

BASSETT FURNITURE INDUSTRIES INC
Form 10-Q
September 29, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended August 27, 2016

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 (I.R.S. Employer
of incorporation or organization) Identification No.)

3525 Fairystone Park Highway

Bassett, Virginia 24055

(Address of principal executive offices)

(Zip Code)

(276) 629-6000

(Registrant's telephone number, including area code)

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

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

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

Large Accelerated Filer 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 September 16, 2016, 10,801,148 shares of common stock of the Registrant were outstanding.

BASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIES

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(In thousands except per share data)

| | Quarter Ended | | Nine Months Ended | |
|--|-----------------------|-----------------------|-----------------------|-----------------------|
| | August 27, 2016 | August 29, 2015 | August 27, 2016 | August 29, 2015 |
| Sales revenue: | | | | |
| Furniture and accessories | \$91,465 | \$97,107 | \$276,857 | \$286,122 |
| Logistics | 13,247 | 13,904 | 41,395 | 29,250 |
| Total sales revenue | 104,712 | 111,011 | 318,252 | 315,372 |
| Cost of furniture and accessories sold | 40,091 | 44,824 | 124,496 | 133,676 |
| Selling, general and administrative expenses excluding new store pre-opening costs | 56,800 | 58,303 | 173,845 | 163,203 |
| New store pre-opening costs | 281 | 192 | 727 | 236 |
| Lease exit costs | - | - | - | 419 |
| Asset impairment charges | - | - | - | 106 |
| Management restructuring costs | - | - | - | 449 |
| Income from operations | 7,540 | 7,692 | 19,184 | 17,283 |
| Remeasurement gain on acquisition of affiliate | - | - | - | 7,212 |
| Income from Continued Dumping & Subsidy Offset Act | - | - | - | 1,066 |
| Other loss, net | (647) | (472) | (1,904) | (1,692) |
| Income before income taxes | 6,893 | 7,220 | 17,280 | 23,869 |
| Income tax expense | 2,728 | 2,954 | 6,496 | 9,118 |
| Net income | \$4,165 | \$4,266 | \$10,784 | \$14,751 |

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| | | | | |
|---------------------------------------|-----------|-----------|-----------|-----------|
| Retained earnings-beginning of period | 125,563 | 115,149 | 120,904 | 106,339 |
| Cash dividends | (1,093) | (1,029) | (3,053) | (2,704) |
| Retained earnings-end of period | \$128,635 | \$118,386 | \$128,635 | \$118,386 |
| Basic earnings per share | \$0.39 | \$0.39 | \$1.00 | \$1.38 |
| Diluted earnings per share | \$0.38 | \$0.39 | \$0.99 | \$1.36 |
| Dividends per share | \$0.10 | \$0.09 | \$0.28 | \$0.25 |

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

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 AUGUST 27, 2016 AND AUGUST 29, 2015 – UNAUDITED

(In thousands)

| | Quarter Ended | | Nine Months Ended | |
|--|------------------------|------------------------|--------------------------|------------------------|
| | August 27, 2016 | August 29, 2015 | August 27, 2016 | August 29, 2015 |
| Net income | \$4,165 | \$4,266 | \$10,784 | \$14,751 |
| Other comprehensive income: | | | | |
| Amortization associated with supplemental executive retirement defined benefit plan (SERP) | 92 | 60 | 275 | 177 |
| Income taxes related to SERP | (35) | (23) | (105) | (67) |
| Other comprehensive income, net of tax | 57 | 37 | 170 | 110 |
| Total comprehensive income | \$4,222 | \$4,303 | \$10,954 | \$14,861 |

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

PART I – FINANCIAL INFORMATION – CONTINUEDITEM 1. FINANCIAL STATEMENTSBASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIESCONDENSED CONSOLIDATED BALANCE SHEETSAUGUST 27, 2016 AND NOVEMBER 28, 2015

(In thousands)

| | (Unaudited) | |
|--|--------------------|-------------------------|
| | August 27, 2016 | November 28, 2015 |
| <u>Assets</u> | | |
| Current assets | | |
| Cash and cash equivalents | \$ 28,051 | \$ 36,268 |
| Short-term investments | 23,125 | 23,125 |
| Accounts receivable, net | 19,302 | 21,197 |
| Inventories | 53,413 | 59,896 |
| Other current assets | 11,519 | 6,798 |
| Total current assets | 135,410 | 147,284 |
| Property and equipment, net | 105,595 | 96,104 |
| Deferred income taxes | 9,006 | 13,471 |
| Goodwill and other intangible assets | 17,440 | 17,682 |
| Other | 8,048 | 8,002 |
| Total long-term assets | 34,494 | 39,155 |
| Total assets | \$ 275,499 | \$ 282,543 |
| <u>Liabilities and Stockholders' Equity</u> | | |
| Current liabilities | | |
| Accounts payable | \$ 19,569 | \$ 20,916 |
| Accrued compensation and benefits | 11,927 | 14,345 |
| Customer deposits | 20,132 | 23,999 |
| Dividends payable | - | 2,184 |
| Current portion of long-term debt | 5,003 | 5,273 |
| Other accrued liabilities | 11,077 | 13,133 |
| Total current liabilities | 67,708 | 79,850 |
| Long-term liabilities | | |
| Post employment benefit obligations | 12,634 | 12,694 |

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| | | |
|-----------------------------|--------|--------|
| Notes payable | 9,077 | 8,500 |
| Other long-term liabilities | 3,915 | 4,133 |
| Total long-term liabilities | 25,626 | 25,327 |

Stockholders' equity

| | | |
|---|-------------------|-------------------|
| Common stock | 54,114 | 54,580 |
| Retained earnings | 128,635 | 120,904 |
| Additional paid-in capital | 1,924 | 4,560 |
| Accumulated other comprehensive loss | (2,508) | (2,678) |
| Total stockholders' equity | 182,165 | 177,366 |
| Total liabilities and stockholders' equity | \$ 275,499 | \$ 282,543 |

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

PART I – FINANCIAL INFORMATION – CONTINUEDITEM 1. FINANCIAL STATEMENTSBASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIESCONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWSFOR THE PERIODS ENDED AUGUST 27, 2016 AND AUGUST 29, 2015 – UNAUDITED

(In thousands)

| | Nine Months Ended | |
|---|------------------------------|----------------------------|
| | August 27, 2016 | August 29, 2015 |
| Operating activities: | | |
| Net income | \$ 10,784 | \$ 14,751 |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: | | |
| Depreciation and amortization | 8,866 | 7,302 |
| Equity in undistributed income of investments and unconsolidated affiliated companies | - | (220) |
| Provision for restructuring and asset impairment charges | - | 106 |
| Non-cash portion of lease exit costs | - | 419 |
| Remeasurement gain on acquisition of affiliate | - | (7,212) |
| Tenant improvement allowance received from lessors | 590 | 933 |
| Deferred income taxes | 4,360 | 3,778 |
| Excess tax benefits from stock-based compensation | 87 | 2,008 |
| Other, net | 256 | 1,445 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | 2,334 | (751) |
| Inventories | 6,483 | (8,165) |
| Other current assets | (4,721) | (21) |
| Customer deposits | (3,867) | (3,196) |
| Accounts payable and accrued liabilities | (6,207) | 2,158 |
| Net cash provided by operating activities | 18,965 | 13,335 |
| Investing activities: | | |
| Purchases of property and equipment | (18,955) | (11,283) |
| Proceeds from sales of property and equipment | 632 | 2,952 |
| Cash paid for business acquisition, net of cash acquired | - | (7,323) |
| Capital contribution to affiliate | - | (1,345) |
| Net cash used in investing activities | (18,323) | (16,999) |
| Financing activities: | | |

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| | | |
|---|-----------------|-----------------|
| Cash dividends | (5,238) | (4,806) |
| Proceeds from the exercise of stock options | 114 | 4,018 |
| Other issuance of common stock | 182 | 254 |
| Repurchases of common stock | (3,989) | (1,374) |
| Taxes paid related to net share settlement of equity awards | (77) | (178) |
| Repayments of notes payable | (7,235) | (1,630) |
| Proceeds from equipment loans | 7,384 | 1,307 |
| Net cash used in financing activities | (8,859) | (2,409) |
| Change in cash and cash equivalents | (8,217) | (6,073) |
| Cash and cash equivalents - beginning of period | 36,268 | 26,673 |
| Cash and cash equivalents - end of period | \$28,051 | \$20,600 |

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

PART I-FINANCIAL INFORMATION-CONTINUED

BASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-UNAUDITED

AUGUST 27, 2016

(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. The equity method of accounting was used for our investment in an affiliated company in which we exercised significant influence but did not maintain a controlling interest prior to the Zenith acquisition mentioned below. 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.

Zenith Acquisition

Prior to February 2, 2015 we held a 49% interest in Zenith Freight Lines, LLC (“Zenith”) for which we used the equity method of accounting. On February 2, 2015 we acquired the remaining 51% ownership interest (see Note 3, Business Combinations). Accordingly, the results of Zenith have been consolidated with our results since the date of the acquisition. Sales of logistical services from Zenith to our wholesale and retail segments have been eliminated, and Zenith’s operating costs and expenses since the date of acquisition are included in selling, general and administrative expenses in our condensed consolidated statements of income. Our equity in the earnings of Zenith prior to the date of the acquisition is included in other loss, net, in the accompanying condensed consolidated statements of income.

Adoption of Accounting Standards Update 2016-09

In March 2016, the FASB issued Accounting Standards Update No. 2016-09, *Compensation – Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting* (ASU 2016-09). While the effective date of ASU 2016-09 is for fiscal years beginning after December 15, 2016, earlier adoption is permitted and we adopted the amendments in ASU 2016-09 during the second quarter of fiscal 2016. This standard simplifies or clarifies several aspects of the accounting for equity-based payment awards, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. Certain of these changes are required to be applied retrospectively, while other changes are required to be applied prospectively.

The impact of early adoption resulted in the following:

We recorded \$46 and \$87 of tax benefits within income tax expense for the three and nine months ended August 27, 2016 related to the excess tax benefit on stock based compensation. Prior to adoption this amount this amount would have been recorded as additional paid-in capital. This change could create future volatility in our effective tax rate depending upon the amount of exercise or vesting activity from our stock based awards.

We elected to recognize forfeitures as they occur. There was no cumulative effect adjustment as a result of the adoption of this amendment on a modified retrospective basis.

We elected to apply the change in classification of cash flows resulting from excess tax benefits or deficiencies on a retrospective basis. Accordingly, \$2,008 of excess tax benefits previously reported as a cash flow provided by financing activities during the nine months ended August 29, 2015 has been reclassified to be included in cash flows provided by operating activities.

PART I-FINANCIAL INFORMATION-CONTINUED

BASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-UNAUDITED

AUGUST 27, 2016

(Dollars in thousands except share and per share data)

We excluded the excess tax benefits from the assumed proceeds available to repurchase shares in the computation of our diluted earnings per share for the three and nine months ended August 27, 2016. The effect of this change on our diluted earnings per share was not significant.

ASU 2016-09 also requires the presentation of employee taxes paid by the Company through the withholding of shares as a financing activity on the statement of cash flows, which is where we had previously reclassified these items.

The impact of the adoption of this standard retroactively as of November 29, 2015 (the first day of our fiscal year 2016), was not significant as there was no significant award vesting or settlement activity during the first quarter of fiscal 2016.

There were no other material impacts to our consolidated financial statements as a result of adopting this updated standard.

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 and nine months ended August 27, 2016 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 28, 2015.

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 for the three

and nine month periods ended August 27, 2016 and August 29, 2015 differ from the federal statutory rate primarily due to the effects of state income taxes and various permanent differences including the favorable impact of the Section 199 manufacturing deduction.

3. Business Combination – Acquisition of Zenith

Prior to February 2, 2015 we held a 49% interest in Zenith for which we used the equity method of accounting. Zenith provides domestic transportation and warehousing services primarily to furniture manufacturers and distributors and also provides home delivery services to furniture retailers. We historically have contracted with Zenith to provide substantially all of our domestic freight, transportation and warehousing needs for the wholesale business. In addition, Zenith provides home delivery services for many of our Company-owned retail stores. On February 2, 2015, we acquired the remaining 51% of Zenith in exchange for cash, Bassett common stock and a note payable with a total fair value of \$19,111. The value of the Bassett common stock was based on the closing market price of our shares on the acquisition date, discounted for lack of marketability due to restrictions on the seller's ability to transfer the shares. The restrictions on one half of the shares expired on the first anniversary of the acquisition, with the remainder expiring on the second anniversary. The note is payable in three annual installments of \$3,000 each beginning February 2, 2016, and has been discounted to its fair value as of the date of the acquisition based on our estimated borrowing rate.

The carrying value of our 49% interest in Zenith prior to the acquisition was \$9,480 (see Note 8, unconsolidated affiliated company). In connection with the acquisition, this investment was remeasured to a fair value of \$16,692 resulting in the recognition of a gain of \$7,212 during the nine months ended August 29, 2015. The impact of this gain upon our basic and diluted earnings per share was approximately \$0.42 and \$0.41, respectively, net of the related tax expense. The remeasured fair value of our prior interest in Zenith was estimated based on the fair value of the consideration transferred to acquire the remaining 51% of Zenith less an estimated control premium.

Under the acquisition method of accounting, the fair value of the consideration transferred along with the fair value of our previous 49% interest in Zenith was allocated to the tangible and intangible assets acquired and the liabilities assumed based on their estimated fair values as of the acquisition date with the remaining unallocated amount recorded as goodwill.

PART I-FINANCIAL INFORMATION-CONTINUED

BASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-UNAUDITED

AUGUST 27, 2016

(Dollars in thousands except share and per share data)

The total fair value of the acquired business was determined as follows:

| | |
|--|--------------|
| Fair value of consideration transferred in exchange for 51% of Zenith: | |
| Cash | \$9,000 |
| Bassett common stock, 89,485 shares, par value \$5.00 per share, fair value at closing \$18.72 per share | 1,675 |
| Note payable | 8,436 |
| Total fair value of consideration transferred to seller | 19,111 |
| Less effective settlement of previous amounts payable to Zenith at acquisition | (3,622) |
| Total fair value of consideration net of effective settlement | 15,489 |
| Fair value of Bassett's previous 49% interest in Zenith | 16,692 |
| Total fair value of acquired business | \$32,181 |

The allocation of the fair value of the acquired business is as follows:

| | |
|--|----------|
| Allocation of the fair value of consideration transferred: | |
| Identifiable assets acquired: | |
| Acquired cash and cash equivalents | \$1,677 |
| Accounts receivable, net | 3,399 |
| Prepaid expenses and other current assets | 496 |
| Property and equipment | 18,110 |
| Other long-term assets | 646 |
| Intangible assets | 6,362 |
| Total identifiable assets acquired | 30,690 |
| Liabilities assumed: | |
| Accounts payable and accrued liabilities | (4,038) |
| Notes payable | (4,329) |
| Total liabilities assumed | (8,367) |
| Net identifiable assets acquired | 22,323 |
| Goodwill | 9,858 |
| Total net assets acquired | \$32,181 |

Goodwill was determined based on the residual difference between the fair value of the consideration transferred and the value assigned to tangible and intangible assets and liabilities. Approximately \$6,982 of the acquired goodwill is deductible for tax purposes. Among the factors that contributed to a purchase price resulting in the recognition of goodwill were Zenith's reputation for best-in-class, fully integrated logistical services which are uniquely tailored to the needs of the furniture industry, as well as their ability to provide expedited delivery service which is increasingly in demand in the furniture industry.

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

| Description: | Useful Life In Years | Fair Value |
|--------------------------------------|--|-----------------------|
| Customer relationships | 15 | \$3,038 |
| Trade names | Indefinite | 2,490 |
| Technology - customized applications | 7 | 834 |
| Total acquired intangible assets | | \$6,362 |

PART I-FINANCIAL INFORMATION-CONTINUED

BASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-UNAUDITED

AUGUST 27, 2016

(Dollars in thousands except share and per share data)

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

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

Acquisition costs related to the Zenith acquisition totaled \$0 and \$209 during the three and nine months ended August 29, 2015, respectively, and are included in selling, general and administrative expenses in the condensed consolidated statements of income. The acquisition costs are primarily related to legal, accounting and valuation services.

The revenue and pre-tax profit of Zenith that is included in our condensed consolidated statements of income is as follows:

| | Quarter Ended | | Nine Months Ended | |
|-----------------------|------------------------|------------------------|--------------------------|----------------------------|
| | August 27, 2016 | August 29, 2015 | August 27, 2016 | August 29, 2015 (1) |
| Zenith revenue (2) | \$ 13,247 | \$ 13,904 | \$ 41,395 | \$ 29,250 |
| Zenith pre-tax income | \$ 608 | \$ 1,022 | \$ 1,917 | \$ 1,984 |

(1) From date of acquisition, February 2, 2015.

(2) Net of eliminated inter-company transactions. See Note 14.

The pro forma results of operations for the acquisition of Zenith have not been presented because they are not material to our consolidated results of operations.

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 August 27, 2016 and November 28, 2015 consisted of certificates of deposit (CDs) with original terms of twelve months, bearing interest at rates ranging from 0.28% to 1.00%. At August 27, 2016, the weighted average remaining time to maturity of the CDs was approximately ten 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 August 27, 2016 and November 28, 2015 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.

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PART I-FINANCIAL INFORMATION-CONTINUED

BASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-UNAUDITED

AUGUST 27, 2016

(Dollars in thousands except share and per share data)

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 9) 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, and asset impairments (Note 11) which utilize Level 3 inputs.

5. Accounts Receivable

Accounts receivable consists of the following:

| | August 27, | November 28, |
|---------------------------------|---------------|-----------------|
| | 2016 | 2015 |
| Gross accounts receivable | \$20,146 | \$ 22,372 |
| Allowance for doubtful accounts | (844) | (1,175) |
| Accounts receivable, net | \$19,302 | \$ 21,197 |

Activity in the allowance for doubtful accounts for the nine months ended August 27, 2016 was as follows:

| | |
|------------------------------|---------|
| Balance at November 28, 2015 | \$1,175 |
| Reductions to allowance | (331) |
| Balance at August 27, 2016 | \$844 |

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:

| | August 27, | November 28, |
|---|---------------|-----------------|
| | 2016 | 2015 |
| Wholesale finished goods | \$24,819 | \$ 31,253 |
| Work in process | 375 | 318 |
| Raw materials and supplies | 10,771 | 9,793 |
| Retail merchandise | 26,899 | 27,680 |
| Total inventories on first-in, first-out method | 62,864 | 69,044 |
| LIFO adjustment | (8,015) | (7,751) |
| Reserve for excess and obsolete inventory | (1,436) | (1,397) |
| | \$53,413 | \$ 59,896 |

PART I-FINANCIAL INFORMATION-CONTINUEDBASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIESNOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-UNAUDITEDAUGUST 27, 2016(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 28, 2015 | \$ 1,087 | \$ 310 | \$ 1,397 |
| Additions charged to expense | 1,523 | 386 | 1,909 |
| Write-offs | (1,485) | (385) | (1,870) |
| Balance at August 27, 2016 | \$ 1,125 | \$ 311 | \$ 1,436 |

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 2016 and do not anticipate that our methodology is likely to

change in the future.

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PART I-FINANCIAL INFORMATION-CONTINUEDBASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIESNOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-UNAUDITEDAUGUST 27, 2016(Dollars in thousands except share and per share data)**7. Goodwill and Other Intangible Assets**

Goodwill and other intangible assets consisted of the following:

| | August 27, 2016 | | |
|---|------------------------|---------------------|-------------------|
| | Gross | Accumulated | Intangible |
| | Carrying | Amortization | Assets, |
| | Amount | | Net |
| Intangibles subject to amortization | | | |
| Customer relationships | \$3,038 | \$ (321 |) \$ 2,717 |
| Technology - customized applications | 834 | (189 |) 645 |
| Total intangible assets subject to amortization | 3,872 | (510 |) 3,362 |
| Intangibles not subject to amortization: | | | |
| Trade names | 2,490 | - | 2,490 |
| Goodwill | 11,588 | - | 11,588 |
| Total goodwill and other intangible assets | \$17,950 | \$ (510 |) \$ 17,440 |

| | November 28, 2015 | | |
|--------------------------------------|--------------------------|---------------------|-------------------|
| | Gross | Accumulated | Intangible |
| | Carrying | Amortization | Assets, |
| | Amount | | Net |
| Intangibles subject to amortization | | | |
| Customer relationships | \$3,038 | \$ (169 |) \$ 2,869 |
| Technology - customized applications | 834 | (99 |) 735 |

| | | | | |
|---|----------|---------|---|-----------|
| Total intangible assets subject to amortization | 3,872 | (268 |) | 3,604 |
| Intangibles not subject to amortization: | | | | |
| Trade names | 2,490 | - | | 2,490 |
| Goodwill | 11,588 | - | | 11,588 |
| Total goodwill and other intangible assets | \$17,950 | \$ (268 |) | \$ 17,682 |

The carrying amounts of goodwill by reportable segment at both August 27, 2016 and November 28, 2015 were as follows:

| | |
|---------------------|----------|
| Wholesale | \$4,839 |
| Retail | 1,820 |
| Logistical services | 4,929 |
| Total goodwill | \$11,588 |

There were no accumulated impairment losses on goodwill as of August 27, 2016 or November 28, 2015.

Amortization expense associated with intangible assets during the three and nine months ended August 27, 2016 and August 29, 2015 was as follows:

| | Quarter Ended August 27, 2016 | | Nine Months Ended August 29, 2016 | |
|---------------------------------------|--------------------------------------|-------------|--|-------------|
| | 2016 | 2015 | 2016 | 2015 |
| Intangible asset amortization expense | \$80 | \$ 80 | \$241 | \$ 188 |

PART I-FINANCIAL INFORMATION-CONTINUEDBASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIESNOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-UNAUDITEDAUGUST 27, 2016(Dollars in thousands except share and per share data)**8. Unconsolidated Affiliate**

Prior to February 2, 2015 we owned 49% of Zenith and accounted for our investment under the equity method. The balance of our investment in Zenith was adjusted for our equity in the earnings of Zenith through February 2, 2015 of \$220 (included in other loss, net in our condensed consolidated statement of income for the nine months ended August 29, 2015), and increased by \$1,345 representing our 49% share of a \$2,745 capital contribution made to Zenith, a portion of which was used for retirement of certain of Zenith's debt prior to the acquisition. This activity resulted in a carrying value for our investment in Zenith of \$9,480 on the date of acquisition. See Note 3 regarding the remeasurement of this carrying value to fair value in connection with the acquisition and the resulting remeasurement gain of \$7,212.

9. Notes Payable and Bank Credit Facility

Our notes payable consist of the following:

| | August 27, 2016 | | Net Carrying Amount |
|--|------------------------|---------------------------------|------------------------------------|
| | Principal | Unamortized Discount | |
| Zenith acquisition note payable | \$6,000 | \$ (154) |) \$ 5,846 |
| Transportation equipment notes payable | 6,787 | - |) 6,787 |
| Real estate notes payable | 1,447 | - |) 1,447 |
| Total Debt | 14,234 | (154) |) 14,080 |

| | | | |
|----------------------|----------|----------|----------|
| Less current portion | (5,125) | 122 | (5,003) |
| Total long-term debt | \$9,109 | \$ (32) | \$ 9,077 |

November 28, 2015

| | Principal | Unamortized | Net |
|--|------------------|--------------------|-----------------|
| | Balance | Discount | Carrying |
| | | | Amount |
| Zenith acquisition note payable | \$9,000 | \$ (312) | \$ 8,688 |
| Transportation equipment notes payable | 2,152 | - | 2,152 |
| Real estate notes payable | 2,933 | - | 2,933 |
| Total Debt | 14,085 | (312) | 13,773 |
| Less current portion | (5,477) | 204 | (5,273) |
| Total long-term debt | \$8,608 | \$ (108) | \$ 8,500 |

The future maturities of our notes payable are as follows:

| | |
|--------------------------|-----------|
| Remainder of fiscal 2016 | \$ 503 |
| Fiscal 2017 | 5,171 |
| Fiscal 2018 | 5,246 |
| Fiscal 2019 | 2,324 |
| Fiscal 2020 | 990 |
| Fiscal 2021 | - |
| Thereafter | - |
| | \$ 14,234 |

PART I-FINANCIAL INFORMATION-CONTINUED

BASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-UNAUDITED

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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, the first installment having been paid on February 2, 2016. Interest is payable annually at the one year LIBOR rate, which was established at 0.62% on February 2, 2015 and resets on each anniversary of the note, having reset to the current rate of 1.14% on February 2, 2016. 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 \$46 and \$158 for the three and nine months ended August 27, 2016, respectively, and \$76 and \$177 for the three and nine months ended August 29, 2015, respectively. The current portion of the note due within one year, including unamortized discount, was \$2,878 and \$2,796 at August 27, 2016 and November 28, 2015, respectively.

Transportation Equipment Notes Payable

Certain of the transportation equipment operated in our logistical services segment is financed by notes payable in the amount of \$6,787 and \$2,152 at August 27, 2016 and November 28, 2015, respectively. These notes are payable in fixed monthly payments of principal and interest at variable rates of approximately 2.69% at August 27, 2016, with remaining terms of forty to fifty months. The current portion of these notes due within one year was \$1,756 and \$901 at August 27, 2016 and November 28, 2015, respectively. The notes are secured by tractors, trailers and local delivery trucks with a total net book value of \$7,948 and \$3,796 at August 27, 2016 and November 28, 2015, respectively.

Real Estate Notes Payable

Certain of our retail real estate properties have been financed through commercial mortgages with outstanding principal totaling \$1,447 and \$1,709 at August 27, 2016 and November 28, 2015, respectively. The mortgages bear interest at fixed rates of 6.73%. They are collateralized by the respective properties with net book values totaling approximately \$5,892 and \$5,993 at August 27, 2016 and November 28, 2015, respectively. The current portion of these mortgages due within one year was \$369 and \$351 as of August 27, 2016 and November 28, 2015, respectively.

Certain of the real estate located in Conover, North Carolina and operated in our logistical services segment was subject to a note payable in the amount of \$1,224 at November 28, 2015, all of which was classified as current at that time. The remaining balance due on this note was paid in full during the third quarter of fiscal 2016.

Fair Value

We believe that the carrying amount of our notes payable approximates fair value at both August 27, 2016 and November 28, 2015. 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

Effective December 5, 2015, we entered into a new credit facility with our bank which 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 August 27, 2016, we had \$1,970 outstanding under standby letters of credit against our line, leaving availability under our credit line of \$13,030. In addition, we have outstanding standby letters of credit with another bank totaling \$381.

PART I-FINANCIAL INFORMATION-CONTINUED

BASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIES

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(Dollars in thousands except share and per share data)

10. 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 \$11,693 and \$11,678 as of August 27, 2016 and November 28, 2015, respectively, and is recorded as follows in the condensed consolidated balance sheets:

| | August 27, 2016 | November 28, 2015 |
|-------------------------------------|--------------------------------|----------------------------------|
| Accrued compensation and benefits | \$749 | \$ 749 |
| Post employment benefit obligations | 10,944 | 10,929 |
| Total pension liability | \$11,693 | \$ 11,678 |

Components of net periodic pension costs are as follows:

| | Quarter Ended August 27, 2016 | | Nine Months Ended August 27, 2015 | |
|---------------|--|-------|--|-------|
| Service cost | \$36 | \$ 26 | \$109 | \$ 78 |
| Interest cost | 106 | 94 | 317 | 281 |

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| | | | | |
|---------------------------------------|-------|--------|-------|--------|
| Amortization of transition obligation | 11 | 11 | 32 | 32 |
| Amortization of loss | 81 | 49 | 243 | 146 |
| Net periodic pension cost | \$234 | \$ 180 | \$701 | \$ 537 |

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 \$2,010 and \$2,085 as of August 27, 2016 and November 28, 2015, respectively, and is recorded as follows in the condensed consolidated balance sheets:

| | August 27, | November 28, |
|---------------------------------------|-----------------------|-------------------------|
| | 2016 | 2015 |
| Accrued compensation and benefits | \$ 320 | \$ 320 |
| Post employment benefit obligations | 1,690 | 1,765 |
| Total deferred compensation liability | \$ 2,010 | \$ 2,085 |

We recognized expense under this plan during the three and nine months ended August 27, 2016 and August 29, 2015 as follows:

| | Quarter Ended August | | Nine Months Ended August | |
|-------------------------------|-------------------------------------|-------------|---|-------------|
| | 27, | 29, | 27, | 29, |
| | 2016 | 2015 | 2016 | 2015 |
| Deferred compensation expense | \$57 | \$ 54 | \$171 | \$ 162 |

PART I-FINANCIAL INFORMATION-CONTINUED

BASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIES

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(Dollars in thousands except share and per share data)

11. Litigation Gain, Impairment Charges and Accrued Lease Exit Costs

Income from Antitrust Litigation Settlement

Cost of furniture and accessories sold for the three and nine months ended August 27, 2016 includes the benefit of \$1,428 of income we received from the settlement of class action litigation. This benefit is included in our wholesale segment. We were a member of the certified class of consumers that were plaintiffs in the Polyurethane Foam Antitrust Litigation against various producers of flexible polyurethane foam. The litigation alleged a price-fixing conspiracy in the flexible polyurethane foam industry that caused indirect purchasers to pay higher prices for products that contain flexible polyurethane foam. In 2015 a settlement was reached with several of the producers, though other producers named in the suit filed appeals blocking distribution of the settlement. In June of 2016 the final producer appeal was dismissed and we received \$1,428 in cash representing our share of the settlement, which is included in cash provided by operating activities in our statement of cash flows for the nine months ended August 28, 2016.

Impairment Charges and Lease Exit Costs

During the first quarter of fiscal 2015 we announced the closing of our Company-owned retail store location in Memphis, Tennessee. In connection with this closing, we recognized non-cash charges during the nine months ended August 29, 2015 of \$419 for the accrual of lease exit costs and \$106 for the write off of abandoned leasehold improvements and other store assets.

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

| | |
|-------------------------------------|-------|
| Balance at November 28, 2015 | \$566 |
|-------------------------------------|-------|

| | |
|---|--------------|
| Provisions made to adjust previous estimates | 93 |
| Payments and other | (401) |
| Accretion of interest on obligations | 7 |
| Balance at August 27, 2016 | \$265 |
| Current portion included in other accrued liabilities | \$ 129 |
| Long-term portion included in other long-term liabilities | 136 |
| Total accrued lease exit costs at August 27, 2016 | \$265 |

Management Restructuring Costs

During the nine months ended August 29, 2015, we recognized \$449 of expense related to severance payable to a former executive, who left the Company in April, 2015. As of November 28, 2015, all required payments of severance had been disbursed. These management restructuring costs were incurred within our wholesale segment.

Income from Continued Dumping & Subsidy Offset Act

During the nine months ended August 29, 2015, we recognized income of \$1,066 arising from distributions received from U.S. Customs and Border Protection (“Customs”) under the Continued Dumping and Subsidy Offset Act of 2000 (“CDSOA”). These distributions primarily represent amounts previously withheld by Customs pending the resolution of claims filed by certain manufacturers who did not support the antidumping petition (“Non-Supporting Producers”) challenging certain provisions of the CDSOA and seeking to share in the distributions. The Non-Supporting Producers’ claims were dismissed by the courts and all appeals were exhausted in 2014. While it is possible that we may receive additional distributions from Customs, we cannot estimate the likelihood or amount of any future distributions.

PART I-FINANCIAL INFORMATION-CONTINUEDBASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIESNOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-UNAUDITEDAUGUST 27, 2016(Dollars in thousands except share and per share data)**12. 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 August 27, 2016:

| | Retail Stores | Distribution Centers | Transportation Equipment | Total |
|-------------------------------------|--------------------------|---------------------------------|-------------------------------------|--------------|
| Remainder of fiscal 2016 | \$4,764 | \$ 1,067 | \$ 909 | \$6,740 |
| Fiscal 2017 | 20,405 | 4,160 | 3,060 | 27,625 |
| Fiscal 2018 | 18,349 | 2,857 | 1,835 | 23,041 |
| Fiscal 2019 | 16,500 | 1,838 | 1,808 | 20,146 |
| Fiscal 2020 | 15,205 | 1,230 | 1,743 | 18,178 |
| Fiscal 2021 | 13,234 | 1,254 | 1,169 | 15,657 |
| Thereafter | 37,315 | 3,023 | 1,217 | 41,555 |
| Total future minimum lease payments | \$ 125,772 | \$ 15,429 | \$ 11,741 | \$ 152,942 |

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 \$2,098 and \$2,494 at August 27, 2016 and November 28, 2015, respectively.

In the event of default by an independent dealer under the guaranteed lease, we believe that the risk of loss is mitigated through a combination of options that include, but are not limited to, arranging for a replacement dealer, liquidating the collateral (primarily inventory), and pursuing payment under the personal guarantees of the independent dealer. The proceeds of the above options are expected to cover the estimated amount of our future payments under the guarantee obligations, net of recorded reserves. The fair value of lease guarantees (an estimate of the cost to the Company to perform on these guarantees) at August 27, 2016 and November 28, 2015 was not material.

PART I-FINANCIAL INFORMATION-CONTINUEDBASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIESNOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-UNAUDITEDAUGUST 27, 2016(Dollars in thousands except share and per share data)**13. Earnings Per Share**

The following reconciles basic and diluted earnings per share:

| | Net Income | Weighted Average Shares | Net Income Per Share |
|---|---------------|-------------------------------|-------------------------------|
| <u>For the quarter ended August 27, 2016:</u> | | | |
| Basic earnings per share | \$4,165 | 10,739,006 | \$ 0.39 |
| Add effect of dilutive securities: | | | |
| Options and restricted shares | - | 139,661 | (0.01) |
| Diluted earnings per share | \$4,165 | 10,878,667 | \$ 0.38 |

For the quarter ended August 29, 2015:

| | | | |
|------------------------------------|---------|------------|---------|
| Basic earnings per share | \$4,266 | 10,816,293 | \$ 0.39 |
| Add effect of dilutive securities: | | | |
| Options and restricted shares | - | 116,575 | - |
| Diluted earnings per share | \$4,266 | 10,932,868 | \$ 0.39 |

For the nine months ended August 27, 2016:

| | | | |
|------------------------------------|----------|------------|---------|
| Basic earnings per share | \$10,784 | 10,762,106 | \$ 1.00 |
| Add effect of dilutive securities: | | | |
| Options and restricted shares | | 139,834 | (0.01) |
| Diluted earnings per share | \$10,784 | 10,901,940 | \$ 0.99 |

For the nine months ended August 29, 2015:

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| | | | |
|------------------------------------|----------|------------|---------|
| Basic earnings per share | \$14,751 | 10,658,416 | \$ 1.38 |
| Add effect of dilutive securities: | | | |
| Options and restricted shares | - | 153,787 | (0.02) |
| Diluted earnings per share | \$14,751 | 10,812,203 | \$ 1.36 |

For the three and nine months ended August 27, 2016 and August 29, 2015, the following potentially dilutive shares were excluded from the computations as their effect was anti-dilutive:

| | Quarter Ended August 27, 2016 | August 29, 2015 | Nine Months Ended August 27, 2016 | August 29, 2015 |
|-----------------|--|----------------------------|--|----------------------------|
| Unvested shares | 2,000 | 2,000 | 7,814 | 8,354 |

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BASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIES

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14. 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. 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 and capital expenditures directly related to these stores.

Logistical services. With our acquisition of Zenith on February 2, 2015, we created the logistical services operating segment which reflects the operations of Zenith. In addition to providing shipping, 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 and were \$22,317 and \$69,400 for the three and nine months ended August 27, 2016, respectively; \$22,850 for the three months ended August 29, 2015 and \$49,517 from the date of acquisition through August 29, 2015. Amounts charged by Zenith to the Company for logistical services prior to the date of acquisition are included in selling, general and administrative expenses, and our equity in the earnings of Zenith prior to the date of acquisition is included in other loss, net, in the accompanying statements of income.

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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The following table presents our segment information:

| | Quarter Ended | | Nine Months Ended | |
|--------------------------------------|----------------------|---------------|--------------------------|---------------|
| | August | August | August | August |
| | 27, | 29, | 27, | 29, |
| | 2016 | 2015 | 2016 | 2015 |
| Sales Revenue | | | | |
| Wholesale | \$58,303 | \$62,165 | \$177,785 | \$187,675 |
| Retail - Company-owned stores | 61,216 | 62,009 | 184,754 | 183,113 |
| Logistical services | 22,991 | 23,650 | 71,480 | 51,607 |
| Inter-company eliminations: | | | | |
| Furniture and accessories | (28,054) | (27,067) | (85,682) | (84,666) |
| Logistical services | (9,744) | (9,746) | (30,085) | (22,357) |
| Consolidated | \$104,712 | \$111,011 | \$318,252 | \$315,372 |
| Income from Operations | | | | |
| Wholesale | \$5,648 | \$3,795 | \$14,380 | \$11,518 |
| Retail - Company-owned stores | 768 | 2,037 | 1,465 | 3,967 |
| Logistical services | 674 | 1,070 | 2,079 | 2,089 |
| Inter-company elimination | 450 | 790 | 1,260 | 683 |
| Management restructuring costs | - | - | - | (449) |
| Lease exit costs | - | - | - | (419) |
| Asset impairment charges | - | - | - | (106) |
| Consolidated | \$7,540 | \$7,692 | \$19,184 | \$17,283 |
| Depreciation and Amortization | | | | |
| Wholesale | \$538 | \$501 | \$1,453 | \$1,539 |
| Retail - Company-owned stores | 1,455 | 1,326 | 4,515 | 4,024 |
| Logistical services | 1,262 | 745 | 2,898 | 1,739 |
| Consolidated | \$3,255 | \$2,572 | \$8,866 | \$7,302 |
| Capital Expenditures | | | | |
| Wholesale | \$2,808 | \$1,793 | \$5,799 | \$4,138 |

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| | | | | |
|-------------------------------|---------|---------|----------|----------|
| Retail - Company-owned stores | 1,080 | 1,448 | 4,060 | 5,326 |
| Logistical services | 951 | 100 | 9,096 | 1,819 |
| Consolidated | \$4,839 | \$3,341 | \$18,955 | \$11,283 |

| | As of August 27, 2016 | As of November 28, 2015 |
|-------------------------------|--|--|
| Identifiable Assets | | |
| Wholesale | \$135,045 | \$146,878 |
| Retail - Company-owned stores | 89,871 | 88,878 |
| Logistical services | 50,583 | 46,787 |
| Consolidated | \$275,499 | \$282,543 |

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15. 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 July 2015, the FASB issued Accounting Standards Update No. 2015-16, *Business Combinations (Topic 805): Simplifying the Accounting for Measurement Period Adjustments*. ASU 2015-16 requires that an acquirer recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. The amendments in this Update require that the acquirer record, in the same period's financial statements, the effect on earnings of changes in depreciation, amortization, or other income effects, if any, as a result of the change to the provisional amounts, calculated as if the accounting had been completed at the acquisition date. Any current period adjustments to provisional amounts that would have impacted a prior period's earnings had they been recognized at the acquisition date are required to be presented separately on the face of the income statement or disclosed in the notes. The amendments in this Update are effective for fiscal years beginning after December 15, 2015, including interim periods within those fiscal years. The amendments in this Update should be applied prospectively to adjustments to provisional amounts that occur after the effective date of this Update with earlier application permitted for financial statements that have not been issued. Therefore the amendments in ASU 2015-16 will become effective for us as of the beginning of our 2017 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.

PART I-FINANCIAL INFORMATION-CONTINUED

BASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-UNAUDITED

AUGUST 27, 2016

(Dollars in thousands except share and per share data)

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.

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 us 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 financial condition or results of operations.

See Note 1 regarding our adoption of ASU 2016-09, issued by the FASB in March 2016.

PART I-FINANCIAL INFORMATION-CONTINUED

BASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIES

AUGUST 27, 2016

(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 114-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 91 BHF stores at August 27, 2016, 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. 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. 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 recently introduced “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.

“Bench Made” is a selection of American dining furniture that first appeared in retail showrooms during the second quarter of 2015. Partnering with nearby hardwood component manufacturers, we are preparing, distressing, finishing, and assembling an assortment of solid maple tables and chairs in our newly renovated facility in Bassett, Virginia. Due to its strong reception, we have expanded “Bench Made” offerings to include bedroom and occasional furniture starting in May of 2016. Also in 2016 we began moving to a great room centric floor plan for our retail locations that will focus more on our domestic upholstery products that have lead our sales increases in recent years complemented by both imported and domestically produced entertainment and occasional furnishings. All of these new products have been carefully designed in coordination with our merchants, designers, engineers and finishing technicians to achieve the upscale casual decor that we believe speaks to today’s consumer.

For many years we owned 49% of Zenith Freight Lines, LLC (“Zenith”). During that time the strategic significance of our partnership with Zenith had risen to include the over-the-road transportation of furniture, the operation of regional freight terminals, warehouse and distribution facilities in eleven states, and the management of various home delivery facilities that service BHF stores and other clients in local markets around the United States. On February 2, 2015, we acquired the remaining 51% of Zenith, which now operates as a wholly-owned subsidiary of Bassett. Our acquisition of Zenith brings to our Company the ability to deliver best-of-class shipping and logistical support services that are uniquely tailored to the needs of the furniture industry, as well as the ability to provide the expedited delivery service which is increasingly demanded by our industry. We believe that our ownership of Zenith will not only enhance our own wholesale and retail distribution capabilities, but will provide additional growth opportunities as Zenith continues to expand its service to other customers.

PART I-FINANCIAL INFORMATION-CONTINUED

BASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIES

AUGUST 27, 2016

(Dollars in thousands except share and per share data)

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 heritage in the furniture industry with the penetration of 96 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. We believe the new co-branded design centers coupled with the targeted national advertising on HGTV have played a key role in our improved comparable store sales since their introduction. In October of 2015, we announced the extension of our partnership with HGTV through 2019. While continuing to feature HGTV branded custom upholstery products in our HGTV Home Design Studios in BHF stores, we have now expanded the concept to select independent dealers. We believe this will provide additional growth outside our BHF store network.

At August 27, 2016, our BHF store network included 59 Company-owned stores and 32 licensee-owned stores. During the first nine months of 2016, we closed three underperforming stores in Tucson, Arizona; Egg Harbor, New Jersey and Fountain Valley, California. We opened a new store in Sterling, Virginia during the second quarter of 2016 and opened another new store in Hunt Valley, Maryland during the third quarter of 2016.

Due to the improved operating performance of our retail network over the last few years, we are expanding our retail presence in various parts of the country. We currently have signed leases for three new stores that we expect to open during fiscal 2017. In addition, we have a signed lease for the repositioning of one of our legacy stores to an improved location which we expect to occur in the first half of 2017. We are also in various stages of negotiation on several leases for both new store locations and relocations of existing stores. While there can be no assurance that any of these leases will be completed, we expect additional store openings and relocations during fiscal 2017.

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 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 \$300 to \$500 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.

PART I-FINANCIAL INFORMATION-CONTINUEDBASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIESAUGUST 27, 2016(Dollars in thousands except share and per share data)**Results of Operations – Periods ended August 27, 2016 compared with periods ended August 29, 2015:**

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 periods ended August 27, 2016 and August 29, 2015:

| | Quarter Ended | | | Nine Months Ended | | | | | |
|--|-----------------|--------|-----------------|-------------------|-----------------|--------|-----------------|--------|--|
| | August 27, 2016 | | August 29, 2015 | | August 27, 2016 | | August 29, 2015 | | |
| Sales revenue: | | | | | | | | | |
| Furniture and accessories | \$91,465 | 87.3 % | \$97,107 | 87.5 % | \$276,857 | 87.0 % | \$286,122 | 90.7 % | |
| Logistics revenue | 13,247 | 12.7 % | 13,904 | 12.5 % | 41,395 | 13.0 % | 29,250 | 9.3 % | |
| Total sales revenue | 104,712 | 100.0% | 111,011 | 100.0% | 318,252 | 100.0% | 315,372 | 100.0% | |
| Cost of furniture and accessories sold | 40,091 | 38.3 % | 44,824 | 40.4 % | 124,496 | 39.1 % | 133,676 | 42.4 % | |
| SG&A expenses | 56,800 | 54.2 % | 58,303 | 52.5 % | 173,845 | 54.6 % | 163,203 | 51.7 % | |
| New store pre-opening costs | 281 | 0.3 % | 192 | 0.2 % | 727 | 0.2 % | 236 | 0.1 % | |
| Other charges | - | 0.0 % | - | 0.0 % | - | 0.0 % | 974 | 0.3 % | |
| Income from operations | \$7,540 | 7.2 % | \$7,692 | 6.9 % | \$19,184 | 6.1 % | \$17,283 | 5.5 % | |

Refer to the segment information which follows for a discussion of the significant factors and trends affecting our results of operations for the three and nine months ended August 27, 2016 as compared with the prior year periods.

PART I-FINANCIAL INFORMATION-CONTINUED

BASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIES

AUGUST 27, 2016

(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 (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. With our acquisition of Zenith on February 2, 2015, we created the logistical services operating segment which reflects the operations of Zenith. In addition to providing shipping, 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. Amounts charged by Zenith to the Company for transportation and logistical services prior to February 2, 2015 are included in selling, general and administrative expenses, and our equity in the earnings of Zenith prior to the date of acquisition is included in other loss, net, in the accompanying statements of income.

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

| | Quarter Ended August 27, 2016 | | | | | |
|--|-------------------------------|----------|-----------|--------------|------|--------------|
| | Wholesale | Retail | Logistics | Eliminations | | Consolidated |
| Sales revenue: | | | | | | |
| Furniture & accessories | \$58,303 | \$61,216 | \$- | \$ (28,054 |)(1) | \$ 91,465 |
| Logistics | - | - | 22,991 | (9,744 |)(2) | 13,247 |
| Total sales revenue | 58,303 | 61,216 | 22,991 | (37,798 |) | 104,712 |
| Cost of furniture and accessories sold | 37,637 | 30,478 | - | (28,024 |)(3) | 40,091 |
| SG&A expense | 15,018 | 29,689 | 22,317 | (10,224 |)(4) | 56,800 |
| New store pre-opening costs | - | 281 | - | - | | 281 |
| Income from operations | \$5,648 | \$768 | \$674 | \$ 450 | | \$ 7,540 |

| | Quarter Ended August 29, 2015 | | | | | |
|--|-------------------------------|----------|-----------|--------------|------|--------------|
| | Wholesale | Retail | Logistics | Eliminations | | Consolidated |
| Sales revenue: | | | | | | |
| Furniture & accessories | \$62,165 | \$62,009 | \$- | \$ (27,067 |)(1) | \$ 97,107 |
| Logistics | - | - | 23,650 | (9,746 |)(2) | 13,904 |
| Total sales revenue | 62,165 | 62,009 | 23,650 | (36,813 |) | 111,011 |
| Cost of furniture and accessories sold | 41,332 | 30,868 | - | (27,376 |)(3) | 44,824 |
| SG&A expense | 17,038 | 28,912 | 22,580 | (10,227 |)(4) | 58,303 |
| New store pre-opening costs | - | 192 | - | - | | 192 |
| Income from operations (5) | \$3,795 | \$2,037 | \$1,070 | \$ 790 | | \$ 7,692 |

PART I-FINANCIAL INFORMATION-CONTINUEDBASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIESAUGUST 27, 2016(Dollars in thousands except share and per share data)

| | Nine Months Ended August 27, 2016 | | | | | |
|--|-----------------------------------|------------|-----------|--------------|-----|--------------|
| | Wholesale | Retail | Logistics | Eliminations | | Consolidated |
| Sales revenue: | | | | | | |
| Furniture & accessories | \$ 177,785 | \$ 184,754 | \$ - | \$ (85,682) | (1) | \$ 276,857 |
| Logistics | - | - | 71,480 | (30,085) | (2) | 41,395 |
| Total sales revenue | 177,785 | 184,754 | 71,480 | (115,767) | | 318,252 |
| Cost of furniture and accessories sold | 116,571 | 93,434 | - | (85,509) | (3) | 124,496 |
| SG&A expense | 46,834 | 89,128 | 69,401 | (31,518) | (4) | 173,845 |
| New store pre-opening costs | - | 727 | - | - | | 727 |
| Income from operations (5) | \$ 14,380 | \$ 1,465 | \$ 2,079 | \$ 1,260 | | \$ 19,184 |

| | Nine Months Ended August 29, 2015 | | | | | |
|--|-----------------------------------|------------|-----------|--------------|-----|--------------|
| | Wholesale | Retail | Logistics | Eliminations | | Consolidated |
| Sales revenue: | | | | | | |
| Furniture & accessories | \$ 187,675 | \$ 183,113 | \$ - | \$ (84,666) | (1) | \$ 286,122 |
| Logistics | - | - | 51,607 | (22,357) | (2) | 29,250 |
| Total sales revenue | 187,675 | 183,113 | 51,607 | (107,023) | | 315,372 |
| Cost of furniture and accessories sold | 126,130 | 91,432 | - | (83,886) | (3) | 133,676 |
| SG&A expense | 50,027 | 87,478 | 49,518 | (23,820) | (4) | 163,203 |
| New store pre-opening costs | - | 236 | - | - | | 236 |
| Income from operations (5) | \$ 11,518 | \$ 3,967 | \$ 2,089 | \$ 683 | | \$ 18,257 |

(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) 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:

| | Quarter Ended | | Nine Months Ended | |
|----------------------------------|--------------------|--------------------|--------------------|--------------------|
| | August 27, 2016 | August 29, 2015 | August 27, 2016 | August 29, 2015 |
| Intercompany logistical services | \$(9,744) | \$(9,746) | \$(30,085) | \$(22,357) |
| Intercompany rents | (480) | (481) | (1,433) | (1,463) |
| Total SG&A expense elimination | \$(10,224) | \$(10,227) | \$(31,518) | \$(23,820) |

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

PART I-FINANCIAL INFORMATION-CONTINUEDBASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIESAUGUST 27, 2016(Dollars in thousands except share and per share data)Wholesale segment

Results for the wholesale segment for the three and nine months ended August 27, 2016 and August 29, 2015 are as follows:

| | Quarter Ended | | August 29, 2015 | | Nine Months Ended | | August 29, 2015 | |
|------------------------|-----------------|--------|-----------------|--------|-------------------|--------|-----------------|--------|
| | August 27, 2016 | | August 29, 2015 | | August 27, 2016 | | August 29, 2015 | |
| Net sales | \$58,303 | 100.0% | \$62,165 | 100.0% | \$177,785 | 100.0% | \$187,675 | 100.0% |
| Gross profit | 20,666 | 35.4 % | 20,833 | 33.5 % | 61,214 | 34.4 % | 61,545 | 32.8 % |
| SG&A expenses | 15,018 | 25.7 % | 17,038 | 27.4 % | 46,834 | 26.3 % | 50,027 | 26.7 % |
| Income from operations | \$5,648 | 9.8 % | \$3,795 | 6.1 % | \$14,380 | 8.1 % | \$11,518 | 6.1 % |

Quarterly Analysis of Results - Wholesale

Net sales for the wholesale segment were \$58,303 for the third quarter of 2016 as compared to \$62,165 for the third quarter of 2015, a decrease of \$3,862 or 6.2%. This sales decrease was driven by a 16% decrease in open market shipments (outside the BHF store network) while shipments to the BHF store network were essentially flat compared to the prior year period. The decrease in sales to the open market was primarily due to lower sales of imported product primarily from the discontinuation of our relationship with a significant customer and loss of sales from the HGTV Home Collection brand, exited late in 2015. Gross margins for the wholesale segment were 35.4% for the third quarter of 2016 as compared to 33.5% for the third quarter of 2015. This increase is primarily due to the \$1,428 million settlement of the Polyurethane Foam Antitrust Litigation. Excluding the effects of the legal settlement, the gross margin would have been 33.0%. This decrease is due primarily to lower margins in domestic wood operations associated with introduction of new products into the growing Bench Made line. SG&A as a percentage of sales decreased to 25.7% as compared to 27.4% for the third quarter of 2015 primarily due to lower incentive compensation expenses of \$612 and bad debt costs of \$444. Operating income was \$5,648 or 9.8% of sales as compared to \$3,795 or 6.1% of sales in the prior year quarter.

Year-to-date Analysis of Results - Wholesale

Net sales for the wholesale segment were \$177,785 for the first nine months of 2016 as compared to \$187,675 for the first nine months of 2015, a decrease of \$9,890 or 5.3%. This sales decrease was driven by a 12% decrease in open market shipments (outside the BHF store network) and a 1.9% decrease in shipments to the BHF store network. The decrease in sales to the BHF network and the open market was primarily due to general softness at retail. In addition, sales to the open market were impacted by the loss of sales from the HGTV Home Collection branded line of wood furniture, which was discontinued in late 2015 and the discontinuation of our relationship with a significant customer. Gross margins for the wholesale segment were 34.4% for the first nine months of 2016 as compared to 32.8% for the first nine months of 2015. Excluding the above mentioned legal settlement, the gross margin for the nine months of 2016 would have been 33.6%. This increase over 2015 was driven largely by higher margins in the imported wood operation from favorable ocean freight and lower impact from discounting, as we were exiting the open market HGTV Home Collection brand in 2015. In addition, gross margins in the upholstery operation improved due to improved pricing strategies coupled with favorable raw material costs. In August 2016, Hanjin Shipping Co. LTD filed for bankruptcy protection at the Seoul Central District Court. Hanjin is one of the top 10 container carriers in the world in terms of capacity. While we were not directly impacted by the filing, we expect ocean container rates to increase throughout the network and potentially reduce our margins on imported product in the future. SG&A as a percentage of sales decreased to 26.3% as compared to 26.7% for the first nine months of 2015 primarily due to lower incentive compensation expenses of \$880 and bad debt costs of \$706. The prior year period also included \$335 of costs associated with the acquisition of Zenith. Operating income for the first nine months of 2016 was \$14,380 or 8.1% of sales as compared to \$11,518 or 6.1% of sales in the comparable prior year period.

PART I-FINANCIAL INFORMATION-CONTINUEDBASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIESAUGUST 27, 2016(Dollars in thousands except share and per share data)

| <i>Wholesale shipments by type:</i> | Quarter Ended | | | Nine Months Ended | | | | |
|-------------------------------------|-----------------|-----------------|-----------------|-------------------|-----------------|-----------------|-----------|--------|
| | August 27, 2016 | August 29, 2015 | August 27, 2016 | August 29, 2015 | August 27, 2016 | August 29, 2015 | | |
| Wood | \$21,503 | 36.9 % | \$23,381 | 37.6 % | \$65,945 | 37.1 % | \$69,043 | 36.8 % |
| Upholstery | 36,300 | 62.3 % | 38,141 | 61.4 % | 109,868 | 61.8 % | 117,054 | 62.4 % |
| Other | 500 | 0.9 % | 643 | 1.0 % | 1,972 | 1.1 % | 1,578 | 0.8 % |
| Total | \$58,303 | 100.0% | \$62,165 | 100.0% | \$177,785 | 100.0% | \$187,675 | 100.0% |

Wholesale Backlog

The dollar value of wholesale backlog, representing orders received but not yet shipped to dealers and Company stores, was \$10,544 at August 27, 2016 as compared with \$12,916 at August 29, 2015.

Retail – Company-owned stores segment

Results for the retail segment for the periods ended August 27, 2016 and August 29, 2015 are as follows:

| | Quarter Ended | | Nine Months Ended | | | | | |
|-----------------------------|-----------------|-----------------|-------------------|-----------------|-----------|--------|-----------|--------|
| | August 27, 2016 | August 29, 2015 | August 27, 2016 | August 29, 2015 | | | | |
| Net sales | \$61,216 | 100.0% | \$62,009 | 100.0% | \$184,754 | 100.0% | \$183,113 | 100.0% |
| Gross profit | 30,738 | 50.2 % | 31,141 | 50.2 % | 91,320 | 49.4 % | 91,681 | 50.1 % |
| SG&A expenses | 29,689 | 48.5 % | 28,912 | 46.6 % | 89,128 | 48.2 % | 87,478 | 47.8 % |
| New store pre-opening costs | 281 | 0.5 % | 192 | 0.3 % | 727 | 0.4 % | 236 | 0.1 % |
| Income from operations | \$768 | 1.3 % | \$2,037 | 3.3 % | \$1,465 | 0.8 % | \$3,967 | 2.2 % |

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Results for comparable stores†(56 stores for both the quarter and nine months) are as follows:

| | Quarter Ended | | | | Nine Months Ended | | | |
|------------------------|-----------------|--------|-----------------|--------|-------------------|--------|-----------------|--------|
| | August 27, 2016 | | August 29, 2015 | | August 27, 2016 | | August 29, 2015 | |
| Net sales | \$59,371 | 100.0% | \$59,884 | 100.0% | \$176,425 | 100.0% | \$175,849 | 100.0% |
| Gross profit | 29,803 | 50.2 % | 30,167 | 50.4 % | 87,880 | 49.8 % | 88,359 | 50.2 % |
| SG&A expenses | 28,353 | 47.8 % | 27,621 | 46.1 % | 84,088 | 47.7 % | 83,237 | 47.3 % |
| Income from operations | \$1,450 | 2.4 % | \$2,546 | 4.3 % | \$3,792 | 2.1 % | \$5,122 | 2.9 % |

†“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 | | | | Nine Months Ended | | | |
|-----------------------------|-----------------|---------|-----------------|---------|-------------------|---------|-----------------|---------|
| | August 27, 2016 | | August 29, 2015 | | August 27, 2016 | | August 29, 2015 | |
| Net sales | \$1,845 | 100.0% | \$2,125 | 100.0% | \$8,329 | 100.0% | \$7,264 | 100.0% |
| Gross profit | 935 | 50.7 % | 974 | 45.8 % | 3,440 | 41.3 % | 3,322 | 45.7 % |
| SG&A expenses | 1,336 | 72.4 % | 1,291 | 60.8 % | 5,040 | 60.5 % | 4,241 | 58.4 % |
| New store pre-opening costs | 281 | 15.2 % | 192 | 9.0 % | 727 | 8.7 % | 236 | 3.2 % |
| Loss from operations | \$(682) | -37.0 % | \$(509) | -24.0 % | \$(2,327) | -27.9 % | \$(1,155) | -15.9 % |

PART I-FINANCIAL INFORMATION-CONTINUED

BASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIES

AUGUST 27, 2016

(Dollars in thousands except share and per share data)

Quarterly Analysis of Results - Retail

Net sales for the 59 Company-owned BHF stores were \$61,216 for the third quarter of 2016 as compared to \$62,009 for the third quarter of 2015, a decrease of \$793 or 1.3%. The decrease was primarily due to a \$513 or 0.9% decrease in comparable store sales along with a \$280 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 7.9% for the third quarter of 2016 as compared to the third quarter of 2015.

The consolidated retail operating income for the third quarter of 2016 was \$768 as compared to \$2,037 for the third quarter of 2015. The 56 comparable stores generated operating income of \$1,450 for the quarter, or 2.4% of sales, as compared to \$2,546, or 4.3% of sales, for the prior year quarter. Gross margins for comparable stores were 50.2% for the third quarter of 2016 compared to 50.4% for the third quarter of 2015. SG&A expenses for comparable stores increased \$732 to \$28,353 or 47.8% of sales as compared to 46.1% of sales for the third quarter of 2015 driven primarily by higher advertising and promotional costs of \$496 and health care costs of \$163.

Losses from the non-comparable stores in the third quarter of fiscal 2016 were \$682 compared with \$509 for the third quarter of fiscal 2015, an increase of \$173. The loss during the third quarter of 2016 included \$281 of pre-opening costs recognized in the quarter primarily associated with the Hunt Valley, Maryland store which opened at the end of the third quarter of 2016 along with three other stores expected to open during the first half of 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 \$100 to \$300 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. Also included in the non-comparable store loss for the third quarter of 2016 are the operations of the Woodland Hills, California store that opened during the fourth quarter of 2015 and the Sterling, Virginia store that opened late in the second quarter of 2016.

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. We had post-opening losses of \$235 in the third quarter of 2016 associated with the Sterling, Virginia store and none during the prior year period.

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

Year-to-date Analysis of Results - Retail

Net sales for the 59 Company-owned BHF stores were \$184,754 for the first nine months of 2016 as compared to \$183,113 for the first nine months of 2015, an increase of \$1,641 or 0.9%. The increase was due to a \$576 or 0.3% increase in comparable store sales coupled with a \$1,065 increase 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 decreased by 0.5% for the first nine months of 2016 as compared to the first nine months of 2015.

The consolidated retail operating income for the first nine months of 2016 was \$1,465 as compared to \$3,967 for the first nine months of 2015. The 56 comparable stores generated operating income of \$3,792 for the nine months ended August 27, 2016, or 2.1% of sales, as compared to \$5,122, or 2.9% of sales, for the comparable prior year period. Gross margins for comparable stores were 49.8% for the first nine months of 2016 compared to 50.2% for the first nine months of 2015. Lower gross margins were due primarily to increased discounting of clearance items in preparation for a significant product rollout for the Memorial Day holiday promotion. Also, Company-owned stores experienced increased clearance activity in reducing imported wood furniture placements to make room for more upholstery on their retail floors. SG&A expenses for comparable stores increased \$851 to \$84,088 or 47.7% of sales as compared to 47.3% of sales for the first nine months of 2015 driven primarily by higher advertising and promotional costs of \$738 and health care costs of \$111.

PART I-FINANCIAL INFORMATION-CONTINUED

BASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIES

AUGUST 27, 2016

(Dollars in thousands except share and per share data)

Losses from the non-comparable stores in the first nine months of fiscal 2016 were \$2,327 compared with \$1,155 for the first nine months of fiscal 2015, an increase of \$1,172. The loss for the nine months ended August 27, 2016 included \$727 of pre-opening costs recognized in the first nine months of 2016 primarily associated with the Sterling, Virginia and Hunt Valley, Maryland stores which opened at the end of the second and third quarters of 2016, respectively, along with three other stores expected to open during the first half of 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 \$100 to \$300 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. Also included in the non-comparable store loss for the first half of 2016 are losses arising from the closure of our stores in Tucson, Arizona; Egg Harbor, New Jersey and Fountain Valley, California and the operations of the Woodland Hills, California store opened during the fourth quarter of 2015.

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 30 days after 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. We had post-opening losses of \$235 for the nine months ended August 27, 2016 associated with the Sterling, Virginia store and none during the prior year period.

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 \$27,594, or an average of \$468 per open store at August 27, 2016 as compared with a retail backlog of \$26,369, or an average of

\$447 per open store at August 29, 2015.

Logistical services segment

Results for our logistical services segment for the periods ended August 27, 2016 and August 29, 2015 are as follows:

| | Quarter Ended | | August 29, 2015 | | Nine Months Ended | | August 29, 2015 | |
|-------------------------------|-----------------|--------|-----------------|--------|-------------------|--------|-----------------|--------|
| | August 27, 2016 | | | | August 27, 2016 | | | |
| Logistical services revenue | \$22,991 | 100.0% | \$23,650 | 100.0% | \$71,480 | 100.0% | \$51,607 | 100.0% |
| Operating expenses | 22,317 | 97.1 % | 22,580 | 95.5 % | 69,401 | 97.1 % | 49,518 | 96.0 % |
| Income (loss) from operations | \$674 | 2.9 % | \$1,070 | 4.5 % | \$2,079 | 2.9 % | \$2,089 | 4.0 % |

(1) Results for logistical services for the nine months ended August 29, 2015 include approximately seven months of operations from the date of acquisition, February 2, 2015.

Quarterly Analysis of Operations – Logistical Services

Logistical services revenue was \$22,991 for the third quarter of 2016 compared with \$23,650 for the third quarter of 2015, a decrease of \$659 or 2.8%, as declines in revenue from line haul transportation and warehousing services were partially offset by increases in home delivery. Revenue from services to third-party customers (excluding intercompany sales to Bassett) were \$13,247 for the third quarter of 2016, a decrease of \$657 or 4.7% over the prior year period. The decrease is primarily due to softness in the furniture retail environment resulting in less demand for Zenith's services. Operating expenses for the third quarter of 2016 were \$22,317 or 97.1% of revenue compared with \$22,580 or 95.5% of revenue for the third quarter of 2015 driven by higher planned fixed costs in anticipation of higher freight and warehousing revenue.

Zenith's results for the nine months ended August 27, 2016 and August 29, 2015 are not comparable as the 2015 period only includes seven months of operations following the date of acquisition.

PART I-FINANCIAL INFORMATION-CONTINUED

BASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIES

AUGUST 27, 2016

(Dollars in thousands except share and per share data)

Other items affecting Net Income

Acquisition of Zenith

On February 2, 2015 we acquired the remaining 51% ownership interest in Zenith in exchange for cash, Bassett common stock and a note payable with a total fair value of \$19,111 which, along with the fair value of our prior 49% interest in Zenith, resulted in a total enterprise value for Zenith of \$35,803. In accordance with the acquisition method of accounting, we recognized a gain of \$7,212 during the nine months ended August 29, 2015 for the remeasurement of our previous interest in Zenith. For additional information regarding our acquisition of Zenith, see Note 3 to our condensed consolidated financial statements.

Income from Continued Dumping & Subsidy Offset Act

During the nine months ended August 29, 2015, we recognized income of \$1,066 arising from distributions received from U.S. Customs and Border Protection (“Customs”) under the Continued Dumping and Subsidy Offset Act of 2000 (“CDSOA”). These distributions primarily represent amounts previously withheld by Customs pending the resolution of claims filed by certain manufacturers who did not support the antidumping petition (“Non-Supporting Producers”) challenging certain provisions of the CDSOA and seeking to share in the distributions. The Non-Supporting Producers’ claims were dismissed by the courts and all appeals were exhausted in 2014. While it is possible that we may receive additional distributions from Customs, we cannot estimate the likelihood or amount of any future distributions.

Other loss, net

Prior to our acquisition of Zenith on February 2, 2015, we owned a 49% interest in the company for which we used the equity method of accounting. Accordingly, our equity in the income of Zenith prior to the acquisition date was included in other loss, net, and was \$220 for the nine months ended August 29, 2015.

Other loss, net, for the third quarter of fiscal 2016 was \$647 as compared to \$472 for the third quarter of fiscal 2015, an increase of \$175. Lower gains from reductions in lease guarantee reserves, higher investment real estate expenses and reduced interest income were partially offset by lower interest expense.

Other loss, net, for the nine months ended August 27, 2016 was \$1,904 as compared to \$1,692 for the nine months ended August 29, 2015, an increase of \$212. The effect of the \$220 decline in equity method income attributable to Zenith noted above along with lower gains from reductions in lease guarantee reserves and higher investment real estate expenses was partially offset by a \$182 charge recorded during the first quarter of 2015 to write down the carrying value of retail real estate in Sugarland, Texas, which was sold during the first nine months of 2015.

Income taxes

We calculate an anticipated effective tax rate for the year based on our annual estimates of pretax income or loss and use that effective tax rate to record our year-to-date income tax provision. Any change in annual projections of pretax income or loss could have a significant impact on our effective tax rate for the respective quarter. Our effective tax rate for the three and nine months ended August 27, 2016 differs from the federal statutory rate primarily due to the effects of state income taxes and various permanent differences including the favorable impact of the Section 199 manufacturing deduction.

PART I-FINANCIAL INFORMATION-CONTINUED

BASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIES

AUGUST 27, 2016

(Dollars in thousands except share and per share data)

Liquidity and Capital Resources

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

Cash Flows

Cash provided by operations for the first nine months of 2016 was \$18,965 compared to cash provided by operations of \$13,335 for the first nine months of 2015, representing an increase of \$5,630 in cash flows from operations. Operating cash flows for the current year period benefited from reductions in inventory levels whereas prior year operating cash flows were impacted by increases in inventory levels associated with new product introductions and increased purchase activity to support higher order volume. Cash provided by operations for the first nine months of 2016 includes cash flows arising from excess tax benefits related to stock based compensation in the amount of \$87 compared to \$2,008 associated with such excess tax benefits during the comparable prior year period. This amount was previously reported as a cash flow from financing activities and has been reclassified due to our adoption of Accounting Standards Update No. 2016-09 (see Note 1 to our condensed consolidated financial statements).

Our overall cash position decreased by \$8,217 during the first nine months of 2016. Offsetting cash provided by operations, we used \$18,955 of cash in investing activities, primarily consisting of capital expenditures which included the purchase of freight transportation equipment, 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 \$8,859, including dividend payments of \$5,238 and stock repurchases of \$3,989 under our existing share repurchase plan, of which \$13,939 remains authorized at August 27, 2016. Offsetting these uses were stock issuance net proceeds of \$219 and proceeds from loans secured by new transportation equipment which exceeded total debt repayments by \$149. With cash and cash equivalents and short-term investments totaling \$51,176 on hand at August 27, 2016, we believe we have sufficient liquidity to fund operations for the foreseeable future.

Debt and Other Obligations

Effective December 5, 2015, we entered into a new credit facility with our bank which 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 August 27, 2016, we had \$1,970 outstanding under standby letters of credit against our line, leaving availability under our credit line of \$13,030. In addition, we have outstanding standby letters of credit with another bank totaling \$356.

At August 27, 2016 we have outstanding principal totaling \$14,234, excluding discounts, under notes payable of which \$5,125 matures within one year of the balance sheet date. See Note 9 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 \$152,942 at August 27, 2016 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 \$2,098 at August 27, 2016. See Note 12 to our condensed consolidated financial statements for additional details regarding our leases and lease guarantees.

PART I-FINANCIAL INFORMATION-CONTINUEDBASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIESAUGUST 27, 2016(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 \$26,630 at August 27, 2016. 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 \$3,007 at August 27, 2016.

The following table summarizes our total investment in retail real estate owned at August 27, 2016:

| | 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 | \$26,630 |
| Investment real estate leased to others, included in other assets | 2 | 41,021 | 3,007 |
| Total Company investment in retail real estate | 13 | 317,908 | \$29,637 |

(1) Includes two properties encumbered under mortgages totalling \$1,447 at August 27, 2016.

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 28, 2015.

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 12 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 12 to our condensed consolidated financial statements for further information regarding certain contingencies as of August 27, 2016.

PART I-FINANCIAL INFORMATION-CONTINUED

BASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIES

AUGUST 27, 2016

(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 2016.

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 \$3,007 at August 27, 2016 for stores formerly operated by licensees as well as our holdings of \$26,630 at August 27, 2016 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 \$2,098 which we have guaranteed on behalf of licensees as of August 27, 2016, we may not be able to secure sufficient sub-lease income in the current market to offset the payments required under the guarantees.

Item 4. Controls and Procedures:

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

PART I-FINANCIAL INFORMATION-CONTINUED

BASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIES

AUGUST 27, 2016

(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 2015 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, fuel, 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

• 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

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PART I-FINANCIAL INFORMATION-CONTINUED

BASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIES

AUGUST 27, 2016

(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 August 27, 2016 and the approximate dollar value of shares that may yet be purchased pursuant to our stock repurchase program:

| | Total Shares Purchased | Average Price Paid | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (1) | Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (1) |
|-----------------------------|---------------------------------------|-----------------------------------|---|---|
| May 29, 2016 - July 2, 2016 | 100 | \$ 26.05 | 100 | \$ 15,997 |
| July 3 - July 30, 2016 | 70,640 | \$ 25.23 | 67,700 | \$ 14,291 |
| July 31 - August 27, 2016 | 13,800 | \$ 25.49 | 13,800 | \$ 13,939 |

(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 August 27, 2016, \$13,939 remains available for stock repurchases under the plan.

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 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, 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

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PART I-FINANCIAL INFORMATION-CONTINUED

BASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIES

AUGUST 27, 2016

(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 August 27, 2016 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., President and Chief Executive Officer

September 29, 2016

/s/ J. Michael Daniel

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

September 29, 2016

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