BASSETT FURNITURE INDUSTRIES INC
Form 10-K
January 18, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C., 20549

FORM 10-K

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

For the fiscal year ended November 25, 2017

OR

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

For the transition period from ______ to ______

Commission File No. 0-209

BASSETT FURNITURE INDUSTRIES, INCORPORATED

(Exact name of registrant as specified in its charter)

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

3525 FAIRYSTONE PARK HIGHWAY BASSETT, VIRGINIA	**24055**
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code 276/629-6000

Securities registered pursuant to Section 12(b) of the Act:

Title of each class:	**Name of each exchange on which registered**
Common Stock ($5.00 par value)	**NASDAQ**

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. 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 (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 at least the past 90 days. Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	Accelerated filer
Non-accelerated filer	Smaller reporting company
(Do not check if a smaller reporting company)	Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12-b2 of the Exchange Act). Yes No

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant as of May 27, 2017 was $309,940,535.

The number of shares of the Registrant's common stock outstanding on January 10, 2018 was 10,740,591.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Bassett Furniture Industries, Incorporated definitive Proxy Statement for its 2018 Annual Meeting of Stockholders to be held March 7, 2018, to be filed with the Securities and Exchange Commission pursuant to Regulation 14A under the Securities Exchange Act of 1934 (the “Proxy Statement”) are incorporated by reference into Part III of this Form 10-K.

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As used herein, unless the context otherwise requires, "Bassett," the "Company," "we," "us" and "our" refer to Bassett Furniture Industries, Incorporated and its subsidiaries. References to 2017, 2016, 2015, 2014 and 2013 mean the fiscal years ended November 25, 2017, November 26, 2016, November 28, 2015, November 29, 2014 and November 30, 2013. Please note that fiscal 2013 contained 53 weeks.

Safe-harbor, forward-looking statements

This discussion contains certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 with respect to the financial condition, results of operations and business of Bassett Furniture Industries, Incorporated and subsidiaries. Such forward-looking statements are identified by use of forward-looking words such as "anticipates", "believes", "plans", "estimates", "expects", "aimed" and "intends" or words or phrases of similar expression. These forward-looking statements involve certain risks and uncertainties. No assurance can be given that any such matters will be realized. Important factors, which should be read in conjunction with Item 1A "Risk Factors", that could cause actual results to differ materially from those contemplated by such forward-looking statements include:

competitive conditions in the home furnishings industry

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

overall retail traffic levels and consumer demand for home furnishings

ability of our customers and consumers to obtain credit

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

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

fluctuations in the cost and availability of raw materials, labor and sourced products results of marketing and advertising campaigns

effectiveness and security of our information technology systems

future tax legislation, or regulatory or judicial positions

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

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

general risks associated with providing freight transportation and other logistical services due to our acquisition of Zenith Freight Lines, LLC

PART I

ITEM 1. BUSINESS

(dollar amounts in thousands except per share data)

General

Bassett is a leading retailer, manufacturer and marketer of branded home furnishings. Our products are sold primarily through a network of Company-owned and licensee-owned branded stores under the Bassett Home Furnishings ("BHF") name, with additional distribution through other wholesale channels including multi-line furniture stores, many of which feature Bassett galleries or design centers. We were founded in 1902 and incorporated under the laws of Virginia in 1930. Our rich 115-year history has instilled the principles of quality, value, and integrity in everything we do, while simultaneously providing us with the expertise to respond to ever-changing consumer tastes and meet the demands of a global economy.

With 90 BHF stores at November 25, 2017, we have leveraged our strong brand name in furniture into a network of Company-owned and licensed stores that focus on providing consumers with a friendly environment for buying furniture and accessories. 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, 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.

For several 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, and the management of various home delivery facilities that service Bassett Home Furnishings stores and other clients in local markets around the United States. On February 2, 2015, we acquired the remaining 51% of Zenith, which has since operated as a wholly-owned subsidiary of Bassett. Our acquisition of Zenith brought 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. Zenith now operates seven regional freight hubs and 14 home delivery centers in 13 states. 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.

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 91 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 co-branded design centers coupled with the targeted national advertising on HGTV have played a key role in driving sales at our stores. In October of 2015, we announced the extension of our partnership with HGTV through 2019. In addition to featuring HGTV branded custom upholstery products in our HGTV HOME Design Studios in BHF stores, we have also expanded the concept to select independent dealers. We believe this will provide additional growth outside our BHF store network.

Operating Segments

We have strategically aligned our business into three reportable segments: Wholesale, Retail – Company-owned stores, and Logistical Services.

The wholesale home furnishings segment is involved principally in the design, manufacture, sourcing, sale and distribution of furniture products to a network of BHF stores (licensee-owned stores and Company-owned retail stores) and independent furniture retailers. Our retail segment consists of 60 Company-owned and operated stores. The following table shows the number of Company-owned stores by state as of November 25, 2017:

State	Number of Stores	State	Number of Stores
Alabama	1	Mississippi	1
Arizona	1	Missouri	1
Arkansas	1	New Jersey	1
California	5	New York	5
Connecticut	3	North Carolina	5
Delaware	1	Ohio	1
Florida	3	Pennsylvania	2
Georgia	3	South Carolina	1
Kansas	1	Tennessee	1
Kentucky	1	Texas	11
Maryland	3	Virginia	5
Massachusetts	3	Total	60

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.

Wholesale Segment Overview

The wholesale furniture industry is very competitive and there are a large number of manufacturers both within and outside the United States who compete in the market on the basis of product quality, price, style, delivery and service. Additionally, many retailers source imported product directly, thus bypassing domestic furniture manufacturers and wholesale importers. We believe that we can be successful in the current competitive environment because our products represent excellent value combining attractive prices, quality and styling, prompt delivery, and superior service.

Wholesale shipments by category for the last three fiscal years are summarized below:

	2017		2016		2015	
Wood	$86,667	34.8 %	$88,763	36.9 %	$93,073	36.9 %
Upholstery	158,894	63.8 %	149,027	62.0 %	156,768	62.2 %
Other	3,632	1.5 %	2,556	1.1 %	2,339	0.9 %
Total	$249,193	100.0%	$240,346	100.0%	$252,180	100.0%

Approximately 27% of our 2017 wholesale sales were of imported product compared to 31% and 37% in 2016 and 2015, respectively. We define imported product as fully finished product that is sourced. Our domestic product includes certain products that contain components which were also sourced. We continue to believe that a blended strategy including domestically produced products primarily of a custom-order nature combined with sourcing of major collections provides the best value and quality of products to our customers. The decline in imported goods share of our wholesale sales over the last three years has been driven primarily by increasing sales of our domestic custom wood and upholstery product offerings.

The dollar value of our wholesale backlog, representing orders received but not yet shipped to the BHF store network or independent dealers, was $22,239 at November 25, 2017 and $22,130 at November 26, 2016. We expect that the November 25, 2017 backlog will be filled within fiscal 2018, with the majority of the backlog being filled during the first quarter.

We use lumber, fabric, leather, foam and other materials in the production of wood and upholstered furniture. These components are purchased from a variety of domestic and international suppliers and are widely available. The price and availability of foam, which is highly dependent on the cost of oil and available capacity of oil refineries, can be subject to significant volatility from time to time. We currently assemble and finish these components in our four plants in the United States.

Other Investments and Real Estate

Our balance sheet at November 25, 2017 and November 26, 2016 included short-term investments in certificates of deposit and certain retail real estate related to former licensee-owned stores. The impact upon earnings arising from these assets is included in other loss, net, in our consolidated statements of income. Our investment balances at each of the last three fiscal year-ends are as follows:

	November 27, 2017	November 26, 2016	November 28, 2015
Investments in certificates of deposit	$ 23,125	$ 23,125	$ 23,125
Certain retail real estate	1,758	2,969	3,120

Our short-term investments at November 25, 2017 consist of certificates of deposit (“CDs”) with original terms generally ranging from six to twelve months, bearing interest at rates ranging from 0.10% to 1.50% with a weighted average yield of approximately 1.18%. At November 25, 2017, the weighted average remaining time to maturity of the CDs was approximately five months. Each CD is placed with a federally insured financial institution and all deposits are within Federal deposit insurance limits.

We hold investments in retail store properties that we had previously leased to licensees. These holdings, which also include closed store real estate currently leased to non-licensees, are included in other long-term assets in our consolidated balance sheets. These real estate holdings are typically in urban, high-traffic retail locations. See Item 2, Properties, for additional information about our retail real estate holdings.

Retail Segment Overview – Company-Owned Retail Stores

The retail furniture industry remains very competitive and includes local furniture stores, regional furniture retailers, national department and chain stores and single-vendor branded retailers. As a whole, our store network with 60 Company-owned stores and 30 licensee-owned stores, ranks in the top 30 in retail furniture sales in the United States. We plan to continue opening new stores, primarily in underpenetrated markets where we currently have stores. In this regard we are currently considering several locations for new store expansion over the next three years, with at least eight of these planned to open in fiscal 2018.

Net sales for our Company-owned retail stores for the last three fiscal years are summarized below:

	2017	2016	2015
Net sales	$268,264	$254,667	$249,379

Maintaining and enhancing our brand is critical to our ability to expand our base of customers and drive increased traffic at both Company-owned and licensee-owned stores. Our advertising and marketing campaign utilizes local and national television, direct mail, catalogs, newspapers, magazines, radio and the internet in an effort to maintain and enhance our existing brand equity.

Our stores incorporate a stylish, residential feel while highlighting our unmatched custom manufacturing capabilities. We leverage our customization capabilities by dedicating space in the stores to design solutions for dining, upholstery, home entertainment and storage.

Logistical Services Segment Overview

Zenith is a specialized supply chain solutions provider, offering the home furnishings industry the benefit of an asset-based network to move product with greater efficiency, enhanced speed to market, less damage and a single source of shipment visibility. We provide fully integrated solutions with the highest commitment to customer care and service as we seek to go beyond our customers' transactional expectations to create collaborative partnerships that provide a single source network to:

- Better manage inventory across multiple locations and provide total audit-ready accountability
- Reduce line haul and delivery costs
- Ensure availability of high-volume items in stores
- Integrate the omnichannel nature of today's retail supply chain
- Management and predictability of the total landed cost of goods
- Achieve full visibility from vendor to showroom to final delivery

Our customer solutions are provided through the following services:

- Network line haul freight (middle mile)
- Warehousing, distribution and inventory management
- Home delivery services to end-consumer (final mile)

At November 25, 2017, our shipping and delivery fleet consisted of the following:

	Owned	**Leased**	**Total**
Tractors	165	92	257
Trailers	239	272	511
Home delivery trucks	12	15	27

We own a central warehousing and national distribution hub located in Conover, North Carolina, and we lease nineteen facilities in fourteen states across the continental United States from which we operate regional freight terminals and provide warehouse and distribution services.

Trademarks

Our trademarks, including “Bassett” and the names of some of our marketing divisions, products and collections, are significant to the conduct of our business. This is important due to consumer recognition of the names and identification with our broad range of products. Certain of our trademarks are licensed to independent retailers for use in full store and store gallery presentations of our products. We also own copyrights that are important in the conduct of our business.

Research and Development

The furniture industry is considered to be a “fashion” industry subject to constant fluctuations to meet changing consumer preferences. As such, we are continuously involved in the development of new designs and products. Due to the nature of these efforts and the close relationship to the manufacturing operations, these costs are considered normal operating costs and are not segregated. We are not otherwise involved in “traditional” research and development activities nor do we sponsor the research and development activities of any of our customers.

Government Regulations

We believe that we have materially complied with all federal, state and local standards regarding safety, health and pollution and environmental controls.

Our logistical services segment is also subject to regulation by several federal governmental agencies, including the Department of Transportation (“DOT”). Specifically the Federal Motor Carrier Safety Administration and the Surface Transportation Board, which are agencies within the DOT. We are also subject to rules and regulations of various state agencies. These regulatory authorities have broad powers, generally governing matters such as authority to engage in motor carrier operations, motor carrier registration, driver hours of service, safety and fitness of transportation equipment and drivers and other matters.

We may also be affected by laws and regulations of countries from which we source goods. Labor, environmental and other laws and regulations change over time, especially in the developing countries from which we source. Changes in these areas of regulation could negatively impact the cost and availability of sourced goods. The timing and extent to which these regulations could have an adverse effect on our financial position or results of operations is difficult to predict. Based on the present facts, we do not believe that they will have a material adverse effect on our financial position or future results of operations.

People

We employed 2,618 people as of November 25, 2017, of which 853 were employed in our retail segment, 966 were employed in our wholesale segment and 799 were employed in our logistical services segment, which also utilized another 136 temporary workers provided through staffing agencies. None of our employees are subject to collective bargaining arrangements and we have not experienced any recent work stoppages. We consider our relationship with our employees to be good.

Foreign and Domestic Operations and Export Sales

We have no foreign manufacturing or retail operations. We define export sales as sales to any country or territory other than the United States or its territories or possessions. Our export sales were approximately $2,288, $3,607, and $4,516 in 2017, 2016, and 2015, respectively. At November 25, 2017 and November 26, 2016, we had $1,677 and $3,018, respectively of our finished goods inventory physically warehoused in Vietnam.

Major Customers

Our risk exposure related to our customers, consisting primarily of trade accounts receivable along with certain guarantees, net of recognized reserves, totaled approximately $22,357 and $20,223 at November 25, 2017 and November 26, 2016, respectively. At November 25, 2017, approximately 29% of the aggregate risk exposure, net of reserves, was attributable to five customers. At November 26, 2016, approximately 30% of the aggregate risk exposure, net of reserves, was attributable to four customers. In fiscal 2017, 2016 and 2015, no customer accounted for more than 10% of total consolidated net sales. However, one customer accounted for approximately 33%, 36% and 26% of our consolidated revenue from logistical services during 2017, 2016 and 2015, respectively.

Available Information

Through our website www.bassettfurniture.com, we make available free of charge as soon as reasonably practicable after electronically filing or furnishing with the SEC, our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and any amendments thereto.

ITEM 1A. RISK FACTORS

The following risk factors should be read carefully in connection with evaluating our business and the forward-looking information contained in this Annual Report on Form 10-K. The risk factors below represent what we believe are the known material risk factors with respect to us and our business. Any of the following risks could materially adversely affect our business, operations, industry, financial position or future financial results.

We face a volatile retail environment and changing economic conditions that may further adversely affect consumer demand and spending.

Historically, the home furnishings industry has been subject to cyclical variations in the general economy and to uncertainty regarding future economic prospects. Should the current economic recovery falter or the current recovery in housing starts stall, consumer confidence and demand for home furnishings could deteriorate which could adversely affect our business through its impact on the performance of our Company-owned stores, as well as our licensees and the ability of a number of them to meet their obligations to us.

Our retail stores face significant competition from national, regional and local retailers of home furnishings, including increasing on-line competition via the internet.

The retail market for home furnishings is highly fragmented and intensely competitive. We currently compete against a diverse group of retailers, including national department stores, regional or independent specialty stores, and dedicated franchises of furniture manufacturers. National mass merchants such as Costco also have limited product offerings. We also compete with retailers that market products through store catalogs and the internet. In addition, there are few barriers to entry into our current and contemplated markets, and new competitors may enter our current or future markets at any time. We have recently seen electronics and appliance retailers adding limited furniture products in their stores. We have also seen increasing competition from retailers offering consumers the ability to purchase home furnishings via the internet for home delivery, and this trend is expected to continue. Our existing competitors or new entrants into our industry may use a number of different strategies to compete against us, including aggressive advertising, pricing and marketing, extension of credit to customers on terms more favorable than we offer, and expansion into markets where we currently operate.

Competition from any of these sources could cause us to lose market share, revenues and customers, increase expenditures or reduce prices, any of which could have a material adverse effect on our results of operations.

Our licensee-owned stores may not be able to meet their obligations to us.

We have a significant amount of accounts receivable attributable to our network of licensee-owned stores. We also guarantee some of the leases of some of our licensees. If these stores do not generate the necessary level of sales and profits, the licensees may not be able to fulfill their obligations to us resulting in additional bad debt expenses and real estate related losses.

Failure to successfully anticipate or respond to changes in consumer tastes and trends in a timely manner could adversely impact our business, operating results and financial condition.

Sales of our furniture are dependent upon consumer acceptance of our designs, styles, quality and price. As with all retailers, our business is susceptible to changes in consumer tastes and trends. We attempt to monitor changes in consumer tastes and home design trends through attendance at international industry events and fashion shows, internal marketing research, and communication with our retailers and design consultants who provide valuable input on consumer tendencies. However, such tastes and trends can change rapidly and any delay or failure to anticipate or respond to changing consumer tastes and trends in a timely manner could adversely impact our business, operating results and financial condition.

In addition, certain suppliers may require extensive advance notice of our requirements in order to produce products in the quantities we desire. This long lead time may require us to place orders far in advance of the time when certain products will be offered for sale, thereby exposing us to risks relating to shifts in consumer demand and trends, and any downturn in the U.S. economy.

Our success depends upon our brand, marketing and advertising efforts and pricing strategies, and if we are not able to maintain and enhance our brand, or if we are not successful in these efforts and strategies, our business and operating results could be adversely affected.

Maintaining and enhancing our brand is critical to our ability to expand our base of customers and drive increased traffic at both Company-owned and licensee-owned stores. Our advertising and marketing campaign utilizes television, direct mail, catalogs, newspapers, magazines, radio and the internet in an effort to maintain and enhance our existing brand equity. We cannot provide assurance that our marketing, advertising and other efforts to promote and maintain awareness of our brand will not require us to incur substantial costs. If these efforts are unsuccessful or we incur substantial costs in connection with these efforts, our business, operating results and financial condition could be adversely affected.

Our use of foreign sources of production for a substantial portion of our products exposes us to certain additional risks associated with international operations.

Our use of foreign sources for the supply of many of our products exposes us to risks associated with overseas sourcing. These risks are related to government regulation, volatile ocean freight costs, delays in shipments, and extended lead time in ordering. Governments in the foreign countries where we source our products may change their laws, regulations and policies, including those related to tariffs and trade barriers, investments, taxation and exchange controls which could make it more difficult to service our customers resulting in an adverse effect on our earnings. We could also experience increases in the cost of ocean freight shipping which could have an adverse effect on our earnings. Shipping delays and extended order lead times may adversely affect our ability to respond to sudden changes in demand, resulting in the purchase of excess inventory in the face of declining demand, or lost sales due to insufficient inventory in the face of increasing demand, either of which would also have an adverse effect on our earnings or liquidity.

Fluctuations in the price, availability and quality of raw materials could result in increased costs or cause production delays which might result in a decline in sales, either of which could adversely impact our earnings.

We use various types of wood, foam, fibers, fabrics, leathers, and other raw materials in manufacturing our furniture. Certain of our raw materials, including fabrics, are purchased both abroad and domestically. Fluctuations in the price, availability and quality of raw materials could result in increased costs or a delay in manufacturing our products, which in turn could result in a delay in delivering products to our customers. For example, lumber prices fluctuate over time based on factors such as weather and demand, which in turn impact availability. Production delays or upward trends in raw material prices could result in lower sales or margins, thereby adversely impacting our earnings.

We rely extensively on computer systems to process transactions, summarize results and manage our business. Disruptions in both our primary and back-up systems could adversely affect our business and operating results.

Our primary and back-up computer systems are subject to damage or interruption from power outages, computer and telecommunications failures, computer viruses, security breaches, natural disasters and errors by employees. Though losses arising from some of these issues would be covered by insurance, interruptions of our critical business computer systems or failure of our back-up systems could reduce our sales or result in longer production times. If our critical business computer systems or back-up systems are damaged or cease to function properly, we may have to make a significant investment to repair or replace them.

We may incur costs resulting from security risks we face in connection with our electronic processing and transmission of confidential customer information.

We accept electronic payment cards in our stores. We may in the future become subject to claims for purportedly fraudulent transactions arising out of the actual or alleged theft of credit or debit card information, and we may also be subject to lawsuits or other proceedings in the future relating to these types of incidents. Proceedings related to theft of credit or debit card information may be brought by payment card providers, banks and credit unions that issue cards, cardholders (either individually or as part of a class action lawsuit) and federal and state regulators. Any such proceedings could distract our management from running our business and cause us to incur significant unplanned losses and expenses. Consumer perception of our brand could also be negatively affected by these events, which could further adversely affect our results and prospects.

We may suffer adverse impacts from additional risks associated with our entry into the freight transportation and logistics business following our acquisition of Zenith.

Our entry into the freight transportation and logistics business through our acquisition of Zenith exposes us to certain risks common to that business, including, but not limited to: difficulties attracting and retaining qualified drivers which could result in increases in driver compensation and could adversely affect our profitability and our ability to maintain or grow our fleet; adverse impacts from unfavorable fluctuations in the availability and price of diesel fuel; increased costs of compliance with, or liability for violation of, existing or future regulations in the highly regulated freight transportation industry; and adverse impacts upon Zenith’s results of operations which may result from seasonal factors and harsh weather conditions.

ITEM 1B. UNRESOLVED STAFF COMMENTS
None.

ITEM 2. PROPERTIES

General

We own our corporate office building, which includes an annex, located in Bassett, Va.

We own the following facilities, by segment:

Wholesale Segment:

Facility	**Location**
Bassett Wood Division	Martinsville, Va.
Bassett Wood Division	Bassett, Va.
Bassett Upholstery Division	Newton, N.C.
3 Warehouses	Bassett, Va.

In general, these facilities are suitable and are considered to be adequate for the continuing operations involved. All facilities are in regular use and provide adequate capacity for our manufacturing and warehousing needs. In addition to the owned properties shown above, we have an upholstery division manufacturing facility which occupies part of a regional distribution center in Grand Prairie, Texas that is leased by our logistical services segment.

Retail Segment:

Real estate associated with our retail segment consists of 10 owned locations with an aggregate square footage of 250,070 and a net book value of $22,817. These stores are located as follows:

Concord, North Carolina	Greensboro, North Carolina
Greenville, South Carolina	Fredericksburg, Virginia
Houston, Texas (3 locations)	Gulfport, Mississippi
Knoxville, Tennessee	Louisville, Kentucky

Of these locations, two are subject to land leases and two are subject to mortgages. Our remaining 50 store locations are leased from third-parties.

Logistical Services Segment:

Owned real estate associated with our logistical services segment is located in Conover, North Carolina and includes the following facilities:

Facility	**Square Footage**
Distribution center and corporate office	242,000
2 Maintenance facilities	15,142
2 Transit warehouses	86,135

In addition to the owned facilities listed above, we also lease warehouse space in 19 locations across the United States with an aggregate square footage of 1,237,749.

Other Real Estate Owned:

We hold investments in retail store property that we previously leased to licensees and now lease to others. Such properties consist of two locations with aggregate square footage of 41,021 and net book value of $1,758 at November 25, 2017.

See Note 17 to the Consolidated Financial Statements included under Item 8 of this Annual Report for more information with respect to our operating lease obligations.

ITEM 3. LEGAL PROCEEDINGS

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 4B. EXECUTIVE OFFICERS OF THE REGISTRANT

David C. Baker, 57, joined the Company in 2005 as Director, Store Operations. From 2006 to 2015 he served as Vice President – Corporate Retail, and currently serves as Senior Vice President, Corporate Retail. Prior to joining Bassett, Mr. Baker managed Bassett stores for licensees from 1999 to 2005 after having previously managed stores for other furniture retail chains including Haverty's and Rhodes Furniture.

John E. Bassett III, 59, has been with the Company since 1981 and served in various wood manufacturing and product sourcing capacities, including Vice President, Wood Manufacturing; Vice-President, Global Sourcing from 2001 to 2007 and Vice President, Wood in 2008. He was appointed Senior Vice President, Wood in 2009.

Bruce R. Cohenour, 59, has been with the Company since 2011, starting as Senior Vice President of Upholstery Merchandising and serving as Senior Vice President of Sales and Merchandising since January 2013. Prior to joining Bassett, Mr. Cohenour was with Hooker Furniture Corp. from 2007 through 2010, last serving as President of the Case Goods Division.

J. Michael Daniel, 56, joined the Company in 2007 as Corporate Controller. From April 2009 through December 2009, he served as Corporate Controller and Interim Chief Financial Officer. In January 2010, he was appointed Vice President and Chief Accounting Officer. In January 2013, he was promoted to Senior Vice President and Chief Financial Officer.

Jack L. Hawn, 64, has been with the Company since 2015 as Senior Vice President, Bassett and President, Zenith, His company, Zenith Transportation, Inc. was majority owner of Zenith (Zenith Freight Lines, LLC) from 1999 until its interest in Zenith was acquired by the Company in 2015. He has served as President of Zenith since its formation in 1999.

Jay R. Hervey, Esq., 58, has served as the General Counsel, Vice President and Secretary for the Company since 1997.

Mark S. Jordan, 64, joined the Company in 1999 as Plant Manager. In 2001, he was promoted to Vice President of Upholstery Manufacturing and in 2002 he was promoted to Vice President and General Manager-Upholstery. He has served as Senior Vice President of Upholstery since 2009.

Robert H. Spilman, Jr., 61, has been with the Company since 1984. Since 2000, he has served as Chief Executive Officer and President, and in 2016 also became the Chairman of the Board of Directors.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market and Dividend Information:

Bassett's common stock trades on the NASDAQ global select market system under the symbol "BSET." We had approximately 1,300 registered stockholders at January 10, 2018. The range of per share amounts for the high and low market prices and dividends declared for the last two fiscal years are listed below:

	Market Prices of Common Stock					
	2017		2016		Dividends Declared	
Quarter	High	Low	High	Low	2017	2016
First	$31.65	$25.75	$31.98	$23.65	$0.10	$0.09
Second	31.60	24.95	33.20	26.79	0.10	0.09
Third	39.85	29.50	29.60	23.94	0.11	0.10
Fourth	41.30	34.60	30.00	22.75	0.46	0.40

Issuer Purchases of Equity Securities:

We are 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 million. There was no stock repurchase activity during the three months ended November 25, 2017. The approximate dollar value that may yet be purchased pursuant to our stock repurchase program as of November 25, 2017 was $11.45 million.

ITEM 6. SELECTED FINANCIAL DATA

The selected financial data set forth below for the fiscal years indicated were derived from our audited consolidated financial statements. The information should be read in conjunction with our consolidated financial statements (including the notes thereto) and "Management's Discussion and Analysis of Financial Condition and Results of Operations" appearing elsewhere in, or incorporated by reference into, this report.

(In thousands)	**2017**		**2016**		**2015**		**2014**	**2013 (1)**
Net sales	$452,503	(2)	$432,038	(2)	$430,927	(2)	$340,738	$321,286
Operating income	$27,018	(3)	$28,193	(3)	$25,989	(3)	$15,131	$10,005
Other income (loss), net	$858	(4)	$(2,416)	(5)	$5,879	(5)	$(524)	$(1,818)
Income before income taxes	$27,876		$25,777		$31,868		$14,607	$8,187
Income tax expense	$9,620		$9,948		$11,435		$5,308	$3,091
Net income	$18,256		$15,829		$20,433		$9,299	$5,096
Diluted earnings per share	$1.70		$1.46		$1.88		$0.87	$0.47
Cash dividends declared	$8,266		$5,805		$5,868		$5,085	$4,565
Cash dividends per share	$0.77		$0.68		$0.54		$0.48	$0.42
Total assets	$293,748		$278,267		$240,746		$240,746	$225,849
Long-term debt	$329		$3,821		$1,902		$2,467	$2,467
Current ratio	1.91 to 1		1.83 to 1		1.84 to 1		1.95 to 1	2.37 to 1
Book value per share	$17.83		$16.85		$16.25		$14.95	$14.50

(1) Fiscal 2013 contained 53 weeks, whereas all other fiscal years presented above contained 52 weeks.

(2) Fiscal 2017, 2016 and 2015 included logistical services revenue from Zenith in the amount of $54,406, $54,842 and $43,522, respectively, since the acquisition of Zenith on February 2, 2015.

(3) Fiscal 2017 operating income includes a gain of $1,220 resulting from the sale of our retail store in Las Vegas, Nevada. Fiscal 2016 operating income includes the benefit of a $1,428 award received from the settlement of class action litigation. Fiscal 2015 included restructuring and asset impairment charges and lease exit costs totaling $974. See Note 15 to the Consolidated Financial Statements for additional information related to each of these items.

(4) Fiscal 2017 includes $4,221 of gains resulting from the sale of investments (see Note 9 to the Consolidated Financial Statements), and an impairment charge of $1,084 retail real estate held for investment (see Note 2 to the Consolidated Financial Statements). Also see Note 16 to the Consolidated Financial Statements related to $94 of income from the Continued Dumping and Subsidy Offset Act ("CDSOA") received in fiscal 2017.

(5) See Note 3 to the Consolidated Financial Statements related to a remeasurement gain of $7,212 arising from our acquisition of Zenith during fiscal 2015. Also see Note 16 to the Consolidated Financial Statements related to $240 and $1,156 of income from the CDSOA received in fiscal 2016 and 2015, respectively.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(Amounts in thousands except share and per share data)

Overview

Bassett is a leading retailer, manufacturer and marketer of branded home furnishings. Our products are sold primarily through a network of Company-owned and licensee-owned branded stores under the Bassett Home Furnishings ("BHF") name, with additional distribution through other wholesale channels including multi-line furniture stores, many of which feature Bassett galleries or design centers. We were founded in 1902 and incorporated under the laws of Virginia in 1930. Our rich 115-year history has instilled the principles of quality, value, and integrity in everything we do, while simultaneously providing us with the expertise to respond to ever-changing consumer tastes and meet the demands of a global economy.

With 90 BHF stores at November 25, 2017, we have leveraged our strong brand name in furniture into a network of Company-owned and licensed stores that focus on providing consumers with a friendly environment for buying furniture and accessories. Our store program is designed to provide a single source home furnishings retail store that provides a unique combination of stylish, quality furniture and accessories with a high level of customer service. In order to reach markets that cannot be effectively served by our retail store network, we also distribute our products through other wholesale channels including multi-line furniture stores, many of which feature Bassett galleries or design centers. We use a network of over 25 independent sales representatives who have stated geographical territories. These sales representatives are compensated based on a standard commission rate. We believe this blended strategy provides us the greatest ability to effectively distribute our products throughout the United States and ultimately gain market share.

The BHF stores feature custom order furniture ready for delivery in less than 30 days, free in-home design visits ("home makeovers"), and coordinated decorating accessories. Our philosophy is based on building strong long-term relationships with each customer. Sales people are referred to as "Design Consultants" and are each trained to evaluate customer needs and provide comprehensive solutions for their home decor. Until a rigorous training and design certification program is completed, Design Consultants are not authorized to perform in-home design services for our customers.

We have factories in Newton, North Carolina and Grand Prairie, Texas that manufacture upholstered furniture, a factory in Martinsville, Virginia that primarily assembles and finishes our custom casual dining offerings and a factory in Bassett, Virginia that assembles and finishes our 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 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 70% of the products we currently sell are manufactured in the United States.

For several 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, 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 has since operated as a wholly-owned subsidiary of Bassett. Our acquisition of Zenith brought 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. Zenith now operates seven regional freight hubs and 14 home delivery centers in 13 states. 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.

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 driving sales at our stores. 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 November 25, 2017, our BHF store network included 60 Company-owned stores and 30 licensee-owned stores. During fiscal 2017, we opened new stores in Garden City, New York; Culver City, California; King of Prussia, Pennsylvania; Wichita, Kansas; and Pittsburgh, Pennsylvania and completed the repositioning of our store in Scottsdale, Arizona. In addition, we acquired a store in Columbus, Ohio from a former licensee. We closed underperforming stores in Danbury, Connecticut and Catonsville, Maryland. We also closed our Las Vegas, Nevada store in preparation for repositioning that store to another location in the Las Vegas market in early 2018, and closed our Dallas, Texas and Cincinnati, Ohio stores at the completion of the lease terms. The Dallas, Texas store will be replaced by the Frisco, Texas store that is planned to open late in 2018. We are in active negotiations to secure a site at which we can replace the Cincinnati, Ohio store at an improved location. A new licensee store was opened in Kansas City, Missouri, and another licensee closed a store in Toronto, Canada.

We continue to execute our strategy of growing the Company through opening new stores, repositioning stores to improved locations within a market and closing underperforming stores. The following table shows planned store openings where leases have been executed:

Location	Type	Size Sq. Ft.	Planned Opening
New Stores:			
Chandler, AZ	Corporate	8,800	Q1 2018
Oklahoma City, OK	Corporate	9,700	Q1 2018
Summerlin, NV	Corporate	15,500	Q1 2018
El Paso, TX	Corporate	8,400	Q2 2018
La Jolla, CA	Licensed	10,000	Q3 2018
Daly City, CA	Licensed	9,000	Q3 2018
Coral Gables, FL	Corporate	10,000	Q3 2018
Frisco, TX	Corporate	15,000	Q4 2018

In addition, lease negotiations are underway for new store locations that could result in additional openings during 2018. With a track record of six consecutive years of positive same store sales growth and our focus on store productivity, we believe that we can take our concept to new markets and consistently grow overall store count in the years to come.

As with any retail operation, prior to opening a new store we incur such expenses as rent, training costs and other payroll related costs. These costs generally range between $200 to $400 per store depending on the overall rent costs for the location and the period between the time when we take physical possession of the store space and the time of the store opening. Generally, rent payments during a buildout period between delivery of possession and opening of a new store are deferred and therefore straight line rent expense recognized during that time does not require cash. Inherent in our retail business model, we also incur losses in the two to three months of operation following a new store opening. Like other furniture retailers, we do not recognize a sale until the furniture is delivered to our customer. Because our retail business model does not involve maintaining a stock of retail inventory that would result in quick delivery and because of the custom nature of many of our furniture offerings, delivery to our customers usually occurs about 30 days after an order is placed. We generally require a deposit at the time of order and collect the remaining balance when the furniture is delivered, at which time the sale is recognized. Coupled with the previously discussed store pre-opening costs, total start-up losses can range from $400 to $600 per store. While our retail expansion is initially costly, we believe our site selection and new store presentation will generally result in locations that operate at or above a retail break-even level within a reasonable period of time following store opening. Factors affecting the length of time required to achieve this goal on a store-by-store basis may include the level of brand recognition, the degree of local competition and the depth of penetration in a particular market. Even as new stores ramp up to break-even, we do realize additional wholesale sales volume that leverages the fixed costs in our wholesale business.

In 2018, Bassett will focus on its digital effort to improve the customers' journey from the time they begin on our website to the final step of delivering the goods to their homes. Today's customers expect their digital experiences and communications to be personalized and highly-relevant, and catered to match their specific needs and preferences. Bassett is laying the foundation to becoming more connected to its customers and to use the data and insights collected during the customer journey to create a more compelling customized customer experience. This year, the Company plans to invest in technology, including an order management system, and digital talent who can direct the strategy, planning and daily business direction and critical decision making required for building a competitive omnichannel retail business.

Analysis of Operations

Net sales revenue, cost of furniture and accessories sold, selling, general and administrative (“SG&A”) expense, new store pre-opening costs, other charges, and income from operations were as follows for the years ended November 25, 2017, November 26, 2016 and November 28, 2015:

							Change from Prior Year			
							2017 vs 2016		2016 vs 2015	
	2017		2016		2015		Dollars	Percent	Dollars	Percent
Sales Revenue:										
Furniture and accessories	$398,097	88.0 %	$377,196	87.3 %	$387,405	89.9 %	$20,901	5.5 %	$(10,209)	-2.6 %
Logistics	54,406	12.0 %	54,842	12.7 %	43,522	10.1 %	(436)	-0.8 %	11,320	26.0 %
Total net sales revenue	452,503	100.0%	432,038	100.0%	430,927	100.0%	20,465	4.7 %	1,111	0.3 %
Cost of furniture and accessories sold	177,579	39.2 %	167,519	38.8 %	179,291	41.6 %	10,060	6.0 %	(11,772)	-6.6 %
SG&A	245,493	54.3 %	235,178	54.4 %	224,050	52.0 %	10,315	4.4 %	11,128	5.0 %
New store pre-opening costs	2,413	0.5 %	1,148	0.3 %	623	0.2 %	1,265	110.2%	525	84.3 %
Other charges	-	0.0 %	-	0.0 %	974	0.2 %	-	NM	(974)	-100.0%
Income from operations	$27,018	6.0 %	$28,193	6.5 %	$25,989	6.0 %	$(1,175)	-4.2 %	$2,204	8.5 %

Our consolidated net sales by segment were as follows:

				Change from Prior Year			
				2017 vs 2016		2016 vs 2015	
	2017	2016	2015	Dollars	Percent	Dollars	Percent
Net Sales							

Wholesale	$249,193	$240,346	$252,180	$8,847	3.7	%	$(11,834)	-4.7	%
Retail	268,264	254,667	249,379	13,597	5.3	%	5,288	2.1	%
Logistical services	97,578	95,707	77,250	1,871	2.0	%	18,457	23.9	%
Inter-company eliminations:									
Furniture and accessories	(119,360)	(117,817)	(114,154)	(1,543)	1.3	%	(3,663)	3.2	%
Logistical services	(43,172)	(40,865)	(33,728)	(2,307)	5.6	%	(7,137)	21.2	%
Consolidated	$452,503	$432,038	$430,927	$20,465	4.7	%	$1,111	0.3	%

Refer to the segment information which follows for a discussion of the significant factors and trends affecting our results of operations for fiscal 2017 and 2016 as compared with the prior year periods.

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

Segment Information

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

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

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

	Year Ended November 25, 2017					
	Wholesale	Retail	Logistics	Eliminations		Consolidated
Sales revenue:						
Furniture & accessories	$249,193	$268,264	$ -	$ (119,360)	(1)	$ 398,097
Logistics	-	-	97,578	(43,172)	(2)	54,406
Total sales revenue	249,193	268,264	97,578	(162,532)		452,503
Cost of furniture and accessories sold	164,028	132,463	-	(118,912)	(3)	177,579
SG&A expense	66,044	129,898	94,616	(45,065)	(4)	245,493
New store pre-opening costs	-	2,413	-	-		2,413
Income from operations	$19,121	$3,490	$2,962	$ 1,445		$ 27,018

	Year Ended November 26, 2016					
	Wholesale	Retail	Logistics	Eliminations		Consolidated
Sales revenue:						
Furniture & accessories	$240,346	$254,667	$ -	$ (117,817)	(1)	$ 377,196
Logistics	-	-	95,707	(40,865)	(2)	54,842
Total sales revenue	240,346	254,667	95,707	(158,682)		432,038
Cost of furniture and accessories sold	156,894	128,208	-	(117,583)	(3)	167,519
SG&A expense	64,780	120,978	92,196	(42,776)	(4)	235,178
New store pre-opening costs	-	1,148	-	-		1,148
Income from operations	$18,672	$4,333	$3,511	$ 1,677		$ 28,193

	Year Ended November 28, 2015					
	Wholesale	Retail	Logistics	Eliminations		Consolidated
Sales revenue:						
Furniture & accessories	$252,180	$249,379	$ -	$ (114,154)	(1)	$ 387,405
Logistics	-	-	77,250	(33,728)	(2)	43,522
Total sales revenue	252,180	249,379	77,250	(147,882)		430,927
Cost of furniture and accessories sold	168,842	124,376	-	(113,927)	(3)	179,291
SG&A expense	67,770	118,210	73,722	(35,652)	(4)	224,050
New store pre-opening costs	-	623	-	-		623
Income from operations (5)	$15,568	$6,170	$3,528	$ 1,697		$ 26,963

(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 logistical services expense incurred from Zenith by our retail and wholesale segments.

	Year Ended November 25, 2017	November 26, 2016	November 28, 2015
Intercompany logistical services	$(43,172)	$(40,865)	$(33,728)
Intercompany rents	(1,893)	(1,911)	(1,924)
Total SG&A expense elimination	$(45,065)	$(42,776)	$(35,652)

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

Wholesale Segment

Net sales, gross profit, SG&A expense and operating income from operations for our Wholesale Segment were as follows for the years ended November 25, 2017, November 26, 2016 and November 28, 2015:

	2017		2016		2015		Change from Prior Year 2017 vs 2016 Dollars	Percent	2016 vs 2015 Dollars	Percent
Net sales	$249,193	100.0%	$240,346	100.0%	$252,180	100.0%	$8,847	3.7 %	$(11,834)	-4.7 %
Gross profit	85,165	34.2 %	83,452	34.7 %	83,338	33.0 %	1,713	2.1 %	114	0.1 %
SG&A	66,044	26.5 %	64,780	27.0 %	67,770	26.9 %	1,264	2.0 %	(2,990)	-4.4 %
Income from operations	$19,121	7.7 %	$18,672	7.8 %	$15,568	6.2 %	$449	2.4 %	$3,104	19.9 %

Wholesale shipments by category for the last three fiscal years are summarized below:

	2017		2016		2015		Change from Prior Year 2017 vs 2016 Dollars	Percent	2016 vs 2015 Dollars	Percent
Wood	$86,667	34.8 %	$88,763	36.9 %	$93,073	36.9 %	$(2,096)	-2.4 %	$(4,310)	-4.6 %
Upholstery	158,894	63.8 %	149,027	62.0 %	156,768	62.2 %	9,867	6.6 %	(7,741)	-4.9 %
Other	3,632	1.5 %	2,556	1.1 %	2,339	0.9 %	1,076	42.1 %	217	9.3 %
Total	$249,193	100.0%	$240,346	100.0%	$252,180	100.0%	$8,847	3.7 %	$(11,834)	-4.7 %

Fiscal 2017 as Compared to Fiscal 2016

The sales increase in 2017 was driven by a 2.7% increase in furniture shipments to the BHF store network along with a 3.9% increase in furniture shipments to the open market (outside the BHF store network) as compared to the prior year period. A much smaller component of our wholesale revenues, shipments of wholesale accessories, increased 42% over the prior year period. The decrease in gross margins from fiscal 2016 was primarily due to the $1,428 settlement of the Polyurethane Foam Antitrust Litigation in 2016. Excluding the benefit of the settlement, the gross margin for fiscal 2016 would have been 34.1%. This increase was primarily due to improved margins in the domestic upholstery operations from favorable pricing strategies and improved manufacturing efficiencies. The decrease in SG&A as a percentage of sales compared with 2016 was primarily due to greater leverage of fixed costs from higher sales volumes, partially offset by increased spending on the website and digital strategy development.

Fiscal 2016 as Compared to Fiscal 2015

The sales decrease in 2016 was driven by a 13% decrease in open market shipments (outside the BHF network) while shipments to the BHF store network were essentially flat compared to the prior year. 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 increased to 34.7% for 2016 as compared to 33.1% for 2015. This increase is due in part to the $1,428 settlement of the Polyurethane Foam Antitrust Litigation in 2016. Excluding the effects of the legal settlement, the gross margin would have been 34.1%. 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. SG&A for 2016 decreased in both dollars and as a percentage of sales primarily due to decreases in incentive compensation expenses and bad debt costs. The prior year period also included costs associated with the acquisition of Zenith.

Wholesale Backlog

The dollar value of our wholesale backlog, representing orders received but not yet delivered to dealers and Company stores as of November 25, 2017, November 26, 2016, and November 28, 2015 was as follows:

	2017	**2016**	**2015**
Year end wholesale backlog	$22,239	$22,130	$17,131

Retail Segment – Company Owned Stores

Net sales, gross profit, SG&A expense, new store pre-opening costs and operating income for our Retail Segment were as follows for the years ended November 25, 2017, November 26, 2016 and November 28, 2015:

	2017 vs 2016				**2016 vs 2015**				**Change from Prior Year**		
									2017 vs 2016		**2016 vs**
	2017		**2016**		**2016**		**2015**		**Dollars**	**Percent**	**Dollars**
Net sales	$268,264	100.0%	$254,667	100.0%	$254,667	100.0%	$249,379	100.0%	$13,597	5.3 %	$5,288
Gross profit	135,801	50.6 %	126,459	49.7 %	126,459	49.7 %	125,003	50.1 %	9,342	7.4 %	1,456
SG&A expense	129,898	48.4 %	120,978	47.5 %	120,978	47.5 %	118,210	47.4 %	8,920	7.4 %	2,768
New store pre-opening costs	2,413	0.9 %	1,148	0.5 %	1,148	0.5 %	623	0.2 %	1,265	110.2%	525
Income from operations	$3,490	1.3 %	$4,333	1.7 %	$4,333	1.7 %	$6,170	2.5 %	$(843)	-19.5 %	$(1,837

The following tables present operating results on a comparable store basis for each comparative set of periods. Table A compares the results of the 52 stores that were open and operating for all of 2017 and 2016. Table B compares the results of the 56 stores that were open and operating for all of 2016 and 2015.

Comparable Store Results:

	Table A: 2017 vs 2016 (52 Stores)				**Table B: 2016 vs 2015 (56 Stores)**				**Change from Prior Year**			
									2017 vs 2016		**2016 vs 2015**	
	2017		**2016**		**2016**		**2015**		**Dollars**	**Percen**	**Dollars**	**Per**
Net sales	$233,823	100.0%	$229,530	100.0%	$243,062	100.0%	$239,713	100.0%	$4,293	1.9%	$3,349	1.4
Gross profit	119,546	51.1 %	115,103	50.1 %	121,327	49.9 %	120,535	50.3 %	4,443	3.9%	792	0.7
SG&A expense	112,428	48.1 %	108,328	47.2 %	114,097	46.9 %	112,484	46.9 %	4,100	3.8%	1,613	1.4
Income from operations	$7,118	3.0 %	$6,775	3.0 %	$7,230	3.0 %	$8,051	3.4 %	$343	5.1%	$(821)	-10

The following tables present operating results for all other stores which were not comparable year-over-year. Each table includes the results of stores that either opened or closed at some point during the 24 months of each comparative set of periods.

All Other (Non-Comparable) Store Results:

	2017 vs 2016 All Other Stores				2016 vs 2015 All Other Stores				Change from Prior Year			
									2017 vs 2016		2016 vs 201	
	2017		2016		2016		2015		Dollars	Percent	Dollars	Pe
Net sales	$34,441	100.0%	$25,137	100.0%	$11,605	100.0%	$9,666	100.0%	$9,304	37.0 %	$1,939	20
Gross profit	16,255	47.2 %	11,356	45.2 %	5,132	44.2 %	4,468	46.2 %	4,899	43.1 %	664	14
SG&A expense	17,470	50.7 %	12,650	50.3 %	6,881	59.3 %	5,726	59.2 %	4,820	38.1 %	1,155	20
New store pre-opening costs	2,413	7.0 %	1,148	4.6 %	1,148	9.9 %	623	6.4 %	1,265	110.2%	525	84
Loss from operations	$(3,628)	-10.5 %	$(2,442)	-9.7 %	$(2,897)	-25.0 %	$(1,881)	-19.5 %	$(1,186)	48.6 %	$(1,016)	54

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Fiscal 2017 as Compared to Fiscal 2016

The 2017 increase in net sales for the 60 Company-owned BHF stores was comprised of a 1.9% increase in comparable store sales along with a $9,304 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 increased by 1.8% in fiscal 2017 over 2016.

The increase in comparable store gross margins over 2016 is primarily due to improved pricing strategies and product mix. The increase in comparable store SG&A as a percentage of sales was primarily due to a $500 legal settlement along with higher advertising expenses of $687 and occupancy costs of $481.

Increased losses from the non-comparable stores in fiscal 2017 included additional pre-opening costs associated with the Garden City, New York; Culver City, California; King of Prussia, Pennsylvania; Wichita, Kansas; and Pittsburgh, Pennsylvania stores which opened during fiscal 2017, and the new stores in Chandler, Arizona; Oklahoma City, Oklahoma; and Summerlin, Nevada which are expected to open during the first quarter of 2018. These costs include rent, training costs and other payroll-related costs specific to a new store location incurred during the period leading up to its opening and generally range between $200 to $400 per store based on the overall rent costs for the location and the period between the time when the Company takes possession of the physical store space and the time of the store opening.

We incur losses in the first two to three months of operation following a store opening as sales are not recognized in the income statement until the furniture is delivered to its customers resulting in operating expenses without the normal sales volume. Because we do not maintain a stock of retail inventory that would result in quick delivery, and because of the custom nature of the furniture offerings, such deliveries are generally not made until after 30 days from when the furniture is ordered by the customer. Coupled with the pre-opening costs, total start-up losses typically amount to $400 to $600 per store. During fiscal 2017 we incurred $969 of post-opening losses associated with the five new stores which opened during the year. There were post-opening losses of $482 primarily associated with two new stores during fiscal 2016.

Pre- and post-opening losses for fiscal 2017 were partially offset by a gain of $1,220 from the sale of our retail store location in Las Vegas, Nevada. The repositioning of that store to a new location in Summerlin, Nevada is expected to be completed in early 2018.

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.

Fiscal 2016 as Compared to Fiscal 2015

The 2016 increase in net sales for the 59 Company-owned BHF stores was comprised of a $3,349 or 1.4% increase in comparable store sales coupled with a $1,939 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 increased by 1.4% for fiscal 2016 as compared to 2015.

The slight decline in gross margins from 2015 was 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 the retail floors. SG&A expenses as a percentage of net sales were unchanged from 2015.

Losses from the non-comparable stores in fiscal 2016 included pre-opening costs 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 that were 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 $200 to $400 per store based on the overall rent costs for the location and the period between the time when the Company takes possession of the physical store space and the time of the store opening. Also included in the non-comparable store loss for 2016 are losses arising from the closure of our stores in Tucson, Arizona; Egg Harbor, New Jersey and Fountain Valley, California and the post-opening losses of the Woodland Hills, California store which 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 $400 to $600 per store. During fiscal 2016, we had post-opening losses of $482 which were primarily associated with the Sterling, Virginia and Hunt Valley, Maryland stores, compared with post-opening losses of $112 during fiscal 2015 associated with the Woodland Hills, California store.

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

Retail Comparable Store Sales Increases

The following table provides year-over-year comparable store sales increases for the last three fiscal years:

	2017	**2016**	**2015**
Delivered	1.9 %	1.4 %	13.3%
Written	1.8 %	1.4 %	11.0%

Retail Backlog

The dollar value of our retail backlog, representing orders received but not yet delivered to customers as of November 25, 2017, November 26, 2016, and November 28, 2015, was as follows:

	2017	**2016**	**2015**
Year end retail backlog	$35,684	$32,788	$31,871
Retail backlog per open store	$595	$556	$531

Logistical Services Segment

Our logistical services segment was created with the acquisition of Zenith on February 2, 2015. Results for that segment since the date of acquisition during fiscal 2015 are as follows:

	Change from Prior Year	
	2017 vs 2016	**2016 vs 2015 (1)**

	2017		2016		2015 (1)		Dollars	Percent	Dollars	Percent
Logistics revenue	$97,578	100.0 %	$95,707	100.0 %	$77,250	79.2 %	$1,871	2.0 %	$18,457	23.9 %
Operating expenses	94,616	97.0 %	92,196	96.3 %	73,722	75.6 %	2,420	2.6 %	18,474	25.1 %
Income from operations	$2,962	3.0 %	$3,511	3.7 %	$3,528	3.6 %	$(549)	-15.6 %	$(17)	-0.5 %

(1) Results of operations for logistical services for fiscal 2015 include approximately 10 months of operations from the date of acquisition, February 2, 2015.

Fiscal 2017 as Compared to Fiscal 2016

Zenith's revenue growth over 2016 was driven by increases in revenue from both Bassett and other non-Bassett customers which were partially offset by decreases from one significant non-Bassett customer. Increased operating costs as a percentage of revenue were partially attributable to increased costs in the home delivery operations primarily from the start-up of several new local distribution hubs. Operating costs for fiscal 2017 and 2016 include non-cash depreciation and amortization charges of $4,653 and $4,204, respectively.

Fiscal 2016 as Compared to Fiscal 2015

Zenith's results for fiscal 2016 and fiscal 2015 are not comparable as the 2015 period only includes ten months of operations following the date of acquisition. Operating costs for fiscal 2016 and 2015 include non-cash depreciation and amortization charges of $4,204 and $2,634, respectively.

Other Items Affecting Net Income

Other items affecting net income for fiscal 2017, 2016 and 2015 are as follows:

	2017	**2016**	**2015**
Gain on sales of investments (1)	$4,221	$-	$-
Investment income (2)	318	296	228
Income from Continued Dumping & Subsidy Offset Act (3)	94	240	1,156
Remeasurement gain on acquisition of affiliate (4)	-	-	7,212
Income from unconsolidated affiliated company (5)	-	-	220
Retail real estate impairment charge (6)	(1,084)	-	(182)
Net periodic pension costs (7)	(1,049)	(910)	(716)
Cost of company-owned life insurance	(517)	(706)	(629)
Interest expense (8)	(234)	(552)	(607)
Other	(891)	(784)	(803)
Total other income (loss), net	$858	$(2,416)	$5,879

(1) See Note 9 to the Consolidated Financial Statements for information related gains realized from the sale of two investments during fiscal 2017.

(2) Investment income for fiscal 2017, 2016 and 2015 includes interest income arising from our short-term investments. See Note 4 to the Consolidated Financial Statements for additional information regarding our investments in certificates of deposit. Investment income for Fiscal 2017, 2016 and 2015 also includes gains of $29, $176 and $136, respectively, arising from the partial liquidation of our previously impaired investment in the Fortress Value Recovery Fund I, LLC, which was fully impaired during fiscal 2012.

(3) See Note 16 to the Consolidated Financial Statements for information related to our income from the Continued Dumping and Subsidy Offset Act (“CDSOA”).

(4) See Note 3 to the Consolidated Financial Statements for information related to our acquisition of Zenith and the recognition of a remeasurement gain on our pre-acquisition equity method investment in Zenith.

(5) See Note 9 to the Consolidated Financial Statements for information related to our equity in the income of Zenith as an unconsolidated affiliate prior to our acquisition of Zenith.

(6) See Note 2 to the Consolidated Financial Statements for information related to impairments of retail real estate during fiscal 2017 and 2015.

(7) Represents the portion of net periodic pension costs not included in income from operations. See Note 11 to the Consolidated Financial Statements for additional information related to our defined benefit pension plans.

(8) Our interest expense in fiscal 2017 has declined significantly from the previous two years as debt incurred or assumed with the 2015 acquisition of Zenith has largely been repaid. See Note 10 to the Consolidated Financial Statements for additional information regarding our outstanding debt at November 26, 2016.

Provision for Income taxes

We recorded an income tax provision of $9,620, $9,948 and $11,435 in fiscal 2017, 2016 and 2015, respectively. For fiscal 2017 and 2016, our effective tax rates of 34.5% and 38.6%, respectively, differ from the statutory rate of 35.0% primarily due to the effects of state income taxes and various permanent differences including the favorable impact of the Section 199 manufacturing deduction. For fiscal 2015, our effective tax rate of approximately 35.9% differs from the statutory rate of 35.0% primarily due to the effects of state income taxes, partially offset by a lower effective tax rate on the gain associated with our acquisition of Zenith arising from the remeasurement of our previous 49% equity method investment in Zenith. The reduction in the effective tax rate in fiscal 2017 from 2016 was primarily due to higher excess tax benefits from stock compensation recognized during fiscal 2017. The increase in the effective tax rate in fiscal 2016 from 2015 was primarily due to the benefit of deductible goodwill recognized in 2015 arising from the acquisition of Zenith. See Note 14 to the Consolidated Financial Statements for additional information regarding our income tax provision (benefit), as well as our net deferred tax assets and other matters.

We have net deferred tax assets of $8,393 as of November 25, 2017, which, upon utilization, are expected to reduce our cash outlays for income taxes in future years. On December 22, 2017 the Tax Cuts and Jobs Act (the “Act”) was signed into law. Among other provisions, the Act reduces the Federal statutory corporate income tax rate from 35% to 21%. This rate reduction is expected to have a significant impact on our provisions for income taxes for periods beginning after November 25, 2017, including a one-time impact resulting from the revaluation of our deferred tax assets and liabilities to reflect the new lower rate. While we have not yet determined the net amount of the revaluation, we expect that it will be a significant component of our income tax provision for the first quarter of fiscal 2018.

Liquidity and Capital Resources

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

Cash Flows

Cash provided by operations for fiscal 2017 was $36,384 compared to $39,062 for fiscal 2016, a decrease of $2,678. This decrease is primarily due to changes in working capital.

Our overall cash position increased by $18,805 during 2017. Offsetting the cash provided by operations, we used $6,135 of cash in investing activities, primarily consisting of $15,500 in capital expenditures associated with retail store relocations, retail store remodels, and in-process spending on new stores and expanding and upgrading our manufacturing capabilities, partially offset by proceeds from the sale of property and equipment of $4,474, primarily arising from the sale of our Las Vegas, Nevada retail store, and $5,546 in proceeds from the sale of other investments. Net cash used in financing activities was $11,444, including dividend payments of $7,725 and the annual $3,000 installment payment on our Zenith acquisition note payable. With cash and cash equivalents and short-term investments totaling $77,074 on hand at November 25, 2017, 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 facility and expect to remain in compliance for the foreseeable future. At November 25, 2017, we had $2,249 outstanding under standby letters of credit against our line, leaving availability under our credit line of $12,751. In addition, we have outstanding standby letters of credit with another bank totaling $511.

At November 25, 2017 we have outstanding principal totaling $3,747, excluding discounts, under notes payable of which $3,418 matures within one year of the balance sheet date. See Note 10 to our 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 $173,937 at November 25, 2017 for future minimum lease payments under non-cancelable operating leases having remaining terms in excess of one year. We also have guaranteed certain lease obligations of licensee operators. Remaining terms under these lease guarantees range from approximately one to three years. We were contingently liable under licensee lease obligation guarantees in the amount of $2,743 at November 25, 2017. See Note 17 to our condensed consolidated financial statements for additional details regarding our leases and lease guarantees.

Dividends and Share Repurchases

During fiscal 2017, we declared four quarterly dividends totaling $4,508, or $0.42 per share, and one special dividend of $3,758, or $0.35 per share. Cash dividend payments to our shareholders during fiscal 2017 totaled $7,725. During fiscal 2017, repurchases of our stock under our share repurchase program were not significant. The approximate dollar value that may yet be purchased pursuant to our stock repurchase program as of November 25, 2017 was $11,453.

Capital Expenditures

We currently anticipate that total capital expenditures for fiscal 2018 will be approximately $25 to $30 million which will be used primarily for new stores and store remodeling in our retail segment and the purchase of transportation equipment for our logistical services segment. Our capital expenditure and working capital requirements in the foreseeable future may change depending on many factors, including but not limited to the overall performance of the new stores, our rate of growth, our operating results and any adjustments in our operating plan needed in response to industry conditions, competition or unexpected events. We believe that our existing cash, together with cash from operations, will be sufficient to meet our capital expenditure and working capital requirements for the foreseeable future.

Fair Value Measurements

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

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

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

Level 3 Inputs– Instruments with primarily unobservable value drivers.

We believe that the carrying amounts of our current assets and current liabilities approximate fair value due to the short-term nature of these items. The recurring estimate of the fair value of our mortgages and notes payable for disclosure purposes (see Note 10 to the Consolidated Financial Statements) involves Level 3 inputs. Our primary non-recurring fair value estimates, typically involving the valuation of business acquisitions (see Note 3 to the

Consolidated Financial Statements) and asset impairments (see Note 15 to the Consolidated Financial Statements) have utilized Level 3 inputs.

Contractual Obligations and Commitments

We enter into contractual obligations and commercial commitments in the ordinary course of business (See Note 17 to the Consolidated Financial Statements for a further discussion of these obligations). The following table summarizes our contractual payment obligations and other commercial commitments and the fiscal year in which they are expected to be paid.

	2018	2019	2020	2021	2022	Thereafter	Total
Post employment benefit obligations (1)	$1,074	$1,009	$957	$945	$1,301	$ 10,892	$16,178
Notes payable	3,418	329	-	-	-	-	3,747
Contractual advertising	3,375	3,560	-	-	-	-	6,935
Interest payable	89	9	-	-	-	-	98
Letters of credit	2,760	-	-	-	-	-	2,760
Operating leases (2)	29,552	27,643	25,136	20,926	17,907	52,773	173,937
Lease guarantees (3)	1,075	627	347	347	347	-	2,743
Other obligations & commitments	790	790	150	150	150	200	2,230
Purchase obligations (4)	-	-	-			-	-
Total	$42,133	$33,967	$26,590	$22,368	$19,705	$ 63,865	$208,628

(1) Does not reflect a reduction for the impact of any company owned life insurance proceeds to be received. Currently, we have life insurance policies with net death benefits of $17,827 to provide funding for these obligations. See Note 11 to the Consolidated Financial Statements for more information.

(2) Does not reflect a reduction for the impact of sublease income to be received. See Note 17 to the Consolidated Financial Statements for more information.

(3) Lease guarantees relate to payments we would only be required to make in the event of default on the part of the guaranteed parties.

(4) The Company is not a party to any long-term supply contracts with respect to the purchase of raw materials or finished goods. At the end of fiscal year 2017, we had approximately $11,818 in open purchase orders, primarily for imported inventories, which are in the ordinary course of business.

Off-Balance Sheet Arrangements

We utilize stand-by letters of credit in the procurement of certain goods in the normal course of business. We lease land and buildings that are primarily used in the operation of BHF stores and Zenith distribution facilities. We have guaranteed certain lease obligations of licensee operators as part of our retail strategy. See Contractual Obligations and Commitments table above and Note 17 to the Consolidated Financial Statements, included in Item 8 of this Annual Report on Form 10-K, 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 claims and litigation as well as environmental matters, which arise in the normal course of business. Although the final outcome of these legal and environmental matters cannot be determined, based on the facts presently known, it is our opinion that the final resolution of these matters will not have a material adverse effect on our financial position or future results of operations.

Critical Accounting Policies and Estimates

Our consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP") which requires that certain estimates and assumptions be made that affect the amounts and disclosures reported in those financial statements and the related accompanying notes. Actual results could differ from these estimates and assumptions. We use our best judgment in valuing these estimates and may, as warranted, solicit external advice. Estimates are based on current facts and circumstances, prior experience and other assumptions believed to be reasonable. The following critical accounting policies, some of which are impacted significantly by judgments, assumptions and estimates, affect our consolidated financial statements.

Consolidation – The consolidated financial statements include the accounts of Bassett Furniture Industries, Incorporated and its majority-owned subsidiaries for whom we have operating control. In accordance with ASC Topic 810, *Consolidation,* 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 Recognition - Revenue is recognized when the risks and rewards of ownership and title to the product have transferred to the buyer. This generally occurs upon the shipment of goods to independent dealers or, in the case of Company-owned retail stores, upon delivery to the customer. Our wholesale payment terms generally vary from 30 to 60 days. For retail sales, we typically receive a significant portion of the