of EXEGENICS INC., a Delaware corporation (the "Company"), will be held on Monday, May 13, 2002 at the Company's office, which is located at 2110 Research Row, Dallas, Texas for

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the following purposes:

1. To elect seven members to the Board of Directors to hold office until the next annual meeting of Stockholders and until their successors are duly elected and qualified.
2. To consider and act upon a proposal to ratify the appointment of Ernst & Young LLP as the Company's independent public accountants for the fiscal year ending December 31, 2002.
3. To transact such other business as may be properly brought before the Annual Meeting and any adjournments thereof.

The Board of Directors has fixed the close of business on April 4, 2002 as the record date for the determination of Stockholders entitled to notice of and to vote at the Annual Meeting and at any adjournments thereof.

All Stockholders are cordially invited to attend the Annual Meeting. Representation of at least a majority of all outstanding shares of voting stock is required to constitute a quorum, and, therefore, whether you plan to attend the Annual Meeting or not, you are requested to complete, sign, date and return the enclosed proxy card as soon as possible in accordance with the instructions on the proxy card. A pre-addressed, postage prepaid return envelope is enclosed for your convenience.

By Order of the Board of Directors

/s/ JOAN H. GILLETT

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Joan H. Gillett  
Secretary

April 12, 2002

EXEGENICS INC.  
2110 RESEARCH ROW  
DALLAS, TEXAS 75235  
(214) 358-2000

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PROXY STATEMENT

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GENERAL INFORMATION

This Proxy Statement is furnished in connection with the solicitation by the Board of Directors of EXEGENICS Inc. (the "Company"), a Delaware corporation, of proxies, in the accompanying form, to be used at the Annual Meeting of Stockholders to be held at 9:00 a.m. on Monday, May 13, 2002 at the Company's office, which is located at 2110 Research Row, Dallas, Texas, and any adjournments thereof (the "Meeting").

Where the Stockholder specifies a choice on the proxy as to how his or her shares are to be voted on a particular matter, the shares will be voted accordingly. If no choice is specified, the shares will be voted:

- FOR the election of the nominees for director named herein,
- FOR the ratification of the appointment of Ernst & Young LLP as the

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Company's independent public accountants for the fiscal year ending December 31, 2002.

Any proxy given pursuant to this solicitation may be revoked by the person giving it at any time before its use by delivering to the Company a written notice of revocation or a duly executed proxy bearing a later date. Any Stockholder who has executed a proxy but is present at the Meeting, and who wishes to vote in person, may do so by revoking his or her proxy as described in the preceding sentence. Shares represented by valid proxies in the form enclosed, received in time for use at the Meeting and not revoked at or prior to the Meeting, will be voted at the Meeting. The presence, in person or by proxy, of the holders of a majority of the outstanding shares of the Company's Common Stock is necessary to constitute a quorum at the Meeting. Votes of Stockholders of record who are present at the meeting in person or by proxy, abstentions, and broker non-votes (as defined below) are counted as present or represented at the meeting for purposes of determining whether a quorum exists.

Nominees for election as directors at the meeting will be elected by a plurality of the votes of the shares present in person or represented by proxy at the meeting. Withholding authority to vote for a nominee for director will have no effect on the outcome of the vote. For the proposal to ratify the appointment of Ernst & Young LLP as the Company's independent public accountants for the fiscal year ending December 31, 2002, the affirmative vote of a majority of shares of Common Stock present or represented by proxy and entitled to vote on the matter is necessary for approval. Because abstentions are treated as shares present or represented and entitled to vote, abstentions with respect to this proposal have the same effect as a vote against the proposal.

If you hold your shares of stock through a broker, bank or other representative, generally the broker or your representative may only vote the stock that it holds for you in accordance with your instructions. However, if it has not timely received your instructions, the broker or your representative may vote on certain matters for which it has discretionary voting authority. If a broker or your representative cannot vote on a particular matter because it does not have discretionary voting authority, this is a "broker non-vote" on that matter, which will have no effect on the vote.

The close of business on April 4, 2002 has been fixed as the record date for determining the Stockholders entitled to notice of and to vote at the Meeting. As of the close of business on April 4, 2002, the Company had 16,180,935 shares of Common Stock, \$.01 par value per share (the "Common Stock") and 831,574 shares of Series A Preferred Stock, par value \$.01 per share (the "Series A Preferred Stock"; collectively with the

Common Stock, the "Voting Securities"), outstanding and entitled to vote. Holders of Common Stock and holders of Series A Preferred Stock are entitled to one vote per share on all matters to be voted on by Stockholders. The holders of Series A Preferred Stock vote together with the holders of Common Stock as one class.

The cost of soliciting proxies, including expenses in connection with preparing and mailing this Proxy Statement, will be borne by the Company. In addition, the Company will reimburse brokerage firms and other persons representing beneficial owners of Voting Securities of the Company for their expenses in forwarding proxy material to such beneficial owners. We have engaged Georgeson Shareholder Communications Inc. to assist with the solicitation of proxies for an estimated fee of \$5,000 plus reasonable out-of-pocket expenses. Our directors, officers and employees may also solicit proxies by mail, telephone, telegram, telex and personal contact. No additional compensation will be paid for such solicitation.

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This Proxy Statement and the accompanying proxy are being mailed on or about April 12, 2002 to all Stockholders entitled to notice of and to vote at the Meeting.

The Annual Report to Stockholders for the fiscal year ended December 31, 2001 is being mailed to the Stockholders with this Proxy Statement, but does not constitute a part hereof.

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### SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth certain information as of February 28, 2002 concerning the beneficial ownership of the Voting Securities by each stockholder known by the Company to be the beneficial owner of more than 5% of the outstanding shares of either the Common Stock or Series A Preferred Stock, each current member of the Board of Directors, each executive officer named in the Summary Compensation Table on page 10, and all directors and current executive officers as a group.

NAME AND ADDRESS OF BENEFICIAL OWNER (1)	COMMON STOCK		SERIES A PREFERRED STOCK	
	AMOUNT AND NATURE OF BENEFICIAL OWNERSHIP (2)	PERCENT OF CLASS (2)	AMOUNT AND NATURE OF BENEFICIAL OWNERSHIP (3)	PERCENT OF CLASS (3)
Bruce Meyers (5) .....	1,752,859	9.51%	29,282	3.5%
Roan/Meyers Associates, L.P. (6) .....	1,717,059	9.32%	29,282	3.5%
Arthur P. Bollon, Ph.D. (7) .....	824,400	4.47%	--	--
Robert J. Easton (8) .....	66,650	*	--	--
Gary E. Frashier (9) .....	218,000	1.18%	--	--
Ira J. Gelb, M.D. (10) .....	191,000	1.04%	--	--
Irwin C. Gerson (11) .....	188,000	1.02%	--	--
Ronald L. Goode, Ph.D. (12) .....	511,700	2.78%	--	--
Walter M. Lovenberg, Ph.D. (13) .....	191,500	1.04%	--	--
Daniel M. Shusterman, J.D. (14) .....	105,000	*	--	--
Joan H. Gillett (15) .....	18,500	*	--	--
Robert J. Rousseau (16) .....	26,000	*	--	--
Directors and executive officers as a group (10 persons) (17) .....	2,340,750	12.70%	--	--

\* Less than 1%

Except as otherwise indicated, each of the persons named has sole voting and investment power with respect to the shares shown below.

(1) Except as otherwise indicated, the address of each beneficial owner is c/o EXEGENICS Inc., 2110 Research Row, Dallas, Texas 75235.

(2) Calculated on the basis of 16,180,935 shares of Common Stock outstanding except that shares of Common Stock underlying options or warrants exercisable within 60 days of the date hereof are deemed to be outstanding for purposes of calculating the beneficial ownership of securities of the holder of such options or warrants. This calculation excludes shares of Common Stock issuable upon the conversion of Series A Preferred Stock.

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- (3) Calculated on the basis of 831,574 shares of Series A Preferred Stock outstanding.
- (4) Calculated on the basis of an aggregate of 16,180,935 shares of Common Stock and 831,574 shares of Series A Preferred Stock outstanding except that shares of Common Stock underlying options and warrants exercisable within 60 days of the date hereof are deemed to be outstanding for purposes of calculating beneficial ownership of securities of the holder of such options or warrants. This calculation excludes shares of Common Stock issuable upon the conversion of Series A Preferred Stock.
- (5) Mr. Meyers' address is c/o Roan/Meyers Associates, L.P., 17 State Street, New York, New York 10004. Mr. Meyers is the sole stockholder, officer and director of the corporate general partner of Roan/Meyers Associates, L.P. ("RMA") (formerly, Janssen-Meyers Associates, L.P.). Mr. Meyers beneficial ownership consists of the securities beneficially owned by RMA, which are described in note (6) below, and 35,800 shares of Common Stock held by The Meyers Foundation of which Mr. Meyers has voting control.

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- (6) RMA's address is 17 State Street, New York, New York 10004. Ownership consists of (i) 1,444,470 shares of Common Stock, (ii) 33,987 shares of Common Stock issuable upon the exercise of a currently exercisable Unit Purchase Option and underlying Class E Warrants granted to RMA for placement agent services in connection with the Company's April 1998 private placement, (iii) 1,510 shares of Common Stock issuable upon the exercise of 377.5 Unit Purchase Options and underlying C and D Warrants originally granted to RMA for underwriting services in connection with the IPO, (iv) 30,563 shares of Common Stock issuable upon the exercise of currently exercisable Class E Warrants, (v) 81,529 shares of Common Stock issuable upon the exercise of a Unit Purchase Option and underlying Class E Warrants granted to RMA for placement agent services in connection with the Company's April 1998 private placement, and (vi) 125,000 shares of Common Stock issuable upon the exercise of currently exercisable two-year warrants issued in 2001 to RMA. Does not include 29,282 shares of Common Stock issuable upon the conversion of 29,282 shares of Series A Preferred Stock.
- (7) Ownership consists of 169,400 shares of Common Stock and options to purchase 655,000 shares of Common Stock that are currently exercisable or exercisable within 60 days of the date hereof. Does not include options to purchase 90,000 shares of Common Stock not exercisable within 60 days of the date hereof.
- (8) Ownership consists of options to purchase 66,650 shares of Common Stock currently exercisable or exercisable within 60 days of the date hereof. Does not include options to purchase 33,350 shares of Common Stock not exercisable within 60 days of the date hereof.
- (9) Ownership consists of options to purchase 218,000 shares of Common Stock currently exercisable or exercisable within 60 days of the date hereof. Does not include options to purchase 22,000 shares of Common Stock not exercisable within 60 days of the date hereof.
- (10) Ownership consists of options to purchase 191,000 shares of Common Stock that are currently exercisable or exercisable within 60 days of the date hereof. Does not include options to purchase 3,000 shares of Common Stock not exercisable within 60 days of the date hereof.
- (11) Ownership consists of 1,000 shares of Common Stock and options to purchase

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187,000 shares of Common Stock that are currently exercisable or exercisable within 60 days of the date hereof. Does not include options to purchase 3,000 shares of Common Stock not exercisable within 60 days of the date hereof.

- (12) Ownership consists of 111,700 shares of Common Stock and options to purchase 400,000 shares of Common Stock that are currently exercisable or exercisable within 60 days of the date hereof.
- (13) Ownership consists of 4,500 shares of Common Stock and options to purchase 187,000 shares of Common Stock currently exercisable or exercisable within 60 days of the date hereof. Does not include options to purchase 3,000 shares of Common Stock not exercisable within 60 days of the date hereof.
- (14) Ownership consists of 5,000 shares of Common Stock and options to purchase 100,000 shares of Common Stock currently exercisable or exercisable within 60 days of the date hereof. Does not include options to purchase 5,000 shares of Common Stock not exercisable within 60 days of the date hereof.
- (15) Ownership consists of 1,000 shares of Common Stock and options to purchase 17,500 shares of Common Stock currently exercisable or exercisable within 60 days of the date hereof. Does not include options to purchase 17,500 shares of Common Stock not exercisable within 60 days of the date hereof.
- (16) Ownership consists of 1,000 shares of Common Stock and options to purchase 25,000 shares of Common Stock currently exercisable or exercisable within 60 days of the date hereof. Does not include options to purchase 25,000 shares of Common Stock not exercisable within 60 days of the date hereof.
- (17) Ownership consists of 293,600 shares of Common Stock and options to purchase an aggregate of 1,847,150 shares of Common Stock which are currently exercisable or exercisable within 60 days of the date hereof. Does not include options to purchase 401,850 shares of Common Stock not exercisable within 60 days of the date hereof.

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### MANAGEMENT

#### BOARD OF DIRECTORS

Under the Company's Bylaws, the number of members of the Company's Board of Directors is fixed from time to time by the Board of Directors, and directors serve in office until the next annual meeting of Stockholders and until their successors have been elected and qualified. The Board of Directors has voted to set the size of the Board of Directors at seven and to nominate Arthur P. Bollon, Robert J. Easton, Gary E. Frashier, Ira J. Gelb, Irwin C. Gerson, Ronald L. Goode and Walter M. Lovenberg for election at the Meeting.

Set forth below are the names of the persons nominated as directors, their ages, their offices in the Company, if any, their principal occupations or employment for the past five years, the length of their tenure as directors and the names of other public companies in which such persons hold directorships.

NAME ----	AGE ---	POSITION WITH THE COMPANY -----
Arthur P. Bollon.....	59	Executive Vice President and Director
Robert J. Easton.....	58	Director

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Gary E. Frashier.....	65	Director and Chairman of the Board
Ira J. Gelb.....	74	Director
Irwin C. Gerson.....	71	Director
Ronald L. Goode.....	58	President, Chief Executive Officer and Director
Walter M. Lovenberg.....	66	Director

The following information is furnished as to each nominee for election as a director and each of the current directors:

Arthur P. Bollon, Ph.D., Founder of the Company, currently serves as Director, Executive Vice President and as a member of the team comprising our Office of the Chief Scientific Officer. Prior thereto he served as Chairman of the Board of Directors from the company's inception in 1991 through 2000, President and Chief Executive Officer from 1991 through 2001 and as Treasurer from 1991 through 1995. Dr. Bollon received his Ph.D. from the Institute of Microbiology at Rutgers University and was a Post Doctoral Fellow at Yale University. Dr. Bollon has served as a consultant to a number of major companies, including Merck, Sharp & Dohme and Diamond Shamrock, and has served on the Board of Directors and Advisory Boards of several biotechnology companies, including Viragen, Inc., Wadley Biosciences Corp. and American Bio-netics, Inc. From 1987 to 1991, Dr. Bollon served as President and Chief Executive Officer of the Wadley/Phillips Petroleum Partnership. Prior to that time, he was Director of Genetic Engineering and Chairman of the Department of Molecular Genetics at the Wadley Institutes of Molecular Medicine. Dr. Bollon played a leading role in acquiring or licensing the technology that forms the basis of the Company.

Robert J. Easton, was elected to the Board of Directors in December 2000. Mr. Easton recently founded a health care consulting practice named Easton Associates LLC. Prior to this latest venture, he spent 18 years as a management consultant, most recently as Managing Director with IBM Healthcare Consulting ("IBM"). Prior to IBM, Mr. Easton served as President of the Wilkerson Group, also a health care consulting concern. Mr. Easton has executed proprietary studies in a wide variety of medical products and service fields. His areas of expertise include pharmaceuticals, biotechnology and in vitro diagnostics. Mr. Easton is a frequent speaker for medical industry and investment groups in the U.S. and Europe. He is a Director of CollaGenex Pharmaceuticals and Cepheid, Inc., Nasdaq listed companies and two private companies, the former President of the Biomedical Marketing Association, and Special Limited Partner of Advanced Technology Ventures. Mr. Easton received an M.B.A. from Harvard Graduate School of Business Administration and undergraduate degrees in Chemical Engineering from Rice University.

Gary E. Frashier commenced serving as a director of the Company on June 28, 1999 and was elected to Chairman in a non-executive capacity in December 2000. Mr. Frashier serves as President and Principal of Management Associates, which provides strategic consulting services to entrepreneurial companies in the life

sciences field. Mr. Frashier previously served as Chairman of the Board and Chief Executive Officer of OSI Pharmaceuticals, Inc. ("OSIP"), a Nasdaq listed company, from January 1997 through September 1998, and as Chairman of the Board through September 2000. He previously served as CEO and Vice-Chairman of OSIP during 1996, and as President and CEO of OSIP from March 1990 through December 1995. From March 1987 through February 1990, Mr. Frashier served as President and CEO of Genex Corporation, which specialized in protein engineering. Previously, Mr. Frashier served as Executive Vice President of Millipore Corporation, where he was also President of Waters Associates, Inc., a leader in liquid chromatography. At Millipore, Mr. Frashier also served as President,



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International Operations. In 1984, Mr. Frashier organized a management buy-out of Millipore's ultra high-purity and laboratory water systems business, Continental Water Systems, Inc., which was later sold to Olin Corporation. Mr. Frashier has a B.S. in chemical engineering from Texas Technological University, where he was honored in 1985 as a Distinguished Engineer of the University. In 1970, he received his M.S. degree in Management from the Massachusetts Institute of Technology, where he was selected as a Sloan Fellow in Management. He was also selected as the "Long Island Businessman of the Year" in 1993 by the Wharton Club. He is a registered Professional Engineer in chemical engineering, a member of the society of Sloan Fellows (MIT) and a former member of the Young President's Organization. Mr. Frashier serves on the Boards of several private and public biopharmaceutical firms, including Maxim Pharmaceuticals, Inc., which is a Nasdaq listed public company and three private companies: Aderis Pharmaceuticals, Inc., Merrimack Pharmaceuticals, Inc. and Helicon Therapeutics.

Ira J. Gelb, M.D. has been a director of the Company since April 1994. Dr. Gelb received his M.D. from New York University School of Medicine in 1951. After finishing his training in cardiology at the Mount Sinai Hospital in New York City in 1957, Dr. Gelb continued his association with that institution until his retirement from private practice in 1992. During this period, he was appointed Attending Cardiologist and Associate Clinical Professor at the Mount Sinai School of Medicine. Other appointments included Adjunct Associate Clinical Professor of Cardiology at Cornell Medical School, Adjunct Clinical Professor of Cardiology at New York Medical College, Cardiology Consultant at Lawrence Hospital in Bronxville, New York and United Hospital, Portchester, New York. Dr. Gelb is a former President of the American Heart Association, Westchester-Putnam Chapter, and was a Senior Assistant Editor with the American Journal of Cardiology from 1968 to 1983, when he became a founding editor of the Journal of the American College of Cardiology ("JACC"). Dr. Gelb continued as a Senior Assistant Editor of JACC until his retirement in 1992. Since that time, he has served on the boards of various pharmaceutical companies. He was appointed Adjunct Clinical Professor of Medicine at the Mount Sinai School of Medicine in 2002 where he had been an Honorary Lecturer since 1992. Dr. Gelb has also served as the Clinical Coordinator of Biomedical Programs and Professor of Chemistry & Biochemistry at Florida Atlantic University ("FAU") since 1998, an Adjunct Professor and a member of FAU's Foundation Board since October 1996 and of FAU's Steering Committee since 1997. Dr. Gelb has served as a member of the Board of Directors of the American Heart Association, Boca Raton Division, since December 1996 and was appointed President in June 1999 for a two-year term. In 1998, Boca Raton Community Hospital added Dr. Gelb as a member to its Foundation Board. In November 1998, Dr. Gelb was appointed Voluntary Professor of Medicine at the University of Miami School of Medicine. At present he is Director of Clinical Programs and Clinical Professor, Biomedical Science, Charles E. Schmidt College of Science, Florida Atlantic University. He was appointed to the advisory board of Cleveland Clinic, Florida in 1999.

Irwin C. Gerson has been a director of the Company since March 1995. From 1995 until December 1998, Mr. Gerson served as Chairman of Lowe McAdams Healthcare, a division of the Interpublic Group, and prior thereto had been, since 1986, Chairman and Chief Executive Officer of William Douglas McAdams, Inc., one of the largest advertising agencies in the U.S. specializing in pharmaceutical marketing and communications to healthcare professionals. In February 2000, he was inducted into the Medical Advertising Hall of Fame. Mr. Gerson has a B.S. in Pharmacy from Fordham University and an MBA from the NYU Graduate School of Business Administration. He is a director of Andrx Corporation, a Nasdaq listed public company, ENZO Biochem, an NYSE listed company and Bio Sample Inc., a privately held corporation. In 1992, Mr. Gerson received an honorary Doctor of Humane Letters from the Albany College of Pharmacy and in 2001, an honorary Doctor of Human Letters from Long Island University. Mr. Gerson served as a Trustee of Long Island University, Chairman of The Council of Overseers -- Arnold and Marie Schwartz College of

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Pharmacy, member of the Board of Trustees of the Albany College of Pharmacy and, from 1967 through 1974, was a lecturer on sales management and pharmaceutical marketing at the Columbia College of Pharmacy. He is currently Vice-President of the Lifetime Learning Society of Florida Atlantic University. Mr. Gerson also has served as a Member of the Board of Governors, American Association of Advertising Agencies, a Director and Chairman of Business Publications Audit, a Director of the Connecticut Grand Opera, and a Director of the Stamford Chamber Orchestra. Mr. Gerson previously served as a director of the foundation of Pharmacists and Corporate Americans for AIDS Education, the Pharmaceutical Advertising Council, the Nutrition Research Foundation and as a Trustee of the Chemotherapy Foundation.

Ronald L. Goode, Ph.D. was named President and Chief Executive Officer and elected to the Board of Directors on March 21, 2001. Dr. Goode is an accomplished pharmaceutical executive who has held key management positions at G. D. Searle & Co. (Corporate Senior Vice President and President of Asia/Pacific World Area from 1995 to 1997, President of Searle International from 1991 to 1995, and Senior Vice President of Commercial Development from 1986 to 1989) and before that at Pfizer Pharmaceuticals (Vice President of Clinical Research and Scientific Affairs from 1985 to 1986 and Director of Marketing Research in 1980). He has an extensive record of success in business development, having been responsible for many of Searle's acquisitions, including DayPro(R) that became Searle's largest selling drug. Dr. Goode has supervised clinical development programs that led to the filing of over a dozen New Drug Approval applications, including Procardia XL(R) and Ambien(R). After his tenure at Searle, Dr. Goode was President and CEO of Unimed Pharmaceuticals, Inc. from 1997 to 1999. He also positioned the company for sale to Solvay Et Cie, the Belgium-based conglomerate. He formed the consulting company Pharma-Links in 1999 with the mission of being the "link" between pharmaceutical companies to help them create alliances, form joint ventures and effect various transactions. In 2000 Dr. Goode and his wife spent a sabbatical with his "charity of choice", Mercy Ships. Dr. Goode also serves on the Board of Directors of Vitro Diagnostics and several not-for-profit organizations. Dr. Goode received his Ph.D. in Microbiology from the University of Georgia.

Walter M. Lovenberg, Ph.D. has been a director of the Company since August 1995. From 1989 to 1993, Dr. Lovenberg served as Executive Vice President and member of the Board of Directors of Marion Merrell Dow Inc. Dr. Lovenberg also served as the President of the Marion Merrell Dow Research Institute from 1989 to 1993 and Vice President from 1986 through 1989. Prior to joining Marion Merrell Dow in 1958, Dr. Lovenberg was a Senior Scientist and Chief of Biochemical Pharmacology at the National Institutes of Health. Dr. Lovenberg has served as President of Lovenberg Associates, Inc. since 1993. From 1997 to 2000, Dr. Lovenberg served as Chief Executive Officer of Helicon Therapeutics Inc., a private company. Dr. Lovenberg currently serves as a director of the following public companies: OSI Pharmaceuticals, Inc., Merrimack Pharmaceuticals, Inc. and Inflazyme, Inc. Dr. Lovenberg serves on the Scientific Advisory Board of Guilford Pharmaceuticals, Inc., a Nasdaq listed company. Dr. Lovenberg is also a director of several private biotechnology companies including Helicon Therapeutics, Inc., Proquest Pharmaceuticals, Inc. and Virogen, Ltd.. Dr. Lovenberg received a Ph.D. in Biochemistry from George Washington University in 1962, and prior to that, a B.S. in Biochemistry and a M.S. in Agriculture from Rutgers University. Dr. Lovenberg, who serves as Executive Editor of Analytical Biochemistry, is a consulting editor to several other scientific journals. Dr. Lovenberg has been the recipient of many awards, including a Fulbright-Hays Senior Scholar Award and a Public Health Service Superior Service Award. Dr. Lovenberg is a member of the American College of Neuropsychopharmacology, the American Society of Neurochemistry and the American Society of Biochemistry and Molecular Biology.

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### COMMITTEES OF THE BOARD OF DIRECTORS AND MEETINGS

Meeting Attendance. During the fiscal year ended December 31, 2001, there were 11 meetings of the Board of Directors, and the various committees of the Board of Directors met a total of eight times. The Board of Directors also acted by unanimous written consent on two occasions pursuant to Delaware law during this period. No director attended fewer than 75% of the total number of meetings of the Board and of committees of the Board on which he served during fiscal 2001.

Audit Committee. The Audit Committee, which met four times in fiscal 2001, has three members, Irwin C. Gerson (Chairman), Ira J. Gelb and Walter Lovenberg. The Audit Committee reviews the

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engagement of the Company's independent accountants, reviews annual financial statements, considers matters relating to accounting policy and internal controls and reviews the scope of annual audits. Please see also the report of the Audit Committee set forth herein and the Audit Committee Charter attached hereto as Appendix A.

Compensation and Organization Committee. The Compensation and Organization Committee, which met four times during fiscal 2001, has four members, Gary E. Frashier (Chairman), Robert J. Easton, Irwin C. Gerson and Ronald L. Goode. The Compensation and Organization Committee reviews, approves and makes recommendations on the Company's compensation policies, practices and procedures to ensure that legal and fiduciary responsibilities of the Board of Directors are carried out and that such policies, practices and procedures contribute to the success of the Company. While Dr. Goode, the Chief Executive Officer and President of the Company, will participate in decisions relating to executive officers, he will not vote on matters relating to his own compensation. Please see also the report of the Compensation and Organization Committee set forth elsewhere in this Proxy Statement.

Nominating Committee. The Company does not have a standing Nominating Committee.

Compensation and Organization Committee Interlocks and Insider Participation. The Compensation and Organization Committee has four members, Gary E. Frashier (Chairman), Robert J. Easton, Irwin C. Gerson and Ronald L. Goode. No executive officer of the Company serves as a member of the Board of Directors or Compensation Committee of any entity that has one or more executive officers serving as a member of the Company's Board of Directors or Compensation and Organization Committee.

### COMPENSATION OF DIRECTORS

The Company pays each non-employee director a monthly fee of \$1,500 for service as a director of the Company, plus \$1,500 for each day of a Board of Directors meeting attended, \$1,000 for each Board of Directors conference call meeting attended, \$750 for each committee meeting attended and \$750 for each committee conference call meeting attended. Expenses incurred in attending Board of Director meetings and committee meetings are reimbursed by the Company.

Directors are eligible to participate in the Company's Amended and Restated 2000 Stock Option Plan (the "Plan"). The Board of Directors previously approved an option grant schedule for non-employee directors that provides for an option to purchase 50,000 shares of Common Stock upon first joining the Board and then annual grants to be awarded at the beginning of each calendar year as follows: an option to purchase 25,000 shares of Common Stock until a total of 150,000 options is reached, an option to purchase 15,000 shares of Common Stock until a

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total of 200,000 options is reached, and then an option to purchase 10,000 shares of Common Stock every year thereafter. The initial grant of an option to purchase 50,000 shares of Common Stock has an exercise price equivalent to the fair market value of the Common Stock on the date of issuance, while each annual option grant has an exercise price equivalent to the fair market value of the Common Stock on the second Friday of January of the year in which it was granted. In addition, directors are eligible to receive other periodic grants of options from time to time under the Plan. Options granted under the Plan to non-employee directors are immediately exercisable on the date of grant. Options to purchase a total of 225,000 shares were granted under this formula during fiscal 2001 to Robert J. Easton, Gary E. Frashier, Ira J. Gelb, Irwin C. Gerson and Walter M. Lovenberg. Options granted during fiscal 2001 to Arthur P. Bollon and Ronald L. Goode are reported under "Executive Compensation -- Option Grants in Last Fiscal Year".

The Company paid Easton Associates L.L.C., of which Robert J. Easton, a director of the Company, is the Chairman, \$125,000 during fiscal 2001 for consulting services for strategy and market planning services. This payment is in addition to the remuneration Mr. Easton receives as a director of the Company.

Gary E. Frashier is also employed as a consultant by the Company in addition to his responsibilities as a Director. Mr. Frashier's total remuneration for consulting services during fiscal 2001 was \$80,250.

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### EXECUTIVE OFFICERS

The names of, and certain information regarding, executive officers of the Company who are not also directors are set forth below. Except for executive officers who have employment agreements with the Company, the executive officers serve at the pleasure of the Board of Directors.

NAME	AGE	POSITION
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Joan H. Gillett.....	52	Vice President and Controller
Robert J. Rousseau.....	62	Vice President of Licensing

Joan H. Gillett, CPA joined the Company in October 2000 as Vice President, Controller and Principal Accounting Officer. From 1997 to August 2000, Ms. Gillett served as the Chief Financial Officer for International Isotopes Inc., a publicly held radiopharmaceutical development and manufacturing company, where she was responsible for all accounting, financial reporting, and investment activities. From 1986 to 1996, she held various positions for Life Savings Bank in Austin, Texas. Those positions included Director, Chief Financial Officer and President.

Robert J. Rousseau, Ph.D. joined the Company in March 2001 as Vice President of Licensing. Dr. Rousseau served as Director of New Technologies Licensing at Hoechst Marion Roussel, Inc. and has an MBA from Rockhurst University and a Ph.D. in Chemistry from the University of Utah. He founded Rondeau Medical Associates Inc., a consulting company involved in new technology identification, development of an extensive contact network and establishment of licensing agreements for numerous biotechnology and pharmaceutical companies. Prior to Rondeau, he managed the gene transcription modulator-out licensing program for OSI Pharmaceuticals, Inc., resulting in licensing agreements with

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Merck, Sharp & Dohme, Pharmacia and Upjohn, Johnson & Johnson, American Home Products and Aurora Biosciences. Prior to OSI, he spent 12 years as Director of New Technologies Licensing at Hoechst Marion Roussel, Inc. where he was responsible for closing agreements with Immulogic, TransKaryotic Technologies (TKT), Albany Molecular Research and Development, Scios Nova, Gensia, Affymax, Oncogene Sciences and Alliance Pharmaceuticals. Dr. Rousseau's previous positions included both Director of Operations and Director of Marketing at Analytical Systems, Division of Marion Laboratories; Director of Clinical Chemistry Research/Director of West Coast Operations, Hyland Division of Baxter Travenol; Technical Liaison Officer, Curtis Nuclear Corporation; and Head of BioOrganic Chemistry, ICN Nucleic Acid Research Institute. Dr. Rousseau is the holder of seven patents, the author of more than 33 scientific publications and the recipient of two Presidential Awards and three Special Achievements Awards from Marion Laboratories.

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## EXECUTIVE COMPENSATION

### SUMMARY COMPENSATION TABLE

The following Summary Compensation Table sets forth summary information as to compensation received by the Company's Chief Executive Officer and each of the other most highly compensated executive officers who were employed by the Company at the end of fiscal 2001 for services rendered to the Company in all capacities during the three fiscal years ended December 31, 1999, 2000 and 2001, and who earned in excess of \$100,000 for services rendered to the Company during fiscal 2001. The table also includes one additional executive who would have been among the most highly compensated executive officers except for the fact that he was not serving as an executive officer of the Company as of the end of fiscal 2001. Collectively, the CEO, the most highly compensated executive officers and Mr. Shusterman, our former Vice President of Administration and General Counsel, are referred to herein as the "named executive officers."

NAME AND PRINCIPAL POSITION	YEAR	ANNUAL COMPENSATION			LONG-TERM COMPENSATION
		SALARY	BONUS	OTHER ANNUAL COMPENSATION	SECURITIES UNDERLYING OPTIONS (#)
Ronald L. Goode,.....	2001	\$203,362	\$ 105,000	\$81,312 (1)	400,000
President, CEO and Director	2000	--	--	--	--
	1999	--	--	--	--
Arthur P. Bollon,.....	2001	\$254,487	\$ 25,000	\$ 6,038 (2)	100,000
Executive Vice President and	2000	\$220,769	--	\$ 6,000 (2)	75,000
Director	1999	\$205,988	--	\$ 6,000 (2)	25,000
Joan H. Gillett,.....	2001	\$133,667	\$ 14,000	\$ 4,884 (2)	--
Vice President and Controller	2000	\$ 24,000	--	--	35,000
	1999	--	--	--	--
Robert J. Rousseau,.....	2001	\$111,873	--	\$27,668 (3)	
Vice President of Business	2000	--	--	--	50,000
Development and Licensing	1999	--	--	--	--
Daniel J. Shusterman,.....	2001	\$147,602	--	\$ 2,631 (2)	--
Vice President of Administration	2000	\$110,038	--	\$ 6,000 (2)	10,000
and General Counsel (4)	1999	\$ 90,865	--	\$ 6,000 (2)	15,000

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- (1) Other Annual Compensation for Dr. Goode during fiscal 2001 consisted of \$70,812 toward relocation expenses and \$10,500 toward car expenses.
  - (2) Other Annual Compensation for these named executive officers consisted of a car allowance.
  - (3) Other Annual Compensation for Dr. Rousseau consisted of \$22,691 toward relocation expenses and \$4,977 toward car expenses.
  - (4) Mr. Shusterman served as our Vice President of Administration and General Counsel until June 14, 2001, when he left the company.

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## OPTION GRANTS IN LAST FISCAL YEAR

The following table sets forth information regarding each stock option granted during fiscal year 2001 to each of the named executive officers.

NAME	INDIVIDUAL GRANTS				POTENTIAL REALIZ	
	NUMBER OF SECURITIES UNDERLYING OPTIONS GRANTED (#)	% OF TOTAL OPTIONS GRANTED TO EMPLOYEES IN FISCAL YEAR	EXERCISE OR BASE PRICE (\$/SHARE)	EXPIRATION DATE	AT ASSUMED ANN OF STOCK PRICE A FOR OPTION T	
					5%	
Ronald L. Goode(1).....	400,000	70.53%	\$3.25	03/21/11	\$818,000	\$
Joan Gillett.....	0	--	--	--	--	
Arthur P. Bollon(2).....	100,000	17.63%	\$5.10	06/03/11	\$321,000	\$
Robert J. Rousseau(1).....	50,000	8.82%	\$4.84	03/01/11	\$152,000	\$
Daniel Shusterman.....	0	--	--	--	--	

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- (1) The options were granted pursuant to the Company's Amended and Restated 2000 Stock Option Plan, and vest annually in 2 equal installments commencing one year from the date of grant.
  - (2) The options were granted pursuant to the Company's Amended and Restated 2000 Stock Option Plan. Options to purchase 75,000 shares of Common Stock vest annually in 2 equal installments commencing one year from the date of grant. Options to purchase 25,000 shares of Common Stock vested at the time of the grant.
  - (3) The amounts shown in this table represent hypothetical gains that could be achieved for the respective options if exercised at the end of the option term. These gains are based on assumed rates of stock appreciation of 5% and 10% compounded annually from the date the respective options were granted to their expiration date. The gains shown are net of the option exercise price, but do not include deductions for taxes or other expenses associated with the exercise. Actual gains, if any, on stock option exercises will depend on the future performance of the Common Stock, the optionee's continued employment through the option period and the date on which the options are exercised.

## AGGREGATED OPTION EXERCISES IN LAST FISCAL YEAR AND FISCAL YEAR-END OPTION VALUES

The following table provides information regarding the exercises of options by each of the named executive officers during fiscal 2001. In addition, this table includes the number of shares covered by both exercisable and unexercisable stock options as of December 31, 2001 and the values of "in-the-money" options, which values represent the positive spread between the exercise price of any such option and the fiscal year-end value of the Common Stock.

NAME	SHARES ACQUIRED ON EXERCISE	VALUE REALIZED (1)	NUMBER OF SECURITIES UNDERLYING UNEXERCISED OPTIONS AT FISCAL YEAR-END		VALUE OF THE IN-THE-MONEY FISCAL YEAR-END
			EXERCISABLE	UNEXERCISABLE	EXERCISABLE
Ronald L. Goode.....	--	\$0	200,000	200,000	\$ 16,000
Arthur P. Bollon.....	--	\$0	655,000	90,000	\$504,600
Joan H. Gillett.....	--	\$0	17,500	17,500	\$ 0
Robert J. Rousseau.....	--	\$0	25,000	25,000	\$ 0
Daniel M. Shusterman.....	--	\$0	100,000	5,000	\$ 22,450

(1) Amounts shown in this column do not necessarily represent actual value realized from the sale of the shares acquired upon exercise of the option because in many cases the shares are not sold on exercise but continue to be held by the executive officer exercising the option. The amounts shown represent the difference between the option exercise price and the market price on the date of exercise, which is the amount that would have been realized if the shares had been sold immediately upon exercise.

(2) The value of unexercised in-the-money options at fiscal year end assumes a fair market value for the Company's Common Stock of \$3.33, the closing sale price per share of the Company's Common Stock as reported in the NASDAQ National Market System on December 31, 2001.

## EMPLOYMENT CONTRACTS, TERMINATION OF EMPLOYMENT AND CHANGE-IN-CONTROL ARRANGEMENTS

Ronald L. Goode, Ph.D. entered into an employment agreement with the Company on March 21, 2001, whereby Dr. Goode agreed to serve as the Company's President and Chief Executive Officer until March 20, 2004. The employment agreement provided for the payment to Dr. Goode of a base salary of \$350,000 per year with an annual bonus payment of up to 60% of Dr. Goode's base salary, at the discretion of the Board. The employment agreement provides that in the event Dr. Goode's employment is terminated by the Company without cause, Dr. Goode terminates his employment for good reason, or upon a change of control, Dr. Goode shall receive severance payments of equal monthly installments at the base rate until either (i) the expiration of 24 months following the date of termination, if such date is prior to March 21, 2003, or (ii) the expiration of 18 months following the date of termination, if such date is after March 21, 2003. In addition, the Company granted to Dr. Goode an option to purchase up to

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400,000 shares of the Company's common stock at an exercise price of \$3.25 per share. Dr. Goode also receives a car expense allowance of approximately \$1,000 per month under the employment agreement. The employment agreement contains a two-year post-termination non-compete, non-solicitation and non-disclosure agreement.

Arthur P. Bollon, Ph.D. is employed by us under an employment agreement extended through November 6, 2003. The employment agreement provides for the payment to Dr. Bollon of a base salary of \$250,000 per year. In addition, in the event Dr. Bollon is terminated without just cause or due to a disability, the employment agreement provides that Dr. Bollon shall receive severance payments of equal monthly installments at his base rate until the expiration of the term. Dr. Bollon also receives a car expense allowance of approximately \$600 per month under the employment agreement. The employment agreement contains a one year post-termination non-compete and non-solicitation agreement.

Each of the Company's officers and the Company's principal scientists have entered into confidentiality and patent assignment agreements with the Company.

The outstanding option agreements issued under the Plan provide for acceleration of the vesting of the options granted upon or in connection with a change in control.

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### PERFORMANCE GRAPH

The following graph compares the annual percentage change in the Company's cumulative total stockholder return on its Common Stock during a period commencing on December 31, 1996 and ending on December 31, 2001 (as measured by dividing (i) the sum of (A) the cumulative amount of dividends for the measurement period, assuming dividend reinvestment, and (B) the difference between the Company's share price at the end and the beginning of the measurement period; by (ii) the share price at the beginning of the measurement period) with the cumulative total return of the Nasdaq Stock Market and the Company's peer group(1) during such period. It should be noted that the Company has not paid any dividends on the Common Stock, and no dividends are included in the representation of the Company's performance. The stock price performance on the graph below is not necessarily indicative of future price performance. This graph is not "soliciting material," is not deemed filed with the Securities and Exchange Commission and is not to be incorporated by reference in any filing of the Company under the Securities Act of 1933 or the Securities Exchange Act of 1934 whether made before or after the date hereof and irrespective of any general incorporation language in any such filing. Information used on the graph was obtained from the Media General Financial Services, Inc. (MGFS), a source believed to be reliable, but the Company is not responsible for any errors or omissions in such information.

COMPARE 5-YEAR CUMULATIVE TOTAL RETURN  
AMONG EXEGENICS INC.,  
NASDAQ MARKET INDEX AND SIC CODE INDEX

(PERFORMANCE GRAPH)

	12/31/96	12/31/97	12/31/98	12/31/99	12/31/00
EXEGENICS Inc.....	\$100.00	\$323.53	\$323.53	\$352.94	\$347.06



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NASDAQ US Index.....	\$100.00	\$122.32	\$172.52	\$304.29	\$191.25
Peer Group.....	\$100.00	\$145.30	\$206.09	\$185.41	\$245.17

- (1) The Company's "peer group" consists of companies with an SIC Code of 2834 (Pharmaceutical Preparations).

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### REPORT OF COMPENSATION AND ORGANIZATION COMMITTEE ON EXECUTIVE COMPENSATION

The Company strives to apply a uniform philosophy to compensation for all of its employees, including the members of its senior management. This philosophy is based on the premise that the achievements of the Company result from the combined and coordinated efforts of all employees working toward common goals and objectives.

The goals of the Company's compensation program are to align remuneration with business objectives and performance, and to enable the Company to retain and competitively reward officers who contribute to the long-term success of the Company. The Company's compensation program for officers is based on the following principles, which are applicable to compensation decisions for all employees of the Company. The Company attempts to pay its officers competitively in order to retain the most capable people in the industry. Information with respect to levels of compensation being paid by comparable companies is obtained from various publications and surveys.

During the last fiscal year, the compensation of officers consisted principally of salary. Salary levels have been set based upon historical levels, amounts being paid by comparable companies and performance.

In consideration for his services as the Company's President and Chief Executive Officer for the fiscal year ended December 31, 2001, Dr. Ronald L. Goode received compensation consisting of a salary of \$203,362, a bonus of \$105,000, \$10,500 for a car allowance and \$70,812 for relocation expense reimbursements and stock options to purchase 400,000 shares of the Company's common stock at an exercise price of \$3.25 per share. As the Company's President and Chief Executive Officer, Dr. Goode's scientific expertise, managerial efforts, ingenuity and leadership are a vital factor to the Company's past and future success. During fiscal 2001, Dr. Goode was instrumental in the Company's efforts to install systematic approaches to all Company processes, including R&D, and to develop a new business strategy. The Compensation and Organization Committee believes Dr. Goode has managed the Company exceptionally well in a challenging business climate and has continued to move the Company towards its long-term objectives. Dr. Goode's compensation is consistent with the range of salary levels received by his counterparts at comparable companies.

The Compensation and Organization  
Committee:

Gary E. Frashier  
Robert J. Easton  
Irwin C. Gerson  
Ronald L. Goode

### REPORT OF AUDIT COMMITTEE

The Audit Committee of the Board of Directors, which consists entirely of directors who meet the independence and experience requirements of the Nasdaq National Market, has furnished the following report:

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The Audit Committee assists the Board in overseeing and monitoring the integrity of the Company's financial reporting process, its compliance with legal and regulatory requirements and the quality of its internal and external audit processes. The role and responsibilities of the Audit Committee are set forth in a written Charter recently revised by the Board, which is attached as Appendix A to this Proxy Statement. The Audit Committee reviews and reassesses the Charter annually and recommends any changes to the Board for approval. The Audit Committee is responsible for overseeing the Company's overall financial reporting

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process. In fulfilling its responsibilities for the financial statements for fiscal 2001, the Audit Committee took the following actions:

- Established and recommended a revised "Audit Committee Charter" to the Board of Directors, which was subsequently approved by the Board;
- Reviewed and discussed the audited financial statements for the fiscal year ended December 31, 2001 with management and Ernst & Young LLP, the Company's independent auditors;
- Discussed with Ernst & Young LLP the matters required to be discussed by Statement on Auditing Standards No. 61 relating to the conduct of the audit; and
- Received written disclosures and the letter from Ernst & Young LLP regarding its independence as required by Independence Standards Board Standard No. 1. The Audit Committee further discussed with Ernst & Young LLP their independence. The Audit Committee also considered the status of pending litigation, taxation matters and other areas of oversight relating to the financial reporting and audit process that the Committee determined appropriate.

Based on the Audit Committee's review of the audited financial statements and discussions with management and Ernst & Young LLP, the Audit Committee recommended to the Board that the audited financial statements be included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2001 for filing with the Securities and Exchange Commission.

The Audit Committee:

Irwin Gerson  
Walter M Lovenberg  
Ira J. Gelb

### SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934 requires the Company's directors and officers, and persons who own more than 10% of the Common Stock, to file with the Securities and Exchange Commission (the "SEC") initial reports of beneficial ownership and reports of changes in beneficial ownership of the Common Stock and other equity securities of the Company. Officers, directors and greater than 10% beneficial owners are required by SEC regulation to furnish the Company with copies of all Section 16(a) forms they file.

To the Company's knowledge, based solely on review of the copies of such reports furnished to the Company and written representations that no other reports were required, during the fiscal year ended December 31, 2001 all Section 16(a) filing requirements applicable to its officers, directors and

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greater than 10% beneficial owners were complied with, except that one report, covering one transaction was filed late by Irwin Gerson, and one report, covering one transaction was filed late by Ronald L. Goode.

### CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

#### EASTON ASSOCIATES L.L.C.

In December 2000, the Company entered into an agreement with Easton Associates L.L.C. for strategy and market planning services. Under this agreement, Easton Associates receives an annual fee of \$125,000. Mr. Easton, a director of the company, is the chairman of Easton Associates.

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#### GARY E. FRASHIER

In December 2000, the Company entered into an agreement with Gary E. Frashier, Chairman of the Company's Board of Directors, for consulting services. Mr. Frashier was paid \$80,250 for his consulting services during fiscal 2001.

#### RONALD L. GOODE

In May 2001, the Company sold 100,000 shares of Common Stock to its President and Chief Executive Officer, Ronald L. Goode, for a purchase price of \$3.25 per share, the fair market value at the time of the transaction. Dr. Goode paid the purchase price of \$325,000 with \$25,000 in cash and by issuing a promissory note to the Company bearing interest at 5.00% per annum and payable over 6 years for \$300,000.

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### ELECTION OF DIRECTORS

#### (NOTICE ITEM 1)

Under the Company's By-Laws, the number of directors is fixed from time to time by the Board of Directors, and directors serve in office until the next annual meeting of Stockholders and until their successors have been elected and qualified.

The Board of Directors has voted (i) to set the size of the Board of Directors at seven and (ii) to nominate Arthur P. Bollon, Robert J. Easton, Gary E. Frashier, Ira J. Gelb, Irwin C. Gerson, Ronald L. Goode and Walter M. Lovenberg for election at the Meeting to serve until the next annual meeting of Stockholders and until their respective successors have been elected and qualified.

Unless authority to vote for any of the nominees named above is withheld, the shares represented by the enclosed proxy will be voted FOR the election as directors of such nominees. In the event that any nominee shall become unable or unwilling to serve, the shares represented by the enclosed proxy will be voted for the election of such other person as the Board of Directors may recommend in that nominee's place. The Board has no reason to believe that any nominee will be unable or unwilling to serve.

A plurality of the shares voted affirmatively or negatively at the Meeting is required to elect each nominee as a director.

THE BOARD OF DIRECTORS RECOMMENDS THE ELECTION OF ARTHUR P. BOLLON, ROBERT

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J. EASTON, GARY E. FRASHIER, IRA J. GELB, IRWIN C. GERSON, RONALD L. GOODE AND WALTER M. LOVENBERG AS DIRECTORS, AND PROXIES SOLICITED BY THE BOARD WILL BE VOTED IN FAVOR THEREOF UNLESS A STOCKHOLDER HAS INDICATED OTHERWISE ON THE PROXY.

### INDEPENDENT PUBLIC ACCOUNTANTS

#### (NOTICE ITEM 2)

The Board of Directors has appointed Ernst & Young LLP, independent public accountants, to audit the financial statements of the Company for the fiscal year ending December 31, 2002. The Board proposes that the Stockholders ratify this appointment. Ernst & Young LLP audited the Company's financial statements for the fiscal year ended December 31, 2001. The Company expects that representatives of Ernst & Young LLP will be present at the Meeting, with the opportunity to make a statement if they so desire, and will be available to respond to appropriate questions.

#### AUDIT FEES

The Company paid Ernst & Young LLP a total of \$88,000 for their audit of the Company's annual financial statements for the fiscal year ended December 31, 2001 and for their review of the Company's Quarterly Reports on Form 10-Q filed during the last fiscal year.

#### ALL OTHER FEES

During the Company's fiscal year ended December 31, 2001, the Company paid Ernst & Young LLP a total of \$59,100 for their provision of services related to due diligence and tax consulting and compliance.

In the event that ratification of the appointment of Ernst & Young LLP as the independent public accountants for the Company is not obtained at the Meeting, the Board of Directors will reconsider its appointment.

The affirmative vote of a majority of the shares present or represented and entitled to vote at the Meeting is required to ratify the appointment of the independent public accountants.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE TO APPROVE THE RATIFICATION OF THE APPOINTMENT OF ERNST & YOUNG LLP AS INDEPENDENT PUBLIC ACCOUNTANTS, AND PROXIES SOLICITED BY THE BOARD WILL BE VOTED IN FAVOR THEREOF UNLESS A STOCKHOLDER HAS INDICATED OTHERWISE ON THE PROXY.

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### OTHER MATTERS

The Board of Directors knows of no other business which will be presented to the Meeting. If any other business is properly brought before the Meeting, it is intended that proxies in the enclosed form will be voted in respect thereof in accordance with the judgment of the persons voting the proxies.

### STOCKHOLDER PROPOSALS

To be considered for inclusion in the proxy statement relating to the Company's Annual Meeting of stockholders to be held in 2003, stockholder proposals must be received no later than December 13, 2002. If the Company does not receive notice of any matter to be considered for presentation at the Annual Meeting, although not included in the proxy statement, by February 26, 2003, management proxies may confer discretionary authority to vote on the matters

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presented at the Annual Meeting by a stockholder in accordance with Rule 14a-4 under the Securities Exchange Act of 1934, as amended. All stockholder proposals should be marked for the attention of Controller, eXegenics Inc., 2110 Research Row, Dallas, Texas 75235.

WHETHER OR NOT YOU INTEND TO BE PRESENT AT THE MEETING, YOU ARE URGED TO FILL OUT, SIGN, DATE AND RETURN THE ENCLOSED PROXY AT YOUR EARLIEST CONVENIENCE.

By Order of the Board of Directors:

/s/ JOAN H. GILLETT

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Joan H. Gillett  
Secretary

Dallas, Texas  
April 12, 2002

THE COMPANY'S ANNUAL REPORT ON FORM 10-K FOR THE FISCAL YEAR ENDED DECEMBER 31, 2001 (OTHER THAN EXHIBITS THERETO) FILED WITH THE SECURITIES AND EXCHANGE COMMISSION, WHICH PROVIDES ADDITIONAL INFORMATION ABOUT THE COMPANY, IS AVAILABLE TO BENEFICIAL OWNERS OF THE COMPANY'S COMMON STOCK WITHOUT CHARGE UPON WRITTEN REQUEST TO JOAN GILLETT, VICE PRESIDENT, EXEGENICS INC., 2110 RESEARCH ROW, DALLAS, TEXAS 75235.

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### APPENDIX A

#### CHARTER OF THE AUDIT COMMITTEE OF THE BOARD OF DIRECTORS

The Audit Committee Charter, as approved by the Board of Directors on March 4, 2002 and as set forth herein, amends and restates the Audit Committee Charter previously adopted on June 4, 2000.

The members of the Audit Committee shall be appointed by the Board of Directors to provide an avenue of communication among the independent auditors, management and the Board of Directors and to assist the Board in monitoring (i) the integrity of the Company's financial reporting process including its internal controls regarding financial reporting, (ii) the compliance by the Company with legal and regulatory requirements and (iii) the independence and performance of the Company's external auditors.

The Audit Committee's responsibility is oversight. Management of the Company has the responsibility for the Company's financial statements as well as the Company's financial reporting process, principles, and internal controls. The independent auditor is responsible for performing an audit of the Company's annual financial statements, expressing an opinion as to the conformity of such annual financial statements with generally accepted accounting principles, reviewing the Company's quarterly financial statements and other procedures. It is recognized that the members of the Audit Committee are not engaged in the accounting or auditing profession and, consequently, are not experts in matters involving auditing or accounting including auditor independence. As such, it is not the duty of the Audit Committee to plan or conduct audits to determine that the Company's financial statements fairly present the Company's financial position and results of operation and are in accordance with generally accepted accounting principles and applicable laws and regulations. Each member of the Audit Committee shall be entitled to rely on (i) the integrity of those persons within the Company and of the professionals and experts (such as the independent auditor) from which it receives information, (ii) the accuracy of the financial and other information provided to the Audit Committee by such persons, professionals or experts absent actual knowledge to the contrary and (iii)

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representation made by management of the independent auditor as to any information technology services of the type describes in Rule 2-01(c)(4)(ii) of Regulation S-X and other non-audit services provided by the independent auditor to the Company.

The number of members of the Audit Committee and their independence and experience requirements shall meet the National Association of Securities Dealers, Inc. ("NASD") requirements.

The Audit Committee shall have the authority to retain special legal, accounting or other consultants to advise the Audit Committee. The Audit Committee may request any officer or employee of the Company or the Company's outside counsel or independent auditor to attend a meeting of the Audit Committee or to meet with any members of, or consultants to, the Audit Committee.

The Audit Committee shall:

1. Review and reassess the adequacy of this Charter annually and submit it to the Board for approval.
  2. Review the annual audited financial statements with management, including major issues regarding accounting and auditing principles and practices as well as the adequacy of internal controls that could significantly affect the Company's financial statements.
  3. Review an analysis prepared by management and the independent auditor of significant financial reporting issues and judgments made in connection with the preparation of the Company's financial statements, including an analysis of the effect of alternative GAAP methods on the Company's financial statements and a description of any transactions as to which management obtained Statement on Auditing Standards No. 50 letters.
  4. Review with management and the independent auditor the effect of regulatory and accounting initiatives as well as off-balance sheet structures on the Company's financial statements.
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5. Review with management and the independent auditor the Company's quarterly statements prior to the filing of its Form 10-Q, including the results of the independent auditors' reviews of the quarterly financial statements.
  6. Meet with management to review the Company's major financial risk exposures and the steps management has taken to monitor and control such exposures.
  7. Review major changes to the Company's accounting principles and practices taking into consideration the views of the independent auditor, internal auditors or management.
  8. Recommend to the Board the appointment of the independent auditor, which firm is ultimately accountable to the Audit Committee and the Board.
  9. Review the experience and qualifications of the senior members of the independent auditor team and the quality control procedures of the independent auditor.
  10. Approve the fees paid to the independent auditor.

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11. Approve the retention of the independent auditor for any non-audit service and the fee for such service.

12. Receive periodic reports from the independent auditor regarding the auditor's independence, discuss such reports with the auditor, consider whether the provision of non-audit services is compatible with maintaining the auditor's independence, and if so determined by the Audit Committee, recommend that the Board take appropriate action to assure the independence of the auditor.

13. Evaluate the performance of the independent auditor and, whether it is appropriate to adopt a policy of rotating independent auditors on a regular basis. If so determined by the Audit Committee, recommend that the Board replace the independent auditor.

14. Recommend to the Board guidelines for the Company's hiring of employees of the independent auditor who are engaged on the Company's account.

15. Discuss with the national office of the independent auditor issues on which it was consulted by the Company's audit team and matters of audit quality and consistency.

16. Review the appointment and replacement of the senior internal auditing executive.

17. Review the significant reports to management prepared by the internal auditing department and management's responses.

18. Meet with the independent auditor prior to the audit to review the planning and staffing of the audit.

19. Obtain from the independent auditor an understanding of whether there are any indications that Section 10A of the Private Securities Litigation Reform Act of 1995 is applicable and consult counsel if necessary.

20. Discuss with the independent auditor the matters required to be discussed by Statement on Auditing Standards No. 61 relating to the conduct of the audit.

21. Review with management and the independent auditor any correspondence with regulators or governmental agencies and any employee complaints or published reports that raise material issues regarding the Company's financial statements or accounting policies.

22. Review with the independent auditor any problems or difficulties the auditor may have encountered and any management letter provided by the auditor and the Company's response to that letter. Such review should include:

a. A discussion of any difficulties encountered in the course of the audit work, including any restrictions on the scope of activities or access to require information, and any disagreements with management.

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b. Any changes required in the planned scope of the internal audit.

c. The internal audit department responsibilities, budget and staffing.

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23. Prepare the report required by the rules of the Securities and Exchange Commission to be included in the Company's annual proxy statement.

24. Advise the Board with respect to the Company's policies and procedures regarding compliance with applicable laws and regulations.

25. Review with the Company's General Counsel legal matters that may have a material impact on the financial statements, the Company's compliance policies and any material reports or inquiries received from regulators or governmental agencies.

26. Meet at least quarterly with the Company's principal accounting officer and the independent auditor and annually in separate executive sessions.

27. Annually review policies and procedures as well as audit results associated with directors' and officers expense accounts and perquisites.

28. Annually review director and officer related party transactions and potential conflicts of interest.

29. Perform any other activities consistent with this Charter, as the Audit Committee or Board deems necessary or appropriate.

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EXEGENICS INC.

ANNUAL MEETING OF STOCKHOLDERS  
MAY 13, 2002

PLEASE DATE, SIGN AND MAIL YOUR PROXY CARD AS SOON AS POSSIBLE

o PLEASE DETACH AND MAIL IN THE ENVELOPE PROVIDED o

[X] PLEASE MARK YOUR VOTES AS IN THIS EXAMPLE.

FOR  
all nominees listed  
(except as marked t  
contrary below

1. Election of Directors (or if any nominee is not available for election, such substitute as the Board of Directors may designate).

[ ]

NOMINEES: Arthur P. Bollon, Robert J. Easton, Gary E. Frashier, Ira J. Gelb, Irwin C. Gerson, Ronald L. Goode and Walter M. Lovenberg

(INSTRUCTION: To withhold authority to vote for any individual nominee, write that nominee's name on the space provided below:)



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- 
2. Proposal to ratify the appointment of Ernst & Young LLP as the Company's independent public accountants for the fiscal year ending December 31, 2002.

FOR  
[ ]

In their discretion the proxies are authorized to vote upon such other matters as may properly come before the meeting or any adjournments thereof. If you wish to vote in accordance with the Board of Directors' recommendations, just sign below. You need not mark any boxes.

NOTE: Please sign exactly as name(s) appears hereon. Joint owners should sign. When signing as attorney, executor, administrator, trustee or guardian, please give full title as such.

Signature \_\_\_\_\_ (SEAL)

Signature \_\_\_\_\_ (SEAL)

Dated \_\_\_\_\_

EXEGENICS INC.

THIS PROXY IS BEING SOLICITED BY EXEGENICS INC.'S BOARD OF DIRECTORS

The undersigned, revoking any previous proxies relating to these shares, hereby acknowledges receipt of the Notice and Proxy Statement dated April 12, 2002, in connection with the Annual Meeting to be held at 9:00 a.m. on Monday, May 13, 2002 at the office of eXegenics Inc., which is located at 2110 Research Row, Dallas, Texas 75235 and hereby appoints Ronald L. Goode and Joan H. Gillett, and each of them (with full power to act alone), the attorneys and proxies of the undersigned, with power of substitution to each, to vote all shares of the Common Stock and Series A Preferred Stock of eXegenics Inc. registered in the name provided herein which the undersigned is entitled to vote at the 2002 Annual Meeting of Stockholders, and at any adjournments thereof, with all the powers the undersigned would have if personally present. Without limiting the general authorization hereby given, said proxies are, and each of them is, instructed to vote or act as follows on the proposals set forth in said Proxy.

THIS PROXY WHEN EXECUTED WILL BE VOTED IN THE MANNER DIRECTED HEREIN. IF NO DIRECTION IS MADE THIS PROXY WILL BE VOTED FOR THE ELECTION OF DIRECTORS AND FOR PROPOSAL 2.

THE BOARD OF DIRECTORS RECOMMENDS THAT YOU VOTE "FOR" PROPOSALS 1 AND 2.

SEE REVERSE  
SIDE

comprehensive income:

Amortization associated with supplemental executive retirement defined benefit plan (SERP)

94 91

Income taxes related to SERP

(36) (34)

Other comprehensive income, net of tax

58 57

Total comprehensive income

\$2,919 \$3,291

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 SHEETSFEBRUARY 25, 2017 AND NOVEMBER 26, 2016

(In thousands)

	<b>(Unaudited)</b>	
	<b>February</b>	<b>November</b>
	<b>25,</b>	<b>26,</b>
	<b>2017</b>	<b>2016</b>
<b><u>Assets</u></b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 23,518	\$ 35,144
Short-term investments	23,125	23,125
Accounts receivable, net	18,470	18,358
Inventories	55,473	53,215
Other current assets	9,572	10,727
Total current assets	130,158	140,569
Property and equipment, net	106,840	104,655
Deferred income taxes	7,932	8,071
Goodwill and other intangible assets	17,592	17,360
Other	7,127	7,612
Total long-term assets	32,651	33,043
<b>Total assets</b>	<b>\$ 269,649</b>	<b>\$ 278,267</b>
<b><u>Liabilities and Stockholders' Equity</u></b>		
<b>Current liabilities</b>		
Accounts payable	\$ 18,416	\$ 21,281
Accrued compensation and benefits	12,152	13,602
Customer deposits	26,158	25,181
Dividends payable	-	3,218
Current portion of long-term debt	3,320	3,290
Other accrued liabilities	9,818	10,441
Total current liabilities	69,864	77,013
<b>Long-term liabilities</b>		
Post employment benefit obligations	12,748	12,760

Notes payable	733	3,821
Other long-term liabilities	3,796	3,968
Total long-term liabilities	17,277	20,549
<b>Stockholders' equity</b>		
Common stock	53,601	53,615
Retained earnings	131,178	129,388
Additional paid-in capital	224	255
Accumulated other comprehensive loss	(2,495 )	(2,553 )
Total stockholders' equity	182,508	180,705
<b>Total liabilities and stockholders' equity</b>	<b>\$ 269,649</b>	<b>\$ 278,267</b>

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 FEBRUARY 25, 2017 AND FEBRUARY 27, 2016 – UNAUDITED

(In thousands)

	<b>Quarter Ended</b>	
	<b>February 25,</b>	<b>February 27,</b>
	<b>2017</b>	<b>2016</b>
<b>Operating activities:</b>		
Net income	\$2,861	\$3,234
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	3,351	2,817
Deferred income taxes	103	803
Excess tax benefits from stock-based compensation	327	-
Other, net	413	294
Changes in operating assets and liabilities:		
Accounts receivable	110	1,509
Inventories	(1,915 )	2,357
Other current assets	1,155	(1,326 )
Customer deposits	977	(715 )
Accounts payable and accrued liabilities	(5,305 )	(6,553 )
<b>Net cash provided by operating activities</b>	<b>2,077</b>	<b>2,420</b>
<b>Investing activities:</b>		
Purchases of property and equipment	(5,610 )	(8,568 )
Proceeds from sales of property and equipment	3	20
Acquisition of retail licensee store	(655 )	-
Other	223	-
<b>Net cash used in investing activities</b>	<b>(6,039 )</b>	<b>(8,548 )</b>
<b>Financing activities:</b>		
Cash dividends	(4,290 )	(3,146 )
Proceeds from the exercise of stock options	221	-
Other issuance of common stock	-	84
Repurchases of common stock	(26 )	(1,774 )
Taxes paid related to net share settlement of equity awards	(474 )	-
Repayments of notes payable	(3,095 )	(4,395 )

Proceeds from equipment loans	-	4,204
<b>Net cash used in financing activities</b>	(7,664 )	(5,027 )
<b>Change in cash and cash equivalents</b>	(11,626)	(11,155 )
<b>Cash and cash equivalents - beginning of period</b>	35,144	36,268
<b>Cash and cash equivalents - end of period</b>	\$23,518	\$25,113

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

FEBRUARY 25, 2017

(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 (“FASB”) 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 a controlling interest. In accordance with ASC Topic 810, we have evaluated our licensees and certain other entities to determine whether they are variable interest entities (“VIEs”) of which we are the primary beneficiary and thus would require consolidation in our financial statements. To date we have concluded that none of our licensees nor any other of our counterparties represent VIEs.

Revenue from the sale of furniture and accessories is reported in the accompanying condensed consolidated statements of income net of estimates for returns and allowances.

Revenues from logistical services are generated by our wholly-owned subsidiary, Zenith Freight Lines, LLC (“Zenith”) which we acquired in fiscal 2015. Sales of logistical services from Zenith to our wholesale and retail segments have been eliminated in consolidation, and Zenith’s operating costs and expenses are included in selling, general and administrative expenses in our condensed consolidated statements of income.

## 2. Interim Financial Presentation

All intercompany accounts and transactions have been eliminated in the condensed consolidated financial statements. The results of operations for the quarter ended February 25, 2017 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 26, 2016.

We calculate an anticipated effective tax rate for the year based on our annual estimates of pretax income and use that effective tax rate to record our year-to-date income tax provision. Any change in annual projections of pretax income could have a significant impact on our effective tax rate for the respective quarter. Our effective tax rates of 27.2% and 37.0% for the quarters ended February 25, 2017 and February 27, 2016, respectively, differ from the federal statutory rate primarily due to the effects of state income taxes and various permanent differences including the favorable impacts of excess tax benefits on stock-based compensation and the Section 199: Domestic Production Activities Deduction. During the quarter ended February 25, 2017, our income tax provision includes excess tax benefits on stock-based compensation in the amount of \$327. No excess tax benefit was recognized during the quarter ended February 27, 2016.

## 3. Business Combination – Licensee Store Acquisition

During the quarter ended February 25, 2017, we acquired the operations of the Bassett Home Furnishings (“BHF”) store located in Columbus, Ohio for a purchase price of \$655. The store had been owned and operated by a licensee that had determined that continued ownership of a BHF store was no longer consistent with its future business objectives. We believe that Columbus, Ohio represents a viable market for a BHF store.

The purchase price was allocated as follows:

Inventory	\$343
Goodwill	312
Purchase price	\$655



PART I-FINANCIAL INFORMATION-CONTINUED

BASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-UNAUDITED

FEBRUARY 25, 2017

(Dollars in thousands except share and per share data)

The inputs into our valuation of the acquired assets reflect our market assumptions and are not observable. Consequently, the inputs are considered to be Level 3 inputs as specified in the fair value hierarchy in ASC 820, *Fair Value Measurements and Disclosures*. See Note 4.

The pro forma impact of the acquisition and the results of operations for the Columbus store since acquisition are not material to our consolidated results of operations for the quarter ended February 25, 2017.

#### **4. 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 method investments, accounts payable and notes payable/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 method investments generally involve entities for which it is not practical to determine fair values.

##### *Investments*

Our short-term investments of \$23,125 at both February 25, 2017 and November 26, 2016 consisted of certificates of deposit (CDs) with original terms of twelve months, bearing interest at rates ranging from 0.28% to 1.10%. At February 25, 2017, the weighted average remaining time to maturity of the CDs was approximately four months and the weighted average yield of the CDs was approximately 0.65%. 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 February 25, 2017 and November 26, 2016 approximates their fair value.

*Fair Value Measurement*

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

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

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

*Level 3 Inputs*– Instruments with primarily unobservable value drivers.

We believe that the carrying amounts of our current assets and current liabilities approximate fair value due to the short-term nature of these items. The recurring estimate of the fair value of our notes payable for disclosure purposes (see Note 8) involves Level 3 inputs. Our primary non-recurring fair value estimates typically involve business acquisitions (Note 3) which involve a combination of Level 2 and Level 3 inputs.

PART I-FINANCIAL INFORMATION-CONTINUED

BASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-UNAUDITED

FEBRUARY 25, 2017

(Dollars in thousands except share and per share data)

**5. Accounts Receivable**

Accounts receivable consists of the following:

	<b>February 25,  2017</b>	<b>November 26,  2016</b>
Gross accounts receivable	\$ 19,214	\$ 19,157
Allowance for doubtful accounts	(744 )	(799 )
Accounts receivable, net	\$ 18,470	\$ 18,358

Activity in the allowance for doubtful accounts for the quarter ended February 25, 2017 was as follows:

Balance at November 26, 2016	\$ 799
Reductions to allowance	(55 )
Balance at February 25, 2017	\$ 744

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

**6. Inventories**

Inventories 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:

	<b>February 25,  2017</b>	<b>November 26,  2016</b>
Wholesale finished goods	\$ 23,516	\$ 24,392
Work in process	364	369
Raw materials and supplies	13,437	11,343
Retail merchandise	27,266	26,265
Total inventories on first-in, first-out method	64,583	62,369
LIFO adjustment	(7,871 )	(7,804 )
Reserve for excess and obsolete inventory	(1,239 )	(1,350 )
	\$ 55,473	\$ 53,215

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.

PART I-FINANCIAL INFORMATION-CONTINUEDBASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIESNOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-UNAUDITEDFEBRUARY 25, 2017(Dollars in thousands except share and per share data)

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

	<b>Wholesale Segment</b>	<b>Retail Segment</b>	<b>Total</b>
Balance at November 26, 2016	\$ 1,061	\$ 289	\$1,350
Additions charged to expense	139	120	259
Write-offs	(242 )	(128 )	(370 )
Balance at February 25, 2017	\$ 958	\$ 281	\$1,239

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 2017 and do not anticipate that our methodology is likely to change in the future.

**7. Goodwill and Other Intangible Assets**

Goodwill and other intangible assets consisted of the following:

	<b>February 25, 2017</b>		
	<b>Gross Carrying Amount</b>	<b>Accumulated Amortization</b>	<b>Intangible Assets, Net</b>
Intangibles subject to amortization			
Customer relationships	\$3,038	\$ (422 )	\$ 2,616

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Technology - customized applications	834	(248	)	586
Total intangible assets subject to amortization	3,872	(670	)	3,202
Intangibles not subject to amortization:				
Trade names	2,490	-		2,490
Goodwill	11,900	-		11,900
Total goodwill and other intangible assets	\$ 18,262	\$ (670	)	\$ 17,592

	November 26, 2016			
	Gross			Intangible
	Carrying	Accumulated		Assets,
	Amount	Amortization		Net
Intangibles subject to amortization				
Customer relationships	\$3,038	\$ (371	)	\$ 2,667
Technology - customized applications	834	(219	)	615
Total intangible assets subject to amortization	3,872	(590	)	3,282
Intangibles not subject to amortization:				
Trade names	2,490	-		2,490
Goodwill	11,588	-		11,588
Total goodwill and other intangible assets	\$ 17,950	\$ (590	)	\$ 17,360

PART I-FINANCIAL INFORMATION-CONTINUEDBASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIESNOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-UNAUDITEDFEBRUARY 25, 2017(Dollars in thousands except share and per share data)

Changes in the carrying amounts of goodwill by reportable segment during the quarter ended February 25, 2017 were as follows:

	<b>Wholesale</b>	<b>Retail</b>	<b>Logistics</b>	<b>Total</b>
Balance as of November 26, 2016	\$ 4,839	\$1,820	\$ 4,929	\$11,588
Goodwill arising from store acquisition (Note 3)	206	106	-	312
Balance as of February 25, 2017	\$ 5,045	\$1,926	\$ 4,929	\$11,900

There were no accumulated impairment losses on goodwill as of February 25, 2017 or November 26, 2016.

Amortization expense associated with intangible assets during the quarters ended February 25, 2017 and February 27, 2016 was as follows:

**Quarter  
Ended  
February  
25, 2017**

**Quarter  
Ended  
February  
27, 2016**

Intangible asset amortization expense \$80 \$ 81

**8. Notes Payable and Bank Credit Facility**

Our notes payable consist of the following:

<b>February 25, 2017</b>			
	<b>Principal</b>	<b>Unamortized</b>	<b>Net</b>
	<b>Balance</b>	<b>Discount</b>	<b>Carrying</b>
			<b>Amount</b>
Zenith acquisition note payable	\$3,000	\$ (71	) \$ 2,929
Real estate notes payable	1,124	-	1,124
Total Debt	4,124	(71	) 4,053
Less current portion	(3,391)	71	(3,320 )
Total long-term debt	\$733	\$ -	\$ 733

<b>November 26, 2016</b>			
	<b>Principal</b>	<b>Unamortized</b>	<b>Net</b>
	<b>Balance</b>	<b>Discount</b>	<b>Carrying</b>
			<b>Amount</b>
Zenith acquisition note payable	\$6,000	\$ (108	) \$ 5,892
Real estate notes payable	1,219	-	1,219
Total Debt	7,219	(108	) 7,111
Less current portion	(3,385)	95	(3,290 )
Total long-term debt	\$3,834	\$ (13	) \$ 3,821



PART I-FINANCIAL INFORMATION-CONTINUED

BASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-UNAUDITED

FEBRUARY 25, 2017

(Dollars in thousands except share and per share data)

The future maturities of our notes payable are as follows:

Remainder of fiscal 2017	\$ 291
Fiscal 2018	3,412
Fiscal 2019	421
Fiscal 2020	-
Fiscal 2021	-
Fiscal 2022	-
Thereafter	-
	\$4,124

*Zenith Acquisition Note Payable*

As part of the consideration given for our acquisition of Zenith on February 2, 2015, we issued an unsecured note payable to the former owner in the amount of \$9,000, payable in three annual installments of \$3,000 due on each anniversary of the note. Interest is payable annually at the one year LIBOR rate. The note was recorded at its fair value in connection with the acquisition resulting in a debt discount that is amortized to the principal amount through the recognition of non-cash interest expense over the term of the note. Interest expense resulting from the amortization of the discount was \$37 and \$66 for the quarters ended February 25, 2017 and February 27, 2016, respectively. The current portion of the note due within one year, including unamortized discount, was \$2,929 and \$2,904 at February 25, 2017 and November 26, 2016, respectively.

*Real Estate Notes Payable*

Certain of our retail real estate properties have been financed through commercial mortgages with outstanding principal totaling \$1,124 and \$1,219 at February 25, 2017 and November 26, 2016, respectively. The mortgages bear interest at fixed rates of 6.73%. They are collateralized by the respective properties with net book values totaling

approximately \$5,825 and \$5,858 at February 25, 2017 and November 26, 2016, respectively. The current portion of these mortgages due within one year was \$391 and \$385 as of February 25, 2017 and November 26, 2016, respectively.

#### *Fair Value*

We believe that the carrying amount of our notes payable approximates fair value at both February 25, 2017 and November 26, 2016. In estimating the fair value, we utilize 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 3.

#### *Bank Credit Facility*

Our credit facility with our bank provides for a line of credit of up to \$15,000. This credit facility, which matures in December of 2018, is unsecured and 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 February 25, 2017, we had \$1,972 outstanding under standby letters of credit against our line, leaving availability under our credit line of \$13,028. In addition, we have outstanding standby letters of credit with another bank totaling \$511.

PART I-FINANCIAL INFORMATION-CONTINUEDBASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIESNOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-UNAUDITEDFEBRUARY 25, 2017(Dollars in thousands except share and per share data)**9. 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 \$11,871 and \$11,863 as of February 25, 2017 and November 26, 2016, respectively, and is recorded as follows in the condensed consolidated balance sheets:

	<b>February 25,</b>	<b>November 26,</b>
	<b>2017</b>	<b>2016</b>
Accrued compensation and benefits	\$ 776	\$ 776
Post employment benefit obligations	11,095	11,087
Total pension liability	\$ 11,871	\$ 11,863

Components of net periodic pension costs are as follows:

	<b>Quarter Ended February 25,</b>	<b>February 27,</b>
	<b>2017</b>	<b>2016</b>
Service cost	\$38	\$ 36
Interest cost	107	106
Amortization of transition obligation	11	11
Amortization of loss	83	81
Net periodic pension cost	\$239	\$ 234

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

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. Our liability under this plan was \$1,949 and \$1,969 as of February 25, 2017 and November 26, 2016, respectively, and is recorded as follows in the condensed consolidated balance sheets:

	<b>February 25,</b>	<b>November 26,</b>
	<b>2017</b>	<b>2016</b>
Accrued compensation and benefits	\$ 296	\$ 296
Post employment benefit obligations	1,653	1,673
Total deferred compensation liability	\$ 1,949	\$ 1,969

We recognized expense under this plan during the quarters ended February 25, 2017 and February 27, 2016 as follows:

	<b>Quarter Ended February 25,</b>	<b>Quarter Ended February 27,</b>
	<b>2017</b>	<b>2016</b>
Deferred compensation expense	\$54	\$ 57

PART I-FINANCIAL INFORMATION-CONTINUEDBASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIESNOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-UNAUDITEDFEBRUARY 25, 2017(Dollars in thousands except share and per share data)**10. Commitments and 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.

We lease land and buildings that are used in the operation of our Company-owned retail stores as well as in the operation of certain of our licensee-owned stores, and we lease land and buildings at various locations throughout the continental United States for warehousing and distribution hubs used in our logistical services segment. We also lease tractors, trailers and local delivery trucks used in our logistical services segment. Our real estate lease terms range from one to 15 years and generally have renewal options of between five and 15 years. Some store leases contain contingent rental provisions based upon sales volume. Our transportation equipment leases have terms ranging from two to seven years with fixed monthly rental payments plus variable charges based upon mileage. The following schedule shows future minimum lease payments under non-cancellable operating leases with terms in excess of one year as of February 25, 2017:

	<b>Retail Stores</b>	<b>Distribution Centers</b>	<b>Transportation Equipment</b>	<b>Total</b>
Remainder of fiscal 2017	\$ 15,887	\$ 3,297	\$ 2,546	\$ 21,730
Fiscal 2018	20,023	3,101	2,210	25,334
Fiscal 2019	18,045	2,091	1,843	21,979
Fiscal 2020	16,722	1,392	1,743	19,857
Fiscal 2021	14,425	1,349	1,169	16,943
Fiscal 2022	11,746	1,743	963	14,452
Thereafter	33,470	1,320	254	35,044
Total future minimum lease payments	\$ 130,318	\$ 14,293	\$ 10,728	\$ 155,339

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 \$1,611 and \$1,868 at February 25, 2017 and November 26, 2016, 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 February 25, 2017 and November 26, 2016 was not material.

PART I-FINANCIAL INFORMATION-CONTINUEDBASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIESNOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-UNAUDITEDFEBRUARY 25, 2017(Dollars in thousands except share and per share data)**11. Earnings Per Share**

The following reconciles basic and diluted earnings per share:

	<b>Net Income</b>	<b>Weighted Average Shares</b>	<b>Net Income Per Share</b>
<u>For the quarter ended February 25, 2017:</u>			
Basic earnings per share	\$ 2,861	10,613,639	\$ 0.27
Add effect of dilutive securities:			
Options and restricted shares	-	105,636	-
Diluted earnings per share	\$ 2,861	10,719,275	\$ 0.27

For the quarter ended February 27, 2016:

Basic earnings per share	\$ 3,234	10,780,229	\$ 0.30
Add effect of dilutive securities:			
Options and restricted shares	-	104,327	-
Diluted earnings per share	\$ 3,234	10,884,556	\$ 0.30

For the quarters ended February 25, 2017 and February 27, 2016, the following potentially dilutive shares were excluded from the computations as their effect was anti-dilutive:

**Quarter  
Ended**

**February**  
**February**  
**25, 27,**

**2017**  
**2016**

Unvested shares - 2,000

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PART I-FINANCIAL INFORMATION-CONTINUED

BASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-UNAUDITED

FEBRUARY 25, 2017

(Dollars in thousands except share and per share data)

**12. 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 retail stores) and independent furniture retailers. Our wholesale segment includes our wood and upholstery operations as well as all corporate selling, general and administrative expenses, including those corporate expenses related to both Company- and licensee-owned stores. Our wholesale segment also includes our holdings of short-term investments and retail real estate previously leased as licensee stores. The earnings and costs associated with these assets are included in other loss, net, in our condensed consolidated statements of income.

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

**Logistical services.** Our logistical services operating segment reflects the operations of Zenith. In addition to providing shipping, delivery and warehousing services for the Company, Zenith also provides similar services to other customers, primarily in the furniture industry. Revenue from the performance of these services to other customers is included in logistical services revenue in our condensed consolidated statement of income. Zenith's total operating costs, including those associated with providing logistical services to the Company as well as to third-party customers, are included in selling, general and administrative expenses and were \$22,560 and \$23,934 for the quarters ended February 25, 2017 and February 27, 2016, respectively.

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

handling charges from Zenith for services provided to our wholesale and retail operations.

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PART I-FINANCIAL INFORMATION-CONTINUEDBASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIESNOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-UNAUDITEDFEBRUARY 25, 2017(Dollars in thousands except share and per share data)

The following table presents our segment information:

	<b>Quarter Ended</b>	
	<b>February 25,</b>	<b>February 27,</b>
	<b>2017</b>	<b>2016</b>
<b>Sales Revenue</b>		
Wholesale	\$61,975	\$59,576
Retail - Company-owned stores	61,593	61,595
Logistical services	22,334	24,679
Inter-company eliminations:		
Furniture and accessories	(29,870 )	(28,769 )
Logistical services	(10,140 )	(10,208 )
Consolidated	\$105,892	\$106,873
<b>Income (loss) from Operations</b>		
Wholesale	\$5,893	\$4,398
Retail - Company-owned stores	(1,343 )	316
Logistical services	(226 )	744
Inter-company elimination	340	333
Consolidated	\$4,664	\$5,791
<b>Depreciation and Amortization</b>		
Wholesale	\$644	\$456
Retail - Company-owned stores	1,472	1,531
Logistical services	1,235	830
Consolidated	\$3,351	\$2,817
<b>Capital Expenditures</b>		
Wholesale	\$1,627	\$1,537
Retail - Company-owned stores	3,703	2,021
Logistical services	280	5,010
Consolidated	\$5,610	\$8,568

<b>Identifiable Assets</b>	<b>As of February 25, 2017</b>	<b>As of November 26, 2016</b>
Wholesale	\$ 129,200	\$ 139,477
Retail - Company-owned stores	92,447	88,855
Logistical services	48,002	49,935
Consolidated	\$ 269,649	\$ 278,267

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PART I-FINANCIAL INFORMATION-CONTINUED

BASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-UNAUDITED

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(Dollars in thousands except share and per share data)

**13. Recent Accounting Pronouncements**

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 to recognize revenue when promised goods or services are transferred to customers in an amount that reflects the consideration that is expected to be received for those goods or services. Companies are allowed to select between two transition methods: (1) a full retrospective transition method with the application of the new guidance to each prior reporting period presented, or (2) a retrospective transition method that recognizes the cumulative effect on prior periods at the date of adoption together with additional footnote disclosures. In addition, during 2016 the FASB has issued ASU 2016-08, ASU 2016-10 and ASU 2016-12, all of which clarify certain implementation guidance within ASU 2014-09, and ASU 2016-11, which rescinds certain SEC guidance within the ASC effective upon an entity's adoption of ASU 2014-09. The amendments in ASU 2014-09 are effective for annual reporting periods beginning after December 15, 2017, 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 2019 fiscal year. We are currently evaluating the impact that the adoption of ASU 2014-09 will have on our consolidated financial statements and have not made any decision on the method of adoption.

In July 2015, the FASB issued Accounting Standards Update No. 2015-11, Inventory (Topic 330): *Simplifying the Measurement of Inventory*. ASU 2015-11 requires that inventory within the scope of this Update be measured at the lower of cost and net realizable value. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. The amendments in this Update do not apply to inventory that is measured using last-in, first-out (LIFO) or the retail inventory method. The amendments apply to all other inventory, which includes inventory that is measured using first-in, first-out (FIFO) or average cost. For all entities, the guidance is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2016. Early adoption is permitted. Therefore the amendments in ASU 2015-11 will become effective for us as of the beginning of our 2018 fiscal year. The adoption of this guidance is not expected to have a material impact upon our financial condition or results of operations.

In January 2016, the FASB issued Accounting Standards Update No. 2016-01, *Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*. ASU 2016-01 requires that equity investments (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) are to be measured at fair value with changes in fair value recognized in net income. However, an entity may choose to measure equity investments that do not have readily determinable fair values at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer. Furthermore, equity investments without readily determinable fair values are to be assessed for impairment using a quantitative approach. The amendments in ASU 2016-01 should be applied by means of a cumulative-effect adjustment to the balance sheet as of the beginning of the fiscal year of adoption, with other amendments related specifically to equity securities without readily determinable fair values applied prospectively. The amendments in ASU 2016-01 will become effective for us as of the beginning of our 2019 fiscal year. The adoption of this guidance is not expected to have a material impact upon our financial condition or results of operations.

In February 2016, the FASB issued Accounting Standards Update No. 2016-02, *Leases (Topic 842)*. The guidance in ASU 2016-02 requires that a lessee recognize in the statement of financial position a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. For leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election by class of underlying asset not to recognize lease assets and lease liabilities. As with previous guidance, there continues to be a differentiation between finance leases and operating leases, however this distinction now primarily relates to differences in the manner of expense recognition over time and in the classification of lease payments in the statement of cash flows. Lease assets and liabilities arising from both finance and operating leases will be recognized in the statement of financial position. ASU 2016-02 leaves the accounting for leases by lessors largely unchanged from previous GAAP. The transitional guidance for adopting the requirements of ASU 2016-02 calls for a modified retrospective approach that includes a number of optional practical expedients that entities may elect to apply. The guidance in ASU 2016-02 will become effective for us as of the beginning of our 2020 fiscal year. We are currently evaluating the impact that the adoption of ASU 2016-02 will have on our consolidated financial statements, which we expect will have a material effect on our statement of financial position, and have not made any decision on the method of adoption with respect to the optional practical expedients.

PART I-FINANCIAL INFORMATION-CONTINUED

BASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-UNAUDITED

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(Dollars in thousands except share and per share data)

In August 2016, the FASB issued Accounting Standards Update No. 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*. ASU 2016-15 addresses how certain cash receipts and cash payments are presented and classified in the statement of cash flows with the objective of reducing existing diversity in practice with respect to these items. Among the types of cash flows addressed are payments for costs related to debt prepayments or extinguishments, payments representing accreted interest on discounted debt, payments of contingent consideration after a business combination, proceeds from insurance claims and company-owned life insurance, and distributions from equity method investees, among others. The amendments in ASU 2016-15 are to be adopted retrospectively and will become effective for as at the beginning of our 2019 fiscal year. Early adoption, including adoption in an interim period, is permitted. The adoption of this guidance is not expected to have a material impact upon our presentation of cash flows.

In January 2017, the FASB issued Accounting Standards Update No. 2017-01, *Business Combinations (Topic 805): Clarifying the Definition of a Business*. ASU 2017-01 provides a screen to determine when an integrated set of assets and activities (collectively referred to as a “set”) does not constitute a business. The screen requires that when substantially all of the fair value of the gross assets acquired (or disposed of) is concentrated in a single identifiable asset or a group of similar identifiable assets, the set is not a business. This screen reduces the number of transactions that need to be further evaluated. If the screen is not met, the amendments in ASU 2017-01 (1) require that to be considered a business, a set must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output and (2) remove the evaluation of whether a market participant could replace missing elements. The amendments in ASU 2017-01 shall apply prospectively and will become effective for as at the beginning of our 2019 fiscal year. The adoption of this guidance is not expected to have a material impact upon our financial condition or results of operations.

In January 2017, the FASB issued Accounting Standards Update No. 2017-04, *Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*. ASU 2017-04 eliminates Step 2 from the goodwill impairment test. Under Step 2, an entity had to perform procedures to determine the fair value at the impairment testing date of its assets and liabilities (including unrecognized assets and liabilities) following the procedure that would be required in determining the fair value of assets acquired and liabilities assumed in a business combination. Instead, under the amendments in ASU 2017-04, an entity should perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An entity should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit’s fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. Additionally, an entity

should consider income tax effects from any tax deductible goodwill on the carrying amount of the reporting unit when measuring the goodwill impairment loss, if applicable. An entity still has the option to perform the qualitative assessment for a reporting unit to determine if the quantitative impairment test is necessary. The amendments in ASU 2017-04 will become effective for us as of the beginning of our 2021 fiscal year. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. 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

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In March 2017, the FASB issued Accounting Standards Update No. 2017-07, *Compensation – Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*. Under existing GAAP, an entity is required to present all components of net periodic pension cost and net periodic postretirement benefit cost aggregated as a net amount in the income statement, and this net amount may be capitalized as part of an asset where appropriate. The amendments in ASU 2017-07 require that an employer report the service cost component in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period, and requires the other components of net periodic pension cost and net periodic postretirement benefit cost to be presented in the income statement separately from the service cost component and outside a subtotal of income from operations, if one is presented. Additionally, only the service cost component is eligible for capitalization, when applicable. The amendments in ASU 2017-07 shall be applied retrospectively for the presentation of the service cost component and the other components of net periodic pension cost and net periodic postretirement benefit cost in the income statement and prospectively, on and after the effective date, for the capitalization of the service cost component of net periodic pension cost and net periodic postretirement benefit in assets. Early adoption is permitted, and we have elected to adopt the amendments in ASU 2017-07 effective as of the beginning of our 2017 fiscal year. The adoption of this guidance did not 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

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(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. We were founded in 1902 and incorporated under the laws of Virginia in 1930. Our rich 115-year history has instilled the principles of quality, value, and integrity in everything we do, while simultaneously providing us with the expertise to respond to ever-changing consumer tastes and meet the demands of a global economy.

With 89 BHF stores at February 25, 2017, we have leveraged our strong brand name in furniture into a network of Company-owned and licensed stores that focus on providing consumers with a friendly environment for buying furniture and accessories. Our store program is designed to provide a single source home furnishings retail store that provides a unique combination of stylish, quality furniture and accessories with a high level of customer service. In order to reach markets that cannot be effectively served by our retail store network, we also distribute our products through other wholesale channels including multi-line furniture stores, many of which feature Bassett galleries or design centers. We use a network of over 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.

The BHF stores feature custom order furniture ready for delivery in less than 30 days, free in-home design visits (“home makeovers”), and coordinated decorating accessories. Our philosophy is based on building strong long-term relationships with each customer. Sales people are referred to as “Design Consultants” and are each trained to evaluate customer needs and provide comprehensive solutions for their home decor. Until a rigorous training and design

certification program is completed, Design Consultants are not authorized to perform in-home design services for our customers.

We have factories in Newton, North Carolina and Grand Prairie, Texas that manufacture upholstered furniture, a factory in Martinsville, Virginia that primarily assembles and finishes our custom casual dining offerings and a factory in Bassett, Virginia that assembles and finishes our “Bench Made” line of furniture. Our manufacturing team takes great pride in the breadth of its options, the precision of its craftsmanship, and the speed of its process, with custom pieces often manufactured within two weeks of taking the order in our stores. Our logistics team then promptly ships the product to one of our home delivery hubs or to a location specified by our licensees in a timeframe to meet the 30 day promise. In addition to the furniture that we manufacture domestically, we source most of our formal bedroom and dining room furniture and certain upholstery offerings from several foreign plants, primarily in Vietnam and China. Over 65% of the products we currently sell are manufactured in the United States.

We also own Zenith Freight Lines, LLC (“Zenith”) which provides logistical services to both the wholesale and retail operations at Bassett along with other furniture manufacturers and retailers. Zenith delivers best-of-class shipping and logistical support services that are uniquely tailored to the needs of Bassett and the furniture industry, as well as the ability to provide the expedited delivery service which is increasingly demanded by our industry. Zenith operates seven regional freight hubs and 11 home delivery centers in 13 states. Approximately 55% of Zenith’s revenue is generated from services provided to non-Bassett customers.

At February 25, 2017, our BHF store network included 60 Company-owned stores and 29 licensee-owned stores. During the first quarter of fiscal 2017, we opened a new store in Garden City, New York and completed the repositioning of our store in Scottsdale, Arizona. In addition, we acquired a store in Columbus, Ohio from a former licensee. We also closed an underperforming store in Danbury, Connecticut and a licensee closed a store in Toronto, Canada.

We continue to execute on our strategy of growing the Company through opening new stores, repositioning stores to improved locations within a market and closing underperforming stores. We opened a new 11,000 square foot store in the historic Helms Bakery District of Los Angeles County, California in early March 2017. We plan to open a new store in King of Prussia, Pennsylvania in the next two months and another in Pittsburgh, Pennsylvania by the end of September 2017. In addition, we have a signed lease for a new store in Wichita, Kansas that is expected to open in the first quarter of 2018. Lease negotiations are underway for new store locations that could result in additional openings during 2017 or early 2018. With a track record of six consecutive years of positive same store sales growth and our focus on store productivity, we believe that we can take our concept to new markets and consistently grow overall store count in the years to come. Our licensed store network is scheduled to open a new store in Kansas City, Kansas during the third quarter of 2017 and one in La Jolla, California during the fourth quarter of 2017.

PART I-FINANCIAL INFORMATION-CONTINUED

BASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIES

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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 \$200 to \$400 per store depending 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 of the store opening. Generally, rent payments during a buildout period between delivery of possession and opening of a new store are deferred and therefore straight line rent expense recognized during that time does not require cash. Inherent in our retail business model, we also incur losses in the two to three months of operation following a new store opening. Like other furniture retailers, we do not recognize a sale 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 many of our furniture offerings, delivery to our customers usually occurs about 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 recognized. Coupled with the previously discussed store pre-opening costs, total start-up losses can range from \$400 to \$600 per store. While our retail expansion is initially costly, we believe our site selection and new store presentation will generally result in locations that operate at or above a retail break-even level within a reasonable period of time following store opening. Factors affecting the length of time required to achieve this goal on a store-by-store basis may include the level of brand recognition, the degree of local competition and the depth of penetration in a particular market. Even as new stores ramp up to break-even, we do realize additional wholesale sales volume that leverages the fixed costs in our wholesale business. Because of the increased store openings in 2017, we expect to incur approximately \$2,000 of additional new store pre-opening costs and post-opening losses in 2017 as compared to 2016.

**Results of Operations – Quarter ended February 25, 2017 compared with quarter ended February 27, 2016:**

Net sales of furniture and accessories, logistics revenue, cost of furniture and accessories sold, selling, general and administrative (SG&A) expense, other charges and income from operations were as follows for the quarters ended February 25, 2017 and February 27, 2016:

<b>Quarter Ended</b>	
<b>February 25,</b>	<b>February 27,</b>
<b>2017</b>	<b>2016</b>

Sales revenue:

Furniture and accessories	\$93,698	88.5 %	\$92,402	86.5 %
Logistics revenue	12,194	11.5 %	14,471	13.5 %
Total sales revenue	105,892	100.0%	106,873	100.0%
Cost of furniture and accessories sold	41,898	39.6 %	41,986	39.3 %
SG&A expenses	58,524	55.3 %	58,957	55.2 %
New store pre-opening costs	806	0.8 %	139	0.1 %

Income from operations	\$4,664	4.4 %	\$5,791	5.4 %
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Refer to the segment information which follows for a discussion of the significant factors and trends affecting our results of operations for the quarter ended February 25, 2017 as compared with the prior year period.

PART I-FINANCIAL INFORMATION-CONTINUED

BASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIES

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*Segment Information*

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

**Wholesale.** The wholesale home furnishings segment is involved principally in the design, manufacture, sourcing, sale and distribution of furniture products to a network of Bassett stores (Company-owned and licensee-owned retail stores) and independent furniture retailers. Our wholesale segment includes our wood and upholstery operations as well as all corporate selling, general and administrative expenses, including those corporate expenses related to both Company- and licensee-owned stores. We eliminate the sales between our wholesale and retail segments as well as the imbedded profit in the retail inventory for the consolidated presentation in our financial statements. Also included in our wholesale segment are our short-term investments and our holdings of retail real estate previously leased as licensee stores. The earnings and costs associated with these assets are included in other loss, net, in our condensed consolidated statements of income.

**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.

**Logistical services.** Our logistical services operating segment reflects the operations of Zenith. In addition to providing shipping, delivery and warehousing services for the Company, Zenith also provides similar services to other customers, primarily in the furniture industry. Revenue from the performance of these services to other customers is included in logistical services revenue in our condensed consolidated statement of income. Zenith's operating costs are included in selling, general and administrative expenses.

PART I-FINANCIAL INFORMATION-CONTINUEDBASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIESNOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-UNAUDITEDFEBRUARY 25, 2017(Dollars in thousands except share and per share data)

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

**Quarter Ended February 25, 2017****Wholesale Retail Logistics Eliminations Consolidated**

## Sales revenue:

Furniture & accessories	\$61,975	\$61,593	\$ -	\$ (29,870	)	\$ 93,698
Logistics	-	-	22,334	(10,140	)	12,194
Total sales revenue	61,975	61,593	22,334	(40,010	)	105,892
Cost of furniture and accessories sold	40,169	31,459	-	(29,730	)	41,898
SG&A expense	15,913	30,671	22,560	(10,620	)	58,524
New store pre-opening costs	-	806	-	-		806
Income (loss) from operations	\$5,893	\$(1,343)	\$(226)	\$ 340		\$ 4,664

**Quarter Ended February 27, 2016****Wholesale Retail Logistics Eliminations Consolidated**

## Sales revenue:

Furniture & accessories	\$59,576	\$61,595	\$ -	\$ (28,769	)	\$ 92,402
Logistics	-	-	24,679	(10,208	)	14,471
Total sales revenue	59,576	61,595	24,679	(38,977	)	106,873
Cost of furniture and accessories sold	39,298	31,315	-	(28,627	)	41,986
SG&A expense	15,880	29,825	23,935	(10,683	)	58,957
New store pre-opening costs	-	139	-	-		139
Income from operations	\$4,398	\$316	\$ 744	\$ 333		\$ 5,791

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

(2) Represents the elimination of logistical services billed to our wholesale and retail segments.

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

(4)

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Represents the elimination of rent paid by our retail stores occupying Company-owned real estate, and the elimination of logistical services charged by Zenith to Bassett's retail and wholesale segments as follows:

	<b>Quarter Ended</b>	
	<b>February</b>	<b>February</b>
	<b>25,</b>	<b>27,</b>
	<b>2017</b>	<b>2016</b>
Intercompany logistical services	\$(10,140)	\$(10,208 )
Intercompany rents	(480 )	(475 )
Total SG&A expense elimination	\$(10,620)	\$(10,683 )

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PART I-FINANCIAL INFORMATION-CONTINUEDBASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIESNOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-UNAUDITEDFEBRUARY 25, 2017(Dollars in thousands except share and per share data)Wholesale segment

Results for the wholesale segment for the quarters ended February 25, 2017 and February 27, 2016 are as follows:

	<b>Quarter Ended February 25, 2017</b>			<b>February 27, 2016</b>		
Net sales	\$ 61,975	100.0	%	\$ 59,576	100.0	%
Gross profit	21,806	35.2	%	20,278	34.0	%
SG&A expenses	15,913	25.7	%	15,880	26.7	%
Income from operations	\$ 5,893	9.5	%	\$ 4,398	7.4	%

*Quarterly Analysis of Results - Wholesale*

Net sales for the wholesale segment were \$61,975 for the first quarter of 2017 as compared to \$59,576 for the first quarter of 2016, an increase of \$2,399 or 4.0%. This sales increase was driven by a 6.7% increase in shipments to the BHF store network partially offset by a 3.2% decrease in shipments to the open market (outside the BHF store network) as compared to the prior year period. Gross margins for the wholesale segment were 35.2% for the first quarter of 2017 as compared to 34.0% for the first quarter of 2016. This increase was due primarily to improved margins in the domestic upholstery operations from favorable pricing strategies and higher margins in the imported wood product as we had lower levels of discounted sales along with higher margins on those sales as compared to the prior year quarter. SG&A as a percentage of sales decreased to 25.7% as compared to 26.7% for the first quarter of 2016. This decrease in SG&A as a percentage of sales was primarily due to lower freight and warehousing costs. Operating income was \$5,893 or 9.5% of sales as compared to \$4,398 or 7.4% of sales in the prior year quarter.

<i>Wholesale shipments by type:</i>	<b>Quarter Ended</b>					
	<b>February 25,</b>			<b>February 27,</b>		
	<b>2017</b>			<b>2016</b>		
Wood	\$22,150	35.7	%	\$22,232	37.3	%
Upholstery	39,037	63.0	%	36,762	61.7	%
Other	788	1.3	%	582	1.0	%
Total	\$61,975	100.0	%	\$59,576	100.0	%

*Wholesale Backlog*

The dollar value of wholesale backlog, representing orders received but not yet shipped to dealers and Company stores, was \$17,140 at February 25, 2017 as compared with \$15,645 at February 27, 2016.

PART I-FINANCIAL INFORMATION-CONTINUED

BASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-UNAUDITED

FEBRUARY 25, 2017

(Dollars in thousands except share and per share data)

Retail – Company-owned stores segment

Results for the retail segment for the quarters ended February 25, 2017 and February 26, 2016 are as follows:

	<b>Quarter Ended</b>		<b>February 27,</b>	
	<b>February 25,</b>		<b>February 27,</b>	
	<b>2017</b>		<b>2016</b>	
Net sales	\$61,593	100.0 %	\$61,595	100.0 %
Gross profit	30,134	48.9 %	30,280	49.2 %
SG&A expenses	30,671	49.8 %	29,825	48.4 %
New store pre-opening costs	806	1.3 %	139	0.2 %
Income (loss) from operations	\$(1,343 )	-2.2 %	\$316	0.5 %

Results for comparable stores<sup>†</sup>(56 stores for the quarter) are as follows:

	<b>Quarter Ended</b>		<b>February 27,</b>	
	<b>February 25,</b>		<b>February 27,</b>	
	<b>2017</b>		<b>2016</b>	
Net sales	\$58,829	100.0 %	\$58,245	100.0 %
Gross profit	28,947	49.2 %	29,052	49.9 %
SG&A expenses	29,180	49.6 %	28,005	48.1 %
Income (loss) from operations	\$(233 )	-0.4 %	\$1,047	1.8 %

†“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:

	<b>Quarter Ended</b>		<b>February 27,</b>	
	<b>February 25,</b>		<b>February 27,</b>	
	<b>2017</b>		<b>2016</b>	
Net sales	\$2,764	100.0%	\$3,350	100.0%
Gross profit	1,187	42.9 %	1,228	36.7 %
SG&A expenses	1,491	53.9 %	1,820	54.3 %
New store pre-opening costs	806	29.2 %	139	4.1 %
Loss from operations	\$(1,110)	-40.2 %	\$(731 )	-21.8 %

#### *Quarterly Analysis of Results - Retail*

Net sales for the 60 Company-owned BHF stores were \$61,593 for the first quarter of 2017 as compared to \$61,595 for the first quarter of 2016. Comparable store sales increased \$584 or 1.0% offset by a \$586 decrease in non-comparable store sales.

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 3.7% for the first quarter of 2017 as compared to the first quarter of 2016.

The consolidated retail operating loss for the first quarter of 2017 was \$1,343 as compared to operating income of \$316 for the first quarter of 2016. The 56 comparable stores incurred an operating loss of \$233 for the quarter, or (0.4)% of sales, as compared to operating income of \$1,047, or 1.8% of sales, for the prior year quarter. Gross margins for comparable stores were 49.2% for the first quarter of 2017 compared to 49.9% for the first quarter of 2016 due to increased clearance activity at lower margins to make room for a significant product rollout during the quarter. SG&A expenses for comparable stores increased \$1,175 to \$29,180 or 49.6% of sales as compared to 48.1% of sales for the first quarter of 2016. This increase in SG&A as a percentage of sales was primarily due to increased advertising and marketing costs and store occupancy costs.

PART I-FINANCIAL INFORMATION-CONTINUED

BASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-UNAUDITED

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(Dollars in thousands except share and per share data)

Losses from the non-comparable stores in the first quarter of fiscal 2017 were \$1,110 compared with \$731 for the first quarter of fiscal 2016, an increase of \$379. The loss during the first quarter of 2017 included \$806 of pre-opening costs recognized in the quarter associated with the Garden City, New York store which opened near the end of the first quarter of 2017, a new store in Culver City, California which opened in March 2017 and a third new store in King of Prussia, Pennsylvania which is expected to open during the second quarter of fiscal 2017. 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 \$200 to \$400 per store based on the overall rent costs for the location and the period between the time when the Company takes possession of the physical store space and the time of the store opening.

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 \$400 to \$600 per store.

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 Backlog*

The dollar value of our retail backlog, representing orders received but not yet delivered to customers, was \$34,048, or an average of \$567 per open store at February 25, 2017 as compared with a retail backlog of \$31,290, or an average of \$530 per open store at February 27, 2016.

Logistical services segment

Results for our logistical services segment for the quarters ended February 25, 2017 and February 27, 2016 are as follows:

	<b>Quarter Ended</b>		<b>February 27,</b>	
	<b>February 25,</b>		<b>February 27,</b>	
	<b>2017</b>		<b>2016</b>	
Logistical services revenue	\$22,334	100.0 %	\$24,679	100.0 %
Operating expenses	22,560	101.0 %	23,935	97.0 %
Income (loss) from operations	\$(226 )	-1.0 %	\$744	3.0 %

*Quarterly Analysis of Operations – Logistical Services*

Logistical services revenue was \$22,334 for the first quarter of 2017 compared with \$24,679 for the first quarter of 2016, a decrease of \$2,345 or (9.5)%. This decrease was due to a \$3,310 revenue decline attributable to one significant non-Bassett customer, partially offset by increases in revenue from other customers. Operating expenses for the first quarter of 2017 were \$22,560 compared with \$23,935 for the first quarter of 2016, a decrease of \$1,375 or 5.7% as declines in purchased third-party freight were partially offset by higher fuel costs and increased fixed costs associated with the expansion and modernization of the transportation equipment fleet over the course of fiscal 2016. In addition, Zenith incurred approximately \$101 in start-up costs during the first quarter of 2017 associated with the opening of new home delivery centers in Philadelphia, Pennsylvania and Cincinnati, Ohio. Operating costs for the quarters ended February 25, 2017 and February 27, 2016 include non-cash depreciation and amortization charges of \$1,235 and \$830, respectively. Zenith incurred an operating loss for the first quarter of fiscal 2017 of \$226 or (1.0)% of revenue as compared to a profit of \$744 or 3.0% of revenue for the prior year quarter. Decreased freight volume during the first quarter of 2017 resulted in overall lower load factors for the over-the-road freight business, making it more costly for Zenith to meet its delivery targets.

PART I-FINANCIAL INFORMATION-CONTINUED

BASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-UNAUDITED

FEBRUARY 25, 2017

(Dollars in thousands except share and per share data)

Other items affecting Net Income

*Other loss, net*

Other loss, net, for the quarter ended February 25, 2017 was \$733 as compared to \$657 for the quarter ended February 27, 2016, an increase of \$76. This increase is primarily attributable to a \$61 gain included in the first quarter of 2016 arising from the partial liquidation of our previously impaired investment in the Fortress Value Recovery Fund I, LLC, which was fully impaired in fiscal 2012.

*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 of 27.2% for the quarter ended February 25, 2017 differs from the federal statutory rate primarily due to the effects of state income taxes and various permanent differences including the favorable impacts of excess tax benefits on stock-based compensation and the Section 199: Domestic Production Activities Deduction. During the quarter ended February 25, 2017, our income tax provision includes excess tax benefits on stock-based compensation in the amount of \$327. No excess tax benefit was recognized during the quarter ended February 27, 2016.

**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 quarter of 2017 was \$2,077 compared to cash provided by operations of \$2,420 for the first quarter of 2016, representing a decrease of \$343 in cash flows from operations.

Our overall cash position decreased by \$11,626 during the first quarter of 2017. Offsetting cash provided by operations, we used \$6,039 of cash in investing activities, primarily consisting of capital expenditures which included retail store relocations, retail store remodels, in-process spending on new stores, and expanding and upgrading our manufacturing capabilities. Net cash used in financing activities was \$7,664, including dividend payments of \$4,290 and the annual \$3,000 installment payment on our Zenith acquisition note payable. With cash and cash equivalents and short-term investments totaling \$46,643 on hand at February 25, 2017, we believe we have sufficient liquidity to fund operations for the foreseeable future.

### Debt and Other Obligations

Our credit facility with our bank provides for a line of credit of up to \$15,000. This credit facility, which matures in December of 2018, is unsecured and 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 February 25, 2017, we had \$1,972 outstanding under standby letters of credit against our line, leaving availability under our credit line of \$13,028. In addition, we have outstanding standby letters of credit with another bank totaling \$511.

At February 25, 2017 we have outstanding principal totaling \$4,124, excluding discounts, under notes payable of which \$3,391 matures within one year of the balance sheet date. See Note 8 to our condensed consolidated financial statements for additional details regarding these notes, including collateral and future maturities. We expect to satisfy these obligations as they mature using cash flow from operations or our available cash on hand.

We lease land and buildings that are used in the operation of our Company-owned retail stores as well as in the operation of certain of our licensee-owned stores, and we lease land and buildings at various locations throughout the continental United States for warehousing and distribution hubs used in our logistical services segment. We also lease tractors, trailers and local delivery trucks used in our logistical services segment. We had obligations of \$155,339 at February 25, 2017 for future minimum lease payments under non-cancelable operating leases having remaining terms in excess of one year. We also have guaranteed certain lease obligations of licensee operators. Remaining terms under these lease guarantees range from approximately one to five years. We were contingently liable under licensee lease obligation guarantees in the amount of \$1,611 at February 25, 2017. See Note 10 to our condensed consolidated financial statements for additional details regarding our leases and lease guarantees.





PART I-FINANCIAL INFORMATION-CONTINUEDBASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIESNOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-UNAUDITEDFEBRUARY 25, 2017(Dollars in thousands except share and per share data)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 \$26,272 at February 25, 2017. All other retail real estate that we own, consisting of locations formerly leased to our licensees and now leased to others, is included in other assets in the accompanying condensed consolidated balance sheets. The net book value of such real estate, which is considered part of our wholesale segment, was \$2,931 at February 25, 2017.

The following table summarizes our total investment in retail real estate owned at February 25, 2017:

	<b>Number of Locations</b>	<b>Aggregate Square Footage</b>	<b>Net Book Value</b>
Real estate occupied by Company-owned and operated stores, included in property and equipment, net (1)	11	276,887	\$26,272
Investment real estate leased to others, included in other assets	2	41,021	2,931
Total Company investment in retail real estate	13	317,908	\$29,203

(1) Includes two properties encumbered under mortgages totalling \$1,124 at February 25, 2017.

## **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 26, 2016.

## **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 as well as land and buildings used in our logistical services segment. We also lease transportation equipment used in our logistical services segment. We have guaranteed certain lease obligations of licensee operators of the stores, as part of our retail expansion strategy. See Note 10 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.

## **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 10 to our condensed consolidated financial statements for further information regarding certain contingencies as of February 25, 2017.

PART I-FINANCIAL INFORMATION-CONTINUED

BASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-UNAUDITED

FEBRUARY 25, 2017

(Dollars in thousands except share and per share data)

**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 2017.

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

We have potential exposure to market risk related to conditions in the commercial real estate market. Our retail real estate holdings of \$2,931 at February 25, 2017 for stores formerly operated by licensees as well as our holdings of \$26,272 at February 25, 2017 for Company-owned stores could suffer significant impairment in value if we are forced to close additional stores and sell or lease the related properties during periods of weakness in certain markets. Additionally, if we are required to assume responsibility for payment under the lease obligations of \$1,611 which we have guaranteed on behalf of licensees as of February 25, 2017, 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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-UNAUDITED

FEBRUARY 25, 2017

(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*”, “*aims*” 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 2016 and include:

• competitive conditions in the home furnishings industry

• general economic conditions, including the strength of the housing market in the United States

• overall retail traffic levels and consumer demand for home furnishings

• ability of our customers and consumers to obtain credit

• Bassett store openings and 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, fuel, labor and sourced products

• results of marketing and advertising campaigns

• effectiveness and security of our information and technology systems

• future tax legislation, or regulatory or judicial positions

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

• concentration of domestic manufacturing, particularly of upholstery products, and the resulting exposure to business interruption from accidents, weather and other events and circumstances beyond our control

• general risks associated with providing freight transportation and other logistical services through our wholly-owned subsidiary, Zenith Freight Lines, LLC

PART II-OTHER INFORMATIONBASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIESFEBRUARY 25, 2017(Dollars in thousands except share and per share data)**Item 1. Legal Proceedings**

None

**Item 2. Unregistered Sales of Equity Securities, Use of Proceeds and Issuer Purchases of Equity Securities**

The following table summarizes the stock repurchase activity for the three months ended February 25, 2017 and the approximate dollar value of shares that may yet be purchased pursuant to our stock repurchase program:

	<b>Total</b>	<b>Average</b>	<b>Total</b>	<b>Approximate</b>
	<b>Shares</b>	<b>Price</b>	<b>Number of</b>	<b>Dollar Value</b>
	<b>Purchased</b>	<b>Paid</b>	<b>Shares</b>	<b>of Shares</b>
			<b>Purchased</b>	<b>that May Yet</b>
			<b>as Part of</b>	<b>Be</b>
			<b>Publicly</b>	<b>Purchased</b>
			<b>Announced</b>	<b>Under the</b>
			<b>Plans</b>	<b>Plans</b>
			<b>or</b>	<b>or Programs</b>
			<b>Programs</b>	<b>(1)</b>
			<b>(1)</b>	
November 27 - December 31, 2016	-	\$ -	-	\$ 11,536
January 1 - January 28, 2017	16,800	(2) \$ 28.20	-	\$ 11,536
January 29 - February 25, 2017	1,000	\$ 26.42	1,000	\$ 11,510

(1) The Company is authorized to repurchase Company stock under a plan which was originally announced in 1998. On October 9, 2014, the Board of Directors increased the remaining limit of the repurchase plan to \$20,000. At February 25, 2017, \$11,510 remains available for stock repurchases under the plan.



(2) Consists of 16,800 shares withheld upon the vesting of restricted stock awards to cover payment of withholding taxes.

### **Item 3. Defaults Upon Senior Securities**

None.

### **Item 6. Exhibits**

a. Exhibits:

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

Exhibit 3b – By-laws as amended to date are incorporated herein by reference to Exhibit 3 to Form 8-K filed with the SEC on January 17, 2017.

Exhibit 4 – Registrant hereby agrees to furnish the SEC, upon request, other instruments defining the rights of holders of long-term debt of the Registrant.

Exhibit 31a – Chief Executive Officer’s certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

Exhibit 31b – Chief Financial Officer’s certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

Exhibit 32a – Chief Executive Officer’s certification pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Exhibit 32b – Chief Financial Officer’s certification pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002



PART II-OTHER INFORMATION-CONTINUED

BASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIES

FEBRUARY 25, 2017

(Dollars in thousands except share and per share data)

Exhibit 101 – The following financial statements from the Company's Quarterly Report on Form 10-Q for the quarter ended February 25, 2017 formatted in Extensible Business Reporting Language (“XBRL”): (i) condensed consolidated balance sheets, (ii) condensed consolidated statements of operations and retained earnings, (iii) condensed consolidated statements of cash flows, and (iv) the notes to the condensed consolidated financial statements, tagged as blocks of text.

Exhibit 101.INS XBRL Instance

Exhibit 101.SCH XBRL Taxonomy Extension Schema

Exhibit 101.CAL XBRL Taxonomy Extension Calculation

Exhibit 101.DEF XBRL Taxonomy Extension Definition

Exhibit 101.LAB XBRL Taxonomy Extension Labels

Exhibit 101.PRE XBRL Taxonomy Extension Presentation

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned thereunto duly authorized.

BASSETT FURNITURE INDUSTRIES, INCORPORATED

/s/ Robert H. Spilman, Jr. \_\_\_\_\_

Robert H. Spilman, Jr., Chairman and Chief Executive Officer

March 30, 2017

/s/ J. Michael Daniel \_\_\_\_\_

J. Michael Daniel, Senior Vice President and Chief Financial Officer

March 30, 2017

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