

BASSETT FURNITURE INDUSTRIES INC
Form 10-Q
July 02, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended May 31, 2014

OR

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

For the transition period from _____ to _____

Commission File No. 0-209

BASSETT FURNITURE INDUSTRIES, INCORPORATED

(Exact name of Registrant as specified in its charter)

Virginia 54-0135270
(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

3525 Fairystone Park Highway

Bassett, Virginia 24055

(Address of principal executive offices)

(Zip Code)

(276) 629-6000

(Registrant's telephone number, including area code)

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

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

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

Large Accelerated Filer Accelerated Filer Non-accelerated Filer Smaller Reporting Company

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

At June 20, 2014, 10,631,139 shares of common stock of the Registrant were outstanding.

BASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIES

TABLE OF CONTENTS

ITEM	PAGE										
PART I - FINANCIAL INFORMATION											
1.	Condensed Consolidated Financial Statements as of May 31, 2014 (unaudited) and November 30, 2013 and for the three and six months ended May 31, 2014 (unaudited) and June 1, 2013 (unaudited)										
	<table border="0" style="width: 100%;"> <tr> <td style="width: 80%;">Condensed Consolidated Statements of Income and Retained Earnings</td> <td style="text-align: right;">3</td> </tr> <tr> <td>Condensed Consolidated Statements of Comprehensive Income</td> <td style="text-align: right;">4</td> </tr> <tr> <td>Condensed Consolidated Balance Sheets</td> <td style="text-align: right;">5</td> </tr> <tr> <td>Condensed Consolidated Statements of Cash Flows</td> <td style="text-align: right;">6</td> </tr> <tr> <td>Notes to Condensed Consolidated Financial Statements</td> <td style="text-align: right;">7</td> </tr> </table>	Condensed Consolidated Statements of Income and Retained Earnings	3	Condensed Consolidated Statements of Comprehensive Income	4	Condensed Consolidated Balance Sheets	5	Condensed Consolidated Statements of Cash Flows	6	Notes to Condensed Consolidated Financial Statements	7
Condensed Consolidated Statements of Income and Retained Earnings	3										
Condensed Consolidated Statements of Comprehensive Income	4										
Condensed Consolidated Balance Sheets	5										
Condensed Consolidated Statements of Cash Flows	6										
Notes to Condensed Consolidated Financial Statements	7										
2.	Management's Discussion and Analysis of Financial Condition and Results of Operations										
3.	Quantitative and Qualitative Disclosures About Market Risk										
4.	Controls and Procedures										
PART II - OTHER INFORMATION											
1.	Legal Proceedings										
2.	Unregistered Sales of Equity Securities and Use of Proceeds										
3.	Defaults Upon Senior Securities										
6.	Exhibits										

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

(In thousands except per share data)

	Quarter Ended		Six Months Ended	
	May 31, 2014	June 1, 2013	May 31, 2014	June 1, 2013
Net sales	\$85,185	\$81,223	\$160,832	\$161,072
Cost of sales	39,872	39,397	75,266	77,886
Gross profit	45,313	41,826	85,566	83,186
Selling, general and administrative expenses excluding new store pre-opening costs	40,901	38,361	79,481	77,195
New store pre-opening costs	521	55	1,108	217
Income from operations	3,891	3,410	4,977	5,774
Other income (loss), net	(272)	(129)	13	(797)
Income before income taxes	3,619	3,281	4,990	4,977
Income tax expense	1,068	1,328	1,596	2,044
Net income	\$2,551	\$1,953	\$3,394	\$2,933
Retained earnings-beginning of period	104,713	104,757	104,526	104,319
Purchase and retirement of common stock	(1,315)	-	(1,315)	-
Cash dividends	(652)	(543)	(1,308)	(1,085)
Retained earnings-end of period	\$105,297	\$106,167	\$105,297	\$106,167
Basic earnings per share	\$0.24	\$0.18	\$0.32	\$0.27
Diluted earnings per share	\$0.24	\$0.18	\$0.31	\$0.27
Dividends per share	\$0.06	\$0.05	\$0.12	\$0.10

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

3 of 35

PART I – FINANCIAL INFORMATION – CONTINUED

ITEM 1. FINANCIAL STATEMENTS

BASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

FOR THE PERIODS ENDED MAY 31, 2014 AND JUNE 1, 2013 – UNAUDITED

(In thousands)

	Quarter Ended		Six Months Ended	
	May 31, 2014	June 1, 2013	May 31, 2014	June 1, 2013
Net income	\$2,551	\$1,953	\$3,394	\$2,933
Other comprehensive income:				
Amortization associated with supplemental executive retirement defined benefit plan (SERP)	41	31	83	62
Income taxes related to SERP	(16)	(12)	(32)	(24)
Other comprehensive income, net of tax	25	19	51	38
Total comprehensive income	\$2,576	\$1,972	\$3,445	\$2,971

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 SHEETSMAY 31, 2014 AND NOVEMBER 30, 2013

(In thousands)

	(Unaudited)	
	May 31,	November
	2014	30, 2013
<u>Assets</u>		
Current assets		
Cash and cash equivalents	\$ 16,882	\$ 12,733
Short-term investments	23,125	28,125
Accounts receivable, net	14,957	16,080
Inventories	52,702	53,069
Deferred income taxes	4,593	4,418
Other current assets	10,476	11,949
Total current assets	122,735	126,374
Property and equipment, net	72,881	64,271
Retail real estate	6,482	10,435
Deferred income taxes	10,720	10,734
Other	14,040	14,035
Total long-term assets	31,242	35,204
Total assets	\$ 226,858	\$ 225,849
<u>Liabilities and Stockholders' Equity</u>		
Current liabilities		
Accounts payable	\$ 18,473	\$ 19,892
Accrued compensation and benefits	7,065	6,503
Customer deposits	19,336	16,214
Dividends payable	-	2,172
Other accrued liabilities	7,369	6,660
Total current liabilities	52,243	51,441
Long-term liabilities		
Post employment benefit obligations	10,708	11,146
Real estate notes payable	2,320	2,467
Other long-term liabilities	4,293	3,386

Total long-term liabilities	17,321	16,999
Stockholders' equity		
Common stock	53,360	54,297
Retained earnings	105,297	104,526
Accumulated other comprehensive loss	(1,363)	(1,414)
Total stockholders' equity	157,294	157,409
Total liabilities and stockholders' equity	\$ 226,858	\$ 225,849

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

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

(In thousands)

	Six Months Ended	
	May 31,	June 1,
	2014	2013
Operating activities:		
Net income	\$3,394	\$2,933
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	3,438	2,890
Equity in undistributed income of investments and unconsolidated affiliated companies	(343)	(282)
Tenant improvement allowances received from lessors	1,270	-
Deferred income taxes	(160)	353
Other, net	421	(491)
Changes in operating assets and liabilities:		
Accounts receivable	1,015	243
Inventories	367	1,922
Other current assets	1,451	(2,101)
Customer deposits	3,122	2,088
Accounts payable and accrued liabilities	(156)	(4,732)
Net cash provided by operating activities	13,819	2,823
Investing activities:		
Purchases of property and equipment	(12,209)	(5,184)
Proceeds from sale of retail real estate and property and equipment	1,407	955
Proceeds from sale of interest in affiliate	2,348	2,348
Proceeds from maturity of short-term investments	5,000	-
Purchases of investments	-	(1,125)
Other	188	5
Net cash used in investing activities	(3,266)	(3,001)
Financing activities:		
Cash dividends	(3,480)	(1,627)
Issuance of common stock	147	462
Repurchases of common stock	(2,930)	(526)

Edgar Filing: BASSETT FURNITURE INDUSTRIES INC - Form 10-Q

Repayments of real estate notes payable	(137)	(126)
Other	(4)	-
Net cash used in financing activities	(6,404)	(1,817)
Change in cash and cash equivalents	4,149	(1,995)
Cash and cash equivalents - beginning of period	12,733	45,566
Cash and cash equivalents - end of period	\$16,882	\$43,571

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

MAY 31, 2014

(Dollars in thousands except share and per share data)

1. Basis of Presentation

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

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

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

Our fiscal year, which ends on the last Saturday of November, periodically results in a 53-week year instead of the normal 52 weeks. The prior fiscal year ending November 30, 2013 was a 53-week year, with the additional week being included in the first fiscal quarter. Accordingly, the information presented below includes 26 weeks of operations for the six months ended May 31, 2014 as compared with 27 weeks included for the six months ended June 1, 2013.

2. Interim Financial Presentation

All intercompany accounts and transactions have been eliminated in the condensed consolidated financial statements. The results of operations for the three month and six months ended May 31, 2014 are not necessarily indicative of results for the full fiscal year. These interim condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and accompanying notes included in our Annual Report on Form 10-K for the year ended November 30, 2013.

We calculate an anticipated effective tax rate for the year based on our annual estimates of pretax income or loss and use that effective tax rate to record our year-to-date income tax provision. Any change in annual projections of pretax income or loss could have a significant impact on our effective tax rate for the respective quarter. Our effective tax rate for the three and six months ended May 31, 2014 differs from the federal statutory rate primarily due to the effects of state income taxes, permanent differences resulting from non-deductible expenses and, for the three and six months ended May 31, 2014, non-taxable life insurance proceeds. During the second quarter of 2014, the state of New York enacted legislation affecting various corporate tax issues, including the usage of state net operating losses. Based on this legislation, prior limitations on our ability to use those net operating losses have been removed. Thus, we have changed our realization assessment for the deferred tax assets associated with those net operating losses and removed the related valuation allowance resulting in a tax benefit of \$190 for the three and six months ended May 31, 2014.

Our federal tax return for the fiscal year ended November 24, 2012 is currently under examination by the Internal Revenue Service.

PART I-FINANCIAL INFORMATION-CONTINUED

BASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-UNAUDITED

MAY 31, 2014

(Dollars in thousands except share and per share data)

3. Accounts Receivable

Accounts receivable consists of the following:

	May 31, 2014	November 30, 2013
Gross accounts receivable	\$ 16,492	\$ 17,687
Allowance for doubtful accounts	(1,535)	(1,607)
Accounts receivable, net	\$ 14,957	\$ 16,080

At May 31, 2014 and November 30, 2013 approximately 49% and 50%, respectively, of gross accounts receivable, and approximately 67% and 64%, respectively, of the allowance for doubtful accounts were attributable to amounts owed to us by our licensees. Our remaining receivables are primarily due from national account customers and traditional distribution channel customers.

Activity in the allowance for doubtful accounts was as follows:

Balance at November 30, 2013	\$ 1,607
Additions charged to expense	108

Write-offs and other deductions (180)
 Balance at May 31, 2014 \$1,535

We believe that the carrying value of our net accounts receivable approximates fair value. The inputs into these fair value estimates reflect our market assumptions and are not observable. Consequently, the inputs are considered to be Level 3 as specified in the fair value hierarchy in ASC Topic 820, *Fair Value Measurements and Disclosures*. See Note 10.

4. Inventories

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

Inventories were comprised of the following:

	May 31, 2014	November 30, 2013
Wholesale finished goods	\$27,165	\$ 28,450
Work in process	320	277
Raw materials and supplies	8,020	8,029
Retail merchandise	26,347	25,167
Total inventories on first-in, first-out method	61,852	61,923
LIFO adjustment	(7,733)	(7,561)
Reserve for excess and obsolete inventory	(1,417)	(1,293)
	\$52,702	\$ 53,069

PART I-FINANCIAL INFORMATION-CONTINUEDBASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIESNOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-UNAUDITEDMAY 31, 2014(Dollars in thousands except share and per share data)

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

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

	Wholesale Segment	Retail Segment	Total
Balance at November 30, 2013	\$ 1,001	\$ 292	\$1,293
Additions charged to expense	729	241	970
Write-offs	(671)	(175)	(846)
Balance at May 31, 2014	\$ 1,059	\$ 358	\$1,417

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

5. Unconsolidated Affiliated Companies

We own 49% of Zenith Freight Lines, LLC, (“Zenith”) which provides domestic transportation and warehousing services primarily to furniture manufacturers and distributors, and also provides home delivery services to furniture retailers. We have contracted with Zenith to provide for substantially all of our domestic freight, transportation and warehousing needs for the wholesale business. In addition, Zenith provides home delivery services for several of our Company-owned retail stores. Our investment in Zenith was \$7,597 and \$7,254 at May 31, 2014 and November 30, 2013, respectively. At May 31, 2014 and November 30, 2013, we owed Zenith \$1,934 and \$2,580, respectively, for services rendered to us. We believe the transactions with Zenith are at current market rates. We recorded the following income from Zenith in other income (loss), net, in our condensed consolidated statements of income and retained earnings:

	Quarter Ended		Six Months Ended	
	May 31, 2014	June 1, 2013	May 31, 2014	June 1, 2013
Earnings recognized	\$278	\$168	\$343	\$282

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

PART I-FINANCIAL INFORMATION-CONTINUED

BASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-UNAUDITED

MAY 31, 2014

(Dollars in thousands except share and per share data)

6. Real Estate Notes Payable and Bank Credit Facility

Real Estate Notes Payable

The real estate notes payable are summarized as follows:

	May 31, 2014	November 30, 2013
Real estate notes payable	\$2,609	\$ 2,746
Less:		
Current portion of real estate notes payable	(289)	(279)
	\$2,320	\$ 2,467

Two of our retail real estate properties have been financed through commercial mortgages with interest rates of 6.73%. These mortgages are collateralized by the respective properties with net book values totaling approximately \$6,194 and \$6,262 at May 31, 2014 and November 30, 2013, respectively. The portion of these mortgages due within one year, \$289 and \$279 as of May 31, 2014 and November 30, 2013, respectively, is included in other current liabilities in the accompanying condensed consolidated balance sheets. The long-term portion, \$2,320 and \$2,467 as of May 31, 2014 and November 30, 2013, respectively, is presented as real estate notes payable in the condensed consolidated balance sheets.

The fair value of these mortgages was \$2,554 and \$2,684 at May 31, 2014 and November 30, 2013, respectively. In determining the fair value, we utilized current market interest rates for similar instruments. The inputs into these fair

value calculations reflect our market assumptions and are not observable. Consequently, the inputs are considered to be Level 3 as specified in the fair value hierarchy in ASC Topic 820, *Fair Value Measurements and Disclosures*. See Note 10.

Bank Credit Facility

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

At May 31, 2014, we had \$1,366 outstanding under standby letters of credit, leaving availability under our credit line of \$13,634.

7. Contingencies

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

PART I-FINANCIAL INFORMATION-CONTINUED

BASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-UNAUDITED

MAY 31, 2014

(Dollars in thousands except share and per share data)

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

We lease land and buildings that are used in the operation of our Company-owned retail stores as well as in the operation of certain of our licensee-owned stores. We had obligations of \$97,710 and \$96,421 at May 31, 2014 and November 30, 2013, respectively, for future minimum lease payments under non-cancelable operating leases having initial terms in excess of one year.

We also have guaranteed certain lease obligations of licensee operators. Lease guarantees range from one to ten years. We were contingently liable under licensee lease obligation guarantees in the amount of \$3,459 and \$3,698 at May 31, 2014 and November 30, 2013, respectively.

In the event of default by an independent dealer under the guaranteed lease, we believe that the risk of loss is mitigated through a combination of options that include, but are not limited to, arranging for a replacement dealer, liquidating the collateral (primarily inventory), and pursuing payment under the personal guarantees of the independent dealer. The proceeds of the above options are expected to cover the estimated amount of our future payments under the guarantee obligations, net of recorded reserves. The fair value of lease guarantees (an estimate of the cost to the Company to perform on these guarantees) at May 31, 2014 and November 30, 2013 was not material.

8. Post Employment Benefit Obligations

We have an unfunded Supplemental Retirement Income Plan (the “Supplemental Plan”) that covers one current and certain former executives. The liability for this plan was \$9,485 and \$9,775 as of May 31, 2014 and November 30, 2013, respectively, and is recorded as follows in the condensed consolidated balance sheets:

	May 31, 2014	November 30, 2013
Accrued compensation and benefits	\$810	\$ 810
Post employment benefit obligations	8,675	8,965
 Total pension liability	 \$9,485	 \$ 9,775

PART I-FINANCIAL INFORMATION-CONTINUED

BASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-UNAUDITED

MAY 31, 2014

(Dollars in thousands except share and per share data)

Components of net periodic pension costs are as follows:

	Quarter		Six Months	
	Ended		Ended	
	May	June	May	June
	31,	1,	31,	1,
	2014	2013	2014	2013
Service cost	\$19	\$17	\$39	\$35
Interest cost	93	88	186	175
Amortization of transition obligation	11	10	22	21
Amortization of loss	31	21	61	41
Net periodic pension cost	\$154	\$136	\$308	\$272

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. We recognized expense under this plan as follows:

	Quarter		Six Months	
	Ended		Ended	
	May	June	May	June
	31,	1,	31,	1,
	2014	2013	2014	2013
Deferred compensation plan expense	\$72	\$72	\$144	\$144

Our liability under this plan was \$2,557 and \$2,555 as of May 31, 2014 and November 30, 2013, respectively, and is recorded as follows in the condensed consolidated balance sheets:

	May 31, 2014	November 30, 2013
Accrued compensation and benefits	\$523	\$ 373
Post employment benefit obligations	2,034	2,182
Total pension liability	\$2,557	\$ 2,555

PART I-FINANCIAL INFORMATION-CONTINUEDBASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIESNOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-UNAUDITEDMAY 31, 2014(Dollars in thousands except share and per share data)**9. Earnings Per Share**

The following reconciles basic and diluted earnings per share:

	Net Income	Weighted Average Shares	Net Income Per Share
<u>For the quarter ended May 31, 2014</u>			
Basic earnings per share	\$ 2,551	10,621,707	\$ 0.24
Add effect of dilutive securities:			
Options and restricted shares	-	157,573	-
Diluted earnings per share	\$ 2,551	10,779,280	\$ 0.24
<u>For the quarter ended June 1, 2013:</u>			
Basic earnings per share	\$ 1,953	10,712,718	\$ 0.18
Add effect of dilutive securities:			
Options and restricted shares	-	173,131	-
Diluted earnings per share	\$ 1,953	10,885,849	\$ 0.18
<u>For the six months ended May 31, 2014:</u>			
Basic earnings (loss) per share	\$ 3,394	10,656,677	\$ 0.32
Add effect of dilutive securities:			
Options and restricted shares	-	151,157	(0.01)
Diluted earnings per share	\$ 3,394	10,807,834	\$ 0.31

For the six months ended June 1, 2013:

Edgar Filing: BASSETT FURNITURE INDUSTRIES INC - Form 10-Q

Basic earnings per share	\$ 2,933	10,705,711	\$ 0.27
Add effect of dilutive securities:			
Options and restricted shares		165,820	
Diluted earnings per share	\$ 2,933	10,871,531	\$ 0.27

For the three and six months ended May 31, 2014 and June 1, 2013, the following potentially dilutive shares were excluded from the computations as their effect was anti-dilutive:

	Quarter Ended		Six Months Ended	
	May 31, 2014	June 1, 2013	May 31, 2014	June 1, 2013
Stock options	207,500	472,500	207,500	472,500
Unvested shares	12,339	11,295	66,339	11,295
Total anti-dilutive securities	219,839	483,795	273,839	483,795

PART I-FINANCIAL INFORMATION-CONTINUED

BASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-UNAUDITED

MAY 31, 2014

(Dollars in thousands except share and per share data)

10. Financial Instruments and Fair Value Measurements

Financial Instruments

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

Investments

Our short-term investments of \$23,125 and \$28,125 at May 31, 2014 and November 30, 2013, respectfully, consisted of certificates of deposit (CDs) with original terms generally ranging from six to twelve months, bearing interest at rates ranging from 0.12% to 0.91%. At May 31, 2014, the weighted average remaining time to maturity of the CDs was approximately two months and the weighted average yield of the CDs was approximately 0.248%. 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 May 31, 2014 and November 30, 2013 approximates their fair value.

We hold an investment in the Fortress Value Recovery Fund I, LLC ("Fortress"). Due to significant declines in net asset values during the first quarter of fiscal 2012, the highly illiquid nature of the investment, and the high degree of uncertainty regarding our ability to recover our investment in the foreseeable future, we fully impaired the carrying amount of this investment during the year ended November 24, 2012. During the three and six months ended May 31,

2014, we recognized gains of \$48 and \$188, respectively, resulting from the partial liquidation of Fortress which is included in other income (loss), net in our consolidated statement of income. The timing and amount of future receipts, if any, from the liquidation of Fortress, remain uncertain, and will be recognized as gains in other income if and when notification of a distribution is received.

Fair Value Measurement

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

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

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

Level 3 Inputs– Instruments with primarily unobservable value drivers.

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

PART I-FINANCIAL INFORMATION-CONTINUED

BASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-UNAUDITED

MAY 31, 2014

(Dollars in thousands except share and per share data)

11. Asset Disposition and Accrued Lease Exit Costs

Asset Disposition

During the quarter ended May 31, 2014, we entered into a contract to sell our retail real estate investment property located in Denver, Colorado. At May 31, 2014, the \$3,733 net book value of the land and building is classified as an asset held for sale and is included in other current assets in the accompanying balance sheet. This asset was included in retail real estate at November 30, 2013. The sale of the real estate closed on June 11, 2014, resulting in an immaterial gain.

Accrued Lease Exit Costs

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

Balance at November 30, 2013	\$907
Payments on unexpired leases	(402)
Accretion of interest on obligations and other	28
Balance at May 31, 2014	\$533
Current portion included in other accrued liabilities	\$162
Long-term portion included in other long-term liabilities	371
	\$533

12. Recent Accounting Pronouncements

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

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

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

PART I-FINANCIAL INFORMATION-CONTINUED

BASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-UNAUDITED

MAY 31, 2014

(Dollars in thousands except share and per share data)

13. Segment Information

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

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

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

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

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

PART I-FINANCIAL INFORMATION-CONTINUEDBASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIESNOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-UNAUDITEDMAY 31, 2014(Dollars in thousands except share and per share data)

The following table presents our segment information:

	Quarter Ended		Six Months Ended	
	May 31, 2014	June 1, 2013	May 31, 2014	June 1, 2013
Net Sales				
Wholesale	\$56,184	\$53,933	\$107,270	\$107,893
Retail - Company-owned stores	53,290	51,470	100,414	101,427
Inter-company elimination	(24,289)	(24,180)	(46,852)	(48,248)
Consolidated	\$85,185	\$81,223	\$160,832	\$161,072
Income (loss) from Operations				
Wholesale	\$4,257	\$2,849	\$6,605	\$5,850
Retail - Company-owned stores	(666)	277	(2,438)	(294)
Inter-company elimination	300	284	810	218
Consolidated	\$3,891	\$3,410	\$4,977	\$5,774
Depreciation and Amortization				
Wholesale	\$336	\$332	\$661	\$673
Retail - Company-owned stores	1,300	999	2,557	1,966
Investments and real estate	110	125	220	251
Consolidated	\$1,746	\$1,456	\$3,438	\$2,890
Capital Expenditures				
Wholesale	\$1,788	\$1,474	\$3,225	\$2,122
Retail - Company-owned stores	3,522	1,089	8,984	3,062
Investments and real estate	-	-	-	-
Consolidated	\$5,310	\$2,563	\$12,209	\$5,184

As of As of
 May 31, November
 2014 30, 2013

Identifiable Assets

Wholesale	\$109,746	\$109,958
Retail - Company-owned stores	87,505	77,331
Investments and real estate	29,607	38,560
Consolidated	\$226,858	\$225,849

17 of 35

PART I-FINANCIAL INFORMATION-CONTINUED

BASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIES

MAY 31, 2014

(Dollars in thousands except share and per share data)

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

Overview

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

With 94 BHF stores at May 31, 2014, we have leveraged our strong brand name in furniture into a network of corporate and licensed stores that focus on providing consumers with a friendly environment for buying furniture and accessories. We created our store program in 1997 to provide a single source home furnishings retail store that provides a unique combination of stylish, quality furniture and accessories with a high level of customer service. The store features custom order furniture ready for delivery in less than 30 days, more than 1,000 upholstery fabrics, free in-home design visits, and coordinated decorating accessories. We believe that our capabilities in custom furniture have become unmatched in recent years. Our manufacturing team takes great pride in the breadth of its options, the precision of its craftsmanship, and the speed of its delivery. The selling philosophy in the stores is based on building strong long term relationships with each customer. Sales people are referred to as Design Consultants and are each trained to evaluate customer needs and provide comprehensive solutions for their home decor. We continue to strengthen the sales and design talent within our Company-owned retail stores. Our Design Consultants undergo extensive Design Certification training. This training has strengthened their skills related to our house call and design business, and is intended to increase business with our most valuable customers.

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

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

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

The following table summarizes the changes in store count during the six months ended May 31, 2014:

	November 30, 2013	New Stores*	Closed Stores*	May 31, 2014
Company-owned stores	55	5	-	60
Licensed-owned stores	34	-	-	34
Total	89	5	-	94

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

PART I-FINANCIAL INFORMATION-CONTINUED

BASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIES

MAY 31, 2014

(Dollars in thousands except share and per share data)

In fiscal 2013, we began a program to increase the Company-owned retail store count and relocate a number of first generation stores to better locations. This program includes opening nine new stores and relocating six existing stores in 2013 and 2014. As a result, we spent \$8,984 in capital expenditures for new and relocated stores in the first six months of fiscal 2014 and expect to spend an additional amount of approximately \$2,000 during the remainder of the year. During the six months ended May 31, 2014, stores in the following locations were opened and relocated:

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

During the next six to nine months, we expect to open or relocate stores in the following locations:

New Stores	Store Relocations
Rockville, Maryland	Boston, Massachusetts
	San Antonio, Texas
	Southlake, Texas

As with any retail operation, prior to opening a new store we incur such expenses as rent, training costs and other payroll related costs. These costs generally range between \$100 to \$300 per store depending on the overall rent costs for the location and the period between the time when we take possession of the physical store space and the time of the store opening. Generally, rent payments between time of possession and opening of a new store are deferred and therefore rent costs recognized during that time do not require cash. Inherent in our retail business model, we also incur significant losses in the first two to three months of operation following a new store opening. Similar to other furniture retailers, we do not recognize a sale in the income statement until the furniture is delivered to our customer. Because our retail business model does not involve maintaining a stock of retail inventory that would result in quick delivery, and because of the custom nature of our furniture offerings, delivery to our customers usually does not occur until 30 days after an order is placed. We generally require a deposit at the time of order and collect the remaining balance when the furniture is delivered at which time the sale is recorded in the income statement. Coupled with the

previously discussed store pre-opening costs, total start-up losses can range from \$300 to \$500 per store. While this expansion is initially costly to our operating results, we believe our site selection and new store presentation will generally result in locations that operate at or above a retail break-even level within 12 months of their opening. Even as these stores ramp up to break-even, we are realizing additional wholesale sales volume that will leverage the fixed costs in our wholesale business. We expect to continue opening and relocating stores at a slower pace after 2014.

Our wholesale operations include an upholstery plant in Newton, North Carolina that produces a wide range of upholstered furniture. We believe that we are an industry leader with our quick-ship custom upholstery offerings. We also operate a custom dining manufacturing facility in Martinsville, Virginia. Most of our wood furniture and certain of our upholstery offerings are sourced through several foreign plants, primarily in Vietnam, Indonesia and China. We define imported product as fully finished product that is sourced internationally. For the six months ended May 31, 2014, approximately 42% of our wholesale sales were of imported product compared to 47% for the six months ended June 1, 2013.

PART I-FINANCIAL INFORMATION-CONTINUEDBASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIESMAY 31, 2014(Dollars in thousands except share and per share data)**Results of Operations – Quarter ended May 31, 2014 compared with quarter ended June 1, 2013:**

Net sales, gross profit, selling, general and administrative (SG&A) expense, and income (loss) from operations were as follows for the periods ended May 31, 2014 and June 1, 2013:

	Quarter Ended		June 1, 2013		Six Months Ended*		June 1, 2013	
	May 31, 2014				May 31, 2014			
Net sales	\$85,185	100.0%	\$81,223	100.0%	\$160,832	100.0%	\$161,072	100.0%
Gross profit	45,313	53.2 %	41,826	51.5 %	85,566	53.2 %	83,186	51.6 %
SG&A expenses	40,901	48.0 %	38,361	47.2 %	79,481	49.4 %	77,195	47.9 %
New store pre-opening costs	521	0.6 %	55	0.1 %	1,108	0.7 %	217	0.1 %
Income (loss) from operations	\$3,891	4.6 %	\$3,410	4.2 %	\$4,977	3.1 %	\$5,774	3.6 %

* 26 weeks for fiscal 2014 as compared to 27 weeks for fiscal 2013.

On a consolidated basis, we reported net sales for the second quarter of 2014 of \$85,185, as compared to \$81,223 for the second quarter of 2013. Net sales for the six months ended May 31, 2014 were \$160,832, a 0.1% decrease from the comparable period of 2013. Because of our fiscal calendar, the six months ended June 1, 2013 consisted of 27 weeks compared to 26 weeks for the first half of 2014. On an average weekly basis (normalizing for the extra week in the first half of 2013), consolidated net sales increased 3.7%. Operating income was \$3,891 for the second quarter of 2014 as compared to \$3,410 for the second quarter of 2013, an increase of \$481 primarily attributable to higher margins in our upholstery operations along with tighter wholesale expense control, partially offset by higher SG&A costs in our retail operations associated with the expansion of the Company-owned store network. For the six months ended May 31, 2014, operating income was \$4,977, a decrease of \$797 from the first six months of 2013 driven primarily by higher new store related costs (both pre- and post-opening), as we opened five new stores during the first half of 2014 compared to two in the first half of 2013.

PART I-FINANCIAL INFORMATION-CONTINUED

BASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIES

MAY 31, 2014

(Dollars in thousands except share and per share data)

Segment Information

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

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

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

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

PART I-FINANCIAL INFORMATION-CONTINUEDBASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIESMAY 31, 2014(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 May 31, 2014				Consolidated
	Wholesale	Retail	Eliminations		
Net sales	\$56,184	\$53,290	\$ (24,289	) (1)	\$ 85,185
Gross profit	19,028	26,462	(177	) (2)	45,313
SG&A expense	14,771	26,607	(477	) (3)	40,901
New store pre-opening costs	-	521	-		521
Income (loss) from operations	\$4,257	\$(666	) \$ 300		\$ 3,891

	Quarter Ended June 1, 2013				Consolidated
	Wholesale	Retail	Eliminations		
Net sales	\$53,933	\$51,470	\$ (24,180	) (1)	\$ 81,223
Gross profit	17,593	24,413	(180	) (2)	41,826
SG&A expense	14,744	24,081	(464	) (3)	38,361
New store pre-opening costs	-	55	-		55
Income from operations	\$2,849	\$277	\$ 284		\$ 3,410

	Six Months Ended May 31, 2014*				Consolidated
	Wholesale	Retail	Eliminations		
Net sales	\$107,270	\$100,414	\$ (46,852	) (1)	\$ 160,832
Gross profit	35,559	50,121	(114	) (2)	85,566
SG&A expense	28,954	51,451	(924	) (3)	79,481
New store pre-opening costs	-	1,108	-		1,108
Income (loss) from operations	\$6,605	\$(2,438	) \$ 810		\$ 4,977

	Six Months Ended June 1, 2013*				Consolidated
	Wholesale	Retail	Eliminations		

Edgar Filing: BASSETT FURNITURE INDUSTRIES INC - Form 10-Q

Net sales	\$ 107,893	\$ 101,427	\$ (48,248	) (1)	\$ 161,072
Gross profit	35,601	48,287	(702	) (2)	83,186
SG&A expense	29,751	48,364	(920	) (3)	77,195
New store pre-opening costs	-	217	-		217
Income (loss) from operations (4)	\$ 5,850	\$ (294	) \$ 218		\$ 5,774

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

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

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

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

* 26 weeks for fiscal 2014 as compared to 27 weeks for fiscal 2013.

PART I-FINANCIAL INFORMATION-CONTINUEDBASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIESMAY 31, 2014(Dollars in thousands except share and per share data)

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

Wholesale segment

Results for the wholesale segment for the three months ended May 31, 2014 and June 1, 2013 are as follows:

	Quarter Ended		June 1, 2013		Six Months Ended*		June 1, 2013	
	May 31, 2014				May 31, 2014			
Net sales	\$56,184	100.0%	\$53,933	100.0%	\$107,270	100.0%	\$107,893	100.0%
Gross profit	19,028	33.9 %	17,593	32.6 %	35,559	33.1 %	35,601	33.0 %
SG&A expenses	14,771	26.3 %	14,744	27.3 %	28,954	27.0 %	29,751	27.6 %
Income from operations	\$4,257	7.6 %	\$2,849	5.3 %	\$6,605	6.2 %	\$5,850	5.4 %

* 26 weeks for fiscal 2014 as compared to 27 weeks for fiscal 2013

Quarterly Analysis of Results – Wholesale

Net sales for the wholesale segment were \$56,184 for the second quarter of 2014 as compared to \$53,933 for the second quarter of 2013. Shipments outside of the BHF store network increased 17%, while shipments to the BHF store network declined 4.0% from the comparable prior year period. We continue to gain market share in the traditional furniture store channel as recent product offerings have been well received. Sales to our BHF store network have continued to be negatively impacted by slower business during the winter months from inclement weather along with overall softness in the demand for wood furniture. Gross margins for the wholesale segment increased 1.3

percentage points to 33.9% for the second quarter of 2014 as compared with 32.6% for the second quarter of 2013. This increase was primarily due to improved margins in the upholstery operations with higher sales volumes providing greater leverage of fixed costs and higher wood margins due to less discounting of discontinued product. Wholesale SG&A increased \$27 to \$14,771 for the second quarter of 2014 as compared to \$14,744 for the second quarter of 2013. SG&A as a percentage of sales decreased to 26.3% for the second quarter of 2014 as compared to 27.3% for the second quarter of 2013 due primarily to greater leverage of fixed costs from higher sales volumes coupled with tighter expense control.

Year-to-date Analysis of Results - Wholesale

Net sales for the wholesale segment were \$107,270 for the six months ended May 31, 2014 as compared to \$107,893 for the comparable prior year period. On an average weekly basis (normalizing for the extra week in the first half of 2013), wholesale net sales increased 3.3%. Average weekly shipments outside of the BHF store network increased 15%, while average weekly shipments to the BHF store network declined 3.5% from the comparable prior year period. We continue to gain market share in the traditional furniture store channel as recent product offerings have been well received. Sales to our BHF store network have continued to be negatively impacted by slower business during the winter months from inclement weather along with overall softness in the demand for wood furniture. Gross margins for the wholesale segment were essentially flat at 33.1% for the first half of 2014 as compared with 33.0% for the first half of 2013. Wholesale SG&A decreased \$797 to \$28,954 for the first half of 2014 as compared to \$29,751 for the first half of 2013 primarily due to lower fixed SG&A. SG&A as a percentage of sales decreased to 27.0% as compared to 27.6% for the prior year period primarily due to tighter expense control.

PART I-FINANCIAL INFORMATION-CONTINUED

BASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIES

MAY 31, 2014

(Dollars in thousands except share and per share data)

Wholesale shipments by type:	Quarter Ended			Six Months Ended*				
	May 31, 2014		June 1, 2013		May 31, 2014		June 1, 2013	
Wood	\$21,436	38.2 %	\$22,243	41.2 %	\$41,133	38.3 %	\$44,466	41.2 %
Upholstery	34,047	60.6 %	31,233	57.9 %	64,729	60.3 %	62,434	57.9 %
Other	700	1.1 %	457	0.9 %	1,408	1.3 %	993	0.9 %
Total	\$56,183	100.0 %	\$53,933	100.0 %	\$107,270	100.0 %	\$107,893	100.0 %

* 26 weeks for fiscal 2014 as compared to 27 weeks for fiscal 2013

Wholesale Backlog

The dollar value of wholesale backlog, representing orders received but not yet shipped to dealers and Company stores, was \$15,615 at May 31, 2014 as compared with \$15,246 at June 1, 2013.

PART I-FINANCIAL INFORMATION-CONTINUEDBASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIESMAY 31, 2014(Dollars in thousands except share and per share data)Retail – Company-owned stores segment

Results for the retail segment for the three months ended May 31, 2014 and June 1, 2013 are as follows:

	Quarter Ended		June 1, 2013		Six Months Ended*		June 1, 2013	
	May 31, 2014				May 31, 2014			
Net sales	\$53,290	100.0%	\$51,470	100.0%	\$100,414	100.0%	\$101,427	100.0%
Gross profit	26,462	49.7 %	24,413	47.4 %	50,121	49.9 %	48,287	47.6 %
SG&A expenses	26,607	49.9 %	24,081	46.8 %	51,451	51.2 %	48,364	47.7 %
New store pre-opening costs	521	1.0 %	55	0.1 %	1,108	1.1 %	217	0.2 %
Loss from operations	\$(666)	-1.2 %	\$277	0.5 %	\$(2,438)	-2.4 %	\$(294)	-0.3 %

Results for the comparable stores†(53 stores for the quarters ended May 31, 2014 and June 1, 2013, 52 stores for the six months ended May 31, 2014 and June 1, 2013) are as follows:

Comparable stores:

	Quarter Ended		June 1, 2013		Six Months Ended*		June 1, 2013	
	May 31, 2014				May 31, 2014			
Net sales	\$49,738	100.0%	\$49,717	100.0%	\$93,915	100.0%	\$97,406	100.0%
Gross profit	24,601	49.5 %	23,610	47.5 %	46,698	49.7 %	46,408	47.6 %
SG&A expenses	24,457	49.2 %	23,203	46.7 %	47,060	50.1 %	46,150	47.4 %
Loss from operations	\$144	0.3 %	\$407	0.8 %	\$(362)	-0.4 %	\$258	0.2 %

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

Results for all other stores are as follows:

	Quarter Ended		June 1, 2013		Six Months Ended*		June 1, 2013	
	May 31, 2014				May 31, 2014			
Net sales	\$3,552	100.0%	\$1,753	100.0%	\$6,499	100.0%	\$4,021	100.0%
Gross profit	1,861	52.4 %	803	45.8 %	3,423	52.7 %	1,879	46.7 %
SG&A expenses	2,150	60.5 %	878	50.1 %	4,391	67.6 %	2,214	55.1 %
New store pre-opening costs	521	14.7 %	55	3.1 %	1,108	17.0 %	217	5.4 %
Loss from operations	\$(810)	-22.8 %	\$(130)	-7.4 %	\$(2,076)	-31.9 %	\$(552)	-13.8 %

* 26 weeks for fiscal 2014 as compared to 27 weeks for fiscal 2013

PART I-FINANCIAL INFORMATION-CONTINUED

BASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIES

MAY 31, 2014

(Dollars in thousands except share and per share data)

Quarterly Analysis of Results – Retail

Our Company-owned stores had sales of \$53,290 during the quarter ended May 31, 2014 as compared to \$51,470 during the quarter ended June 1, 2013. This increase was comprised primarily of a \$1,799 increase in non-comparable store sales as result of opening seven new stores in the last twelve months while comparable store sales were essentially flat.

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 decreased by 1.8% for the second quarter of 2014 compared to the second quarter of 2013.

The consolidated retail operating loss for the second quarter of 2014 was \$666 compared to operating income of \$277 million in the second quarter of 2013. This loss was driven largely by increased new store related opening costs, overlapping rent costs incurred during the transition period for store relocations, and initial operating losses at newly opened locations.

The 53 comparable stores recognized operating income of \$144 for the second quarter of 2014 as compared to \$407 for the comparable prior year period, a decline of \$263. Gross margins at our comparable stores improved to 49.5% compared to 47.5% in the comparable prior year period due primarily to improved pricing strategies. SG&A expenses for comparable stores increased \$1,254 to \$24,457 or 49.2% of sales as compared to 46.7% for the second quarter of fiscal 2013. This increase is primarily due to planned increases in advertising, higher health care benefit costs and increased other overhead costs as the store network continues to grow. In addition, we incurred \$195 of overlapping rent incurred while two stores were in the process of being relocated. As with new store openings as described below, we begin to recognize rent expense at the date we take possession of the new store location. We will effectively recognize rent expense on both locations until the date that the previously existing store closes. We completed a relocation in Little Rock, Arkansas during the quarter and are in the process of relocating a store in Boston, Massachusetts which will be completed in the third quarter of 2014. We define a store relocation as the closing of one store and opening of another store in the same market. Since there is no change in the store count for a specific market, we continue to include relocation costs as part of the comparable store operations.

Losses from the non-comparable stores in the second quarter of fiscal 2013 were \$810 which includes \$521 of costs incurred prior to the opening of one store during the second quarter of 2014 and one other store planned to open during the third quarter. These costs include rent, training costs and other payroll-related costs specific to a new store location incurred during the period leading up to its opening and generally range between \$100 to \$300 per store based on the overall rent costs for the location and the period between the time when we take physical possession of the store space and when the store opens. Also included in the non-comparable store loss is \$211 in post-opening losses from three new stores. We incur losses in the first two to three months of operation following a store opening as sales are not recognized in the income statement until the furniture is delivered to its customers resulting in operating expenses without the normal sales volume. Because we do not maintain a stock of retail inventory that would result in quick delivery, and because of the custom nature of the furniture offerings, such deliveries are generally not made until after 30 days from when the furniture is ordered by the customer. Coupled with the pre-opening costs, total start-up losses typically amount to \$300 to \$500 per store. The remaining non-comparable stores generated an operating loss of \$78 for the second quarter of 2014.

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

PART I-FINANCIAL INFORMATION-CONTINUED

BASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIES

MAY 31, 2014

(Dollars in thousands except share and per share data)

Year-to-Date Analysis of Results – Retail

Our Company-owned stores had sales of \$100,414 during the six months ended May 31, 2014 as compared to \$101,427 for the comparable prior year period. Normalizing for the extra week in 2013, net sales increased 2.8%. This increase was comprised primarily of a \$2,478 increase in non-comparable store sales while normalized comparable store sales were essentially flat.

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

The consolidated retail operating loss for the first half of 2014 increased by \$2,144 to \$2,438 as compared to a loss of \$294 in the first half of 2013. This loss was driven largely by increased new store related opening costs, overlapping rent costs incurred during the transition period for store relocations, and initial operating losses at newly opened locations.

The 52 comparable stores incurred an operating loss of \$362 for the first half of 2013 as compared to operating income of \$258 for the comparable prior year period. Gross margins at our comparable stores improved to 49.7% compared to 47.6% in the comparable prior year period due primarily to improved pricing strategies. SG&A expenses for comparable stores increased \$910 to \$47,060 or 50.1% of sales as compared to 47.4% for the first half of fiscal 2013. This increase is primarily due to planned increases in advertising spending, higher health care benefit costs, increased other overhead costs as the store network continues to grow and the effects of having one less week to leverage fixed costs. In addition, we incurred \$195 of overlapping rent incurred while two stores were in the process of being relocated. As with new store openings as described below, we begin to recognize rent expense at the date we take possession of the new store location. We will effectively recognize rent expense on both locations until the date that the previously existing store closes. We completed a relocation in Little Rock, Arkansas during the quarter and are in the process of relocating a store in Boston, Massachusetts which will be completed in the third quarter of 2014. We define a store relocation as the closing of one store and opening of another store in the same market. Since there is no change in the store count for a specific market, we continue to include relocation costs as part of the comparable store operations.

Losses from the non-comparable stores during the six months ended May 31, 2014 were \$2,076 which includes \$1,108 of costs incurred prior to the opening of five stores during the first half of 2014 and one other store planned to open during the third quarter. These costs include rent, training costs and other payroll-related costs specific to a new store location incurred during the period leading up to its open and generally range between \$100 to \$300 per store based on the overall rent costs for the location and the period between the time when we take physical possession of the store space and the time when the store opens. Also included in the non-comparable store loss is \$724 in post-opening losses from these five store openings. We incur losses in the first two to three months of operation following a store opening as sales are not recognized in the income statement until the furniture is delivered to its customers resulting in operating expenses without the normal sales volume. Because we do not maintain a stock of retail inventory that would result in quick delivery, and because of the custom nature of the furniture offerings, such deliveries are generally not made until after 30 days from when the furniture is ordered by the customer. Coupled with the pre-opening costs, total start-up losses typically amount to \$300 to \$500 per store. The remaining non-comparable stores generated an operating loss of \$244 for the first half of 2014.

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

PART I-FINANCIAL INFORMATION-CONTINUED

BASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIES

MAY 31, 2014

(Dollars in thousands except share and per share data)

Retail Comparable Store Sales Increases Normalized for Extra Week in 2013

	Quarter Ended		Six Months Ended*	
	May 31, 2014	June 1, 2013	May 31, 2014	June 1, 2013
As reported:				
Delivered	0.0%	9.3 %	-3.6%	12.6 %
Written	1.8%	6.9 %	-3.7%	14.0 %
Average weekly basis:				
Delivered	0.0%	9.3 %	0.1 %	8.5 %
Written	1.8%	6.9 %	0.0 %	9.7 %

* 26 weeks for fiscal 2014 as compared to 27 weeks for fiscal 2013

Retail Backlog

The dollar value of our retail backlog, representing orders received but not yet delivered to customers, was \$25,548, or an average of \$426 per open store at May 31, 2014 as compared with \$20,030, or an average of \$364 per open store at June 1, 2013.

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

Investments and real estate segment and other items affecting Net Income

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

Other loss, net, for the second quarter of fiscal 2014 was \$272 as compared to other loss, net, of \$129 for the second quarter of fiscal 2013. This increased net loss is primarily attributable to decreases in the cash surrender value of life insurance partially offset by higher income from Zenith and a \$48 gain resulting from the recovery of a portion of our investment in Fortress due to a partial liquidation of the fund.

Other income, net, for the six months ended May 31, 2014 was \$13 as compared to other loss, net, of \$797 for the six months ended June 1, 2013. This change is primarily attributable to the recognition of \$662 in death benefits receivable from life insurance policies covering a former executive and a \$188 gain resulting from the recovery of a portion of our investment in Fortress due to a partial liquidation of the fund.

We own 49% of Zenith, which provides domestic transportation and warehousing services primarily to furniture manufacturers and distributors and also provides home delivery services to furniture retailers. We have contracted with Zenith to provide for substantially all of our domestic freight, transportation and warehousing needs for the wholesale business. In addition, Zenith provides home delivery services for almost half of our Company-owned retail stores. We believe our partnership with Zenith allows us to focus on our core competencies of manufacturing and marketing home furnishings. Zenith focuses on offering Bassett customers best-of-class service and handling. We consider the expertise that Zenith exhibits in logistics to be a significant competitive advantage for us. In addition, we believe that Zenith is well positioned to take advantage of current growth opportunities for providing logistical services to the furniture industry. Our equity in the income of Zenith, included in other income (loss), net, was \$278 and \$343 for the three and six months ended May 31, 2014, respectively and \$168 and \$282 for the three and six months ended June 1, 2013, respectively. Our investment in Zenith was \$7,597 and \$7,254 at May 31, 2014 and November 30, 2013, respectively.

PART I-FINANCIAL INFORMATION-CONTINUED

BASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIES

MAY 31, 2014

(Dollars in thousands except share and per share data)

Income taxes

We calculate an anticipated effective tax rate for the year based on our annual estimates of pretax income or loss and use that effective tax rate to record our year-to-date income tax provision. Any change in annual projections of pretax income or loss could have a significant impact on our effective tax rate for the respective quarter. Our effective tax rate for the three and six months ended May 31, 2014 differs from the federal statutory rate primarily due to the effects of state income taxes, permanent differences resulting from non-deductible expenses and, for the three and six months ended May 31, 2014, non-taxable life insurance proceeds. During the second quarter of 2014, the state of New York enacted legislation affecting various corporate tax issues, including the usage of state net operating losses. Based on this legislation, prior limitations on our ability to use those net operating losses have been removed. Thus, we have changed our realization assessment for the deferred tax assets associated with those net operating losses and removed the related valuation allowance resulting in a tax benefit of \$190 for the three and six months ended May 31, 2014.

Our federal tax return for the fiscal year ended November 24, 2012 is currently under examination by the Internal Revenue Service.

Liquidity and Capital Resources

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

Cash Flows

Cash provided by operations for the first six months of 2014 was \$13,819 compared to cash provided by operations of \$2,823 for the first six months of 2013, representing an improvement of \$10,996 in cash flows from operations. The

improvement is primarily the result of better overall working capital management. In addition, we received \$1,270 in tenant improvement funds during the first half of 2014 associated with leasing new stores and store relocations.

Our overall cash position has increased by \$4,149 during the first six months of 2014. Cash provided by operations was partially offset by net cash used in investing activities of \$3,266, primarily consisting of capital expenditures for retail store expansion, remodeling and relocations substantially offset by proceeds from the maturity of short-term investments in certificates of deposit, the release of the remaining escrowed funds from the 2011 sale of our interest in International Home Furnishings Center, Inc., and proceeds from the disposition of a real estate investment property. Cash used in financing activities totaled \$6,404, consisting primarily of dividend payments and stock repurchases under our existing share repurchase plan, of which \$8,698 remains authorized as of May 31, 2014. With cash and cash equivalents and short-term investments totaling \$40,007 on hand at May 31, 2014, we believe we have sufficient liquidity to fund operations for the foreseeable future.

Credit Agreement

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

At May 31, 2014, we had \$1,366 outstanding under standby letters of credit, leaving availability under our credit line of \$13,634.

PART I-FINANCIAL INFORMATION-CONTINUEDBASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIESMAY 31, 2014(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 \$28,131 at May 31, 2014. All other retail real estate that we own is currently leased to non-licensees and is reported as retail real estate in the accompanying condensed consolidated balance sheets. The net book value of such real estate, which is considered part of our investments/real estate segment, was \$6,482 at May 31, 2014.

The following table summarizes our total investment in retail real estate owned at May 31, 2014:

	Number of Locations	Aggregate Square Footage	Net Book Value
Real estate occupied by Company-owned and operated stores, included in property and equipment, net (1)	11	276,887	\$28,131
Investment real estate:			
Leased to others	3	67,521	6,396
Other (2)	-	-	86
Total included in retail real estate	3	67,521	6,482
Total Company investment in retail real estate	14	344,408	\$34,613

(1)Includes two properties encumbered under mortgages totalling \$2,609 at May 31, 2014.

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

Critical Accounting Policies and Estimates

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

Off-Balance Sheet Arrangements

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

Contingencies

We are involved in various legal and environmental matters, which arise in the normal course of business. Although the final outcome of these matters cannot be determined, based on the facts presently known, it is our opinion that the final resolution of these matters will not have a material adverse effect on our financial position or future results of operations. See Note 7 to our condensed consolidated financial statements for further information regarding certain contingencies as of May 31, 2014.

PART I-FINANCIAL INFORMATION-CONTINUED

BASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIES

MAY 31, 2014

(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 2014.

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

We have potential exposure to market risk related to the current weakness in the commercial real estate market. Our retail real estate holdings of \$6,482 at May 31, 2014 for stores formerly operated by licensees as well as our holdings of \$28,131 at May 31, 2014 for Company-owned stores could suffer significant impairment in value if we are forced to close additional stores and sell or lease the related properties in certain markets. Additionally, if we are required to assume responsibility for payment under the lease obligations of \$3,459 which we have guaranteed on behalf of licensees as of May 31, 2014, we may not be able to secure sufficient sub-lease income in the current market to offset the payments required under the guarantees.

Item 4. Controls and Procedures:

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

over financial reporting.

31 of 35

PART I-FINANCIAL INFORMATION-CONTINUED

BASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIES

MAY 31, 2014

(Dollars in thousands except share and per share data)

Safe-harbor, forward-looking statements:

The discussion in items 2 and 3 above contains certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 with respect to the financial condition, results of operations and business of Bassett Furniture Industries, Incorporated and subsidiaries. Such forward-looking statements are identified by use of forward-looking words such as “*anticipates*”, “*believes*”, “*plans*”, “*estimates*”, “*expects*”, “*aimed*” and “*intends*” or words or phrases of similar expression. These forward-looking statements involve certain risks and uncertainties. No assurance can be given that any such matters will be realized. Important factors that could cause actual results to differ materially from those contemplated by such forward-looking statements are listed in our Annual Report on Form 10-K for fiscal 2013 and include:

• competitive conditions in the home furnishings industry

• general economic conditions

• overall retail traffic levels and consumer demand for home furnishings

• ability of our customers and consumers to obtain credit

• Bassett store openings

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

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

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

• results of marketing and advertising campaigns

• information and technology advances

• future tax legislation, or regulatory or judicial positions

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

32 of 35

PART II - OTHER INFORMATIONBASSETT FURNITURE INDUSTRIES INCORPORATED AND SUBSIDIARIESMAY 1, 2014

(Dollars in thousands except share and per share data)

Item 1. Legal Proceedings

None.

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

	Total Shares Purchased	Avg Price Paid	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (1)
March 2, 2014 – April 5, 2014	6,536	\$14.76	5,000	\$11,268
April 6, 2014 – May 3, 2014	123,400	\$13.95	123,400	\$9,547
May 4, 2014 – May 31, 2014	62,400	\$13.61	62,400	\$8,698

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

Item 3. Defaults Upon Senior Securities

None.

Item 6. Exhibits

a. Exhibits:

Exhibit 3a – Articles of Incorporation as amended 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 3b to Form 10-Q for the fiscal quarter ended August 25, 2012, filed October 4, 2012

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

* Exhibit 10 – Restated Supplemental Retirement Income Plan, effective May 1, 2014

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

Exhibit 31b – Chief Accounting 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

* Management contract or compensatory plan or arrangement of the Company

PART II - OTHER INFORMATION

BASSETT FURNITURE INDUSTRIES INCORPORATED AND SUBSIDIARIES

MAY 1, 2014

(Dollars in thousands except share and per share data)

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

Exhibit 101 – The following financial statements from the Company's Quarterly Report on Form 10-Q for the quarter ended May 31, 2014, formatted in Extensible Business Reporting Language (“XBRL”): (i) condensed consolidated balance sheets, (ii) condensed consolidated statements of income 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., President
and Chief Executive Officer
July 2, 2014

/s/ J. MICHAEL DANIEL
J. Michael Daniel, Senior
Vice President and Chief
Financial Officer
July 2, 2014