BASSETT FURNITURE INDUSTRIES INC
Form 10-Q
April 09, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF

THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended February 28, 2015

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF

THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ______________________________ to ________________________

Commission File No. 0-209

BASSETT FURNITURE INDUSTRIES, INCORPORATED

(Exact name of Registrant as specified in its charter)

Virginia 54-0135270

(State or other jurisdiction (I.R.S. Employer

of incorporation or organization) Identification No.)

3525 Fairystone Park Highway

Bassett, Virginia 24055

(Address of principal executive offices)

(Zip Code)

(276) 629-6000

(Registrant's telephone number, including area code)

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

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

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

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

At March 27, 2015, 10,755,830 shares of common stock of the Registrant were outstanding.

BASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIES

TABLE OF CONTENTS

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

BASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS

FOR THE PERIODS ENDED FEBRUARY 28, 2015 AND MARCH 1, 2014 – UNAUDITED

(In thousands except per share data)

	Quarter Ended	
	February 28, 2015	March 1, 2014
Sales revenue:		
Furniture and accessories	$89,548	$75,647
Logistics	3,259	-
Total sales revenue	92,807	75,647
Cost of furniture and accessories sold	41,930	35,394
Selling, general and administrative expenses excluding new store pre-opening costs	47,475	38,580
New store pre-opening costs	-	587
Lease exit costs	419	-
Asset impairment charges	106	-
Income from operations	2,877	1,086
Remeasurement gain on acquisition of affiliate	7,212	-
Other income (loss), net	(622)	285
Income before income taxes	9,467	1,371
Income tax expense	3,511	528
Net income	$5,956	$843
Retained earnings-beginning of period	106,339	104,526
Cash dividends	(821)	(656)
Retained earnings-end of period	$111,474	$104,713
Basic earnings per share	$0.57	$0.08
Diluted earnings per share	$0.56	$0.08

Dividends per share	$0.08	$0.06

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

PART I – FINANCIAL INFORMATION – CONTINUED

ITEM 1. FINANCIAL STATEMENTS

BASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

FOR THE PERIODS ENDED FEBRUARY 28, 2015 AND MARCH 1, 2014 – UNAUDITED

(In thousands)

	Quarter Ended	
	February 28, 2015	**March 1, 2014**
Net income	$5,956	$ 843
Other comprehensive income:		
Amortization associated with supplemental executive retirement defined benefit plan (SERP)	59	41
Income taxes related to SERP	(22)	(16)
Other comprehensive income, net of tax	37	25
Total comprehensive income	$5,993	$ 868

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

PART I – FINANCIAL INFORMATION – CONTINUED

ITEM 1. FINANCIAL STATEMENTS

BASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

FEBRUARY 28, 2015 AND NOVEMBER 29, 2014

(In thousands)

	(Unaudited) February 28, 2015	November 29, 2014
Assets		
Current assets		
Cash and cash equivalents	$ 12,256	$ 26,673
Short-term investments	23,125	23,125
Accounts receivable, net	17,683	15,228
Inventories	61,676	57,272
Deferred income taxes	5,288	5,268
Other current assets	13,449	7,796
Total current assets	133,477	135,362
Property and equipment, net	94,574	74,812
Deferred income taxes	5,412	9,701
Goodwill and other intangible assets	18,341	1,730
Other	8,611	19,141
Total long-term assets	32,364	30,572
Total assets	$ 260,415	$ 240,746
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable	$ 19,715	$ 22,251
Accrued compensation and benefits	8,546	8,931
Customer deposits	25,325	22,202
Dividends payable	-	2,102
Current portion of long-term debt	4,586	316
Other accrued liabilities	10,679	10,971
Total current liabilities	68,851	66,773
Long-term liabilities		
Post employment benefit obligations	11,444	11,498
Notes payable	10,708	1,902

Other long-term liabilities	3,701	3,741
Total long-term liabilities	25,853	17,141
Stockholders' equity		
Common stock	53,792	52,467
Retained earnings	111,474	106,339
Additional paid-in capital	2,382	-
Accumulated other comprehensive loss	(1,937)	(1,974)
Total stockholders' equity	165,711	156,832
Total liabilities and stockholders' equity	$ 260,415	$ 240,746

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

PART I – FINANCIAL INFORMATION – CONTINUED

ITEM 1. FINANCIAL STATEMENTS

BASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE PERIODS ENDED FEBRUARY 28, 2015 AND MARCH 1, 2014 – UNAUDITED

(In thousands)

	Quarter Ended	
	February 28, 2015	**March 1, 2014**
Operating activities:		
Net income	$5,956	$843
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	2,146	1,692
Equity in undistributed income of investments and unconsolidated affiliated companies	(220)	(65)
Provision for restructuring and asset impairment charges	106	-
Non-cash portion of lease exit costs	419	-
Remeasurement gain on acquisition of affiliate	(7,212)	-
Deferred income taxes	4,278	12
Other, net	549	(699)
Changes in operating assets and liabilities:		
Accounts receivable	1,021	1,450
Inventories	(4,404)	(776)
Other current assets	(2,325)	14
Customer deposits	3,122	2,896
Accounts payable and accrued liabilities	(4,341)	(29)
Net cash provided by (used in) operating activities	(905)	5,338
Investing activities:		
Purchases of property and equipment	(3,918)	(6,899)
Proceeds from sales of property and equipment	-	1,407
Cash paid for business acquisition, net of cash acquired	(7,374)	-
Capital contribution to affiliate	(1,345)	-
Proceeds from maturity of short-term investments	-	5,000
Other	-	48
Net cash used in investing activities	(12,637)	(444)
Financing activities:		
Cash dividends	(2,923)	(2,828)
Proceeds from the exercise of stock options	1,410	-
Other issuance of common stock	85	82

Repurchases of common stock	(191)	(287)
Excess tax benefits from stock-based compensation	456	-
Repayments of notes payable	(372)	(68)
Proceeds from equipment loans	660	-
Net cash used in financing activities	(875)	(3,101)
Change in cash and cash equivalents	(14,417)	1,793
Cash and cash equivalents - beginning of period	26,673	12,733
Cash and cash equivalents - end of period	$12,256	$14,526

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

PART I-FINANCIAL INFORMATION-CONTINUED

BASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-UNAUDITED

FEBRUARY 28, 2015

(Dollars in thousands except share and per share data)

1. Basis of Presentation

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

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

The condensed consolidated financial statements include the accounts of Bassett Furniture Industries, Incorporated (“Bassett”, “we”, “our”, or the “Company”) and our wholly-owned subsidiaries of which we have a controlling interest. The equity method of accounting was used for our investment in an affiliated company in which we exercised significant influence but did not maintain a controlling interest prior to the Zenith acquisition mentioned following. In accordance with ASC Topic 810, we have evaluated our licensees and certain other entities to determine whether they are variable interest entities (“VIEs”) of which we are the primary beneficiary and thus would require consolidation in our financial statements. To date we have concluded that none of our licensees nor any other of our counterparties represent VIEs.

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

For comparative purposes, certain amounts from 2014 have been reclassified to conform to the 2015 presentation.

Zenith Acquisition

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

2. Interim Financial Presentation

All intercompany accounts and transactions have been eliminated in the condensed consolidated financial statements. The results of operations for the three months ended February 28, 2015 are not necessarily indicative of results for the full fiscal year. These interim condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and accompanying notes included in our Annual Report on Form 10-K for the year ended November 29, 2014.

We calculate an anticipated effective tax rate for the year based on our annual estimates of pretax income and use that effective tax rate to record our year-to-date income tax provision. Any change in annual projections of pretax income could have a significant impact on our effective tax rate for the respective quarter. Our effective tax rates for the quarters ended February 28, 2015 and March 1, 2014 differ from the federal statutory rate primarily due to the effects of state income taxes and various permanent differences.

PART I-FINANCIAL INFORMATION-CONTINUED

BASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-UNAUDITED

FEBRUARY 28, 2015

(Dollars in thousands except share and per share data)

3. Business Combination – Acquisition of Zenith

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

The carrying value of our 49% interest in Zenith prior to the acquisition was $9,480 (see Note 7, unconsolidated affiliated company). In connection with the acquisition, this investment was remeasured to a fair value of $16,692 resulting in the recognition of a gain of $7,212 during the quarter ended February 28, 2015. The impact of this gain upon our basic and diluted earnings per share is approximately $0.42, net of the related tax expense. The remeasured fair value of our prior interest in Zenith was estimated based on the fair value of the consideration transferred to acquire the remaining 51% of Zenith less an estimated control premium.

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

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

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

PART I-FINANCIAL INFORMATION-CONTINUED

BASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-UNAUDITED

FEBRUARY 28, 2015

(Dollars in thousands except share and per share data)

The preliminary allocation of the fair value of the acquired business was based upon a preliminary valuation. Our estimates and assumptions are subject to change as we obtain additional information for our estimates during the measurement period (up to one year from the acquisition date). The primary areas of the preliminary allocation of the fair value of consideration transferred that are not yet finalized relate to the fair values of certain tangible and intangible assets acquired and the residual goodwill. The preliminary allocation of the fair value of the acquired business is as follows:

Allocation of the fair value of consideration transferred:	
Identifiable assets acquired:	
Acquired cash and cash equivalents	$1,626
Accounts receivable, net	3,399
Prepaid expenses and other current assets	493
Property and equipment	18,109
Other long-term assets	646
Intangible assets	6,362
Total identifiable assets acquired	30,635
Liabilities assumed:	
Accounts payable and accrued liabilities	(4,417)
Notes payable	(4,329)
Total liabilities assumed	(8,746)
Net identifiable assets acquired	21,889
Goodwill	10,292
Total net assets acquired	$32,181

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

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

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

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

The fair values of consideration transferred and net assets acquired were determined using a combination of Level 2 and Level 3 inputs as specified in the fair value hierarchy in ASC 820, *Fair Value Measurements and Disclosures*. See Note 12.

Acquisition costs related to the Zenith acquisition totaled $121 during the quarter ended February 28, 2015 and are included in selling, general and administrative expenses in the condensed consolidated statements of income. Approximately $100 of additional acquisition costs related to Zenith are expected to be incurred during the remainder of 2015. The acquisition costs are primarily related to legal, accounting and valuation services.

PART I-FINANCIAL INFORMATION-CONTINUED

BASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-UNAUDITED

FEBRUARY 28, 2015

(Dollars in thousands except share and per share data)

The revenue of Zenith since February 2, 2015 that is included in our condensed consolidated statement of income for the quarter ended February 28, 2015 is $3,259 after the elimination of intercompany transactions. Net income of Zenith since the date of acquisition is not material. The pro forma results of operations for the acquisition of Zenith have not been presented because they are not material to our consolidated results of operations.

4. Goodwill and Other Intangible Assets

At February 28, 2015 goodwill and other intangible assets consisted of the following:

	Gross Carrying Amount	**Accumulated Amortization**	**Intangible Assets, Net**
Intangibles subject to amortization			
Customer relationships	$ 3,038	$ (29)	$ 3,009
Technology - customized applications	834	(13)	821
Total intangible assets subject to amortization	3,872	(42)	3,830
Intangibles not subject to amortization:			
Trade names	2,490	-	2,490
Goodwill	12,021	-	12,021
Total goodwill and other intangible assets	$ 18,383	$ (42)	$ 18,341

At November 29, 2014 our only intangible asset was goodwill with a carrying value of $1,731.

Changes in the carrying amounts of goodwill by reportable segment were as follows:

	Wholesale	Retail	Logistics	Total
Balance as of November 29, 2014	$ 1,129	$602	$ -	$1,731
Goodwill arising from acquisition of Zenith	3,874	1,271	5,145	10,290
Balance as of February 28, 2015	$ 5,003	$1,873	$ 5,145	$12,021

The goodwill recognized in connection with our acquisition of Zenith remains subject to future adjustments before the close of the measurement period in the first quarter of fiscal 2016. Refer to Note 3, Business Combinations, for additional information regarding the Zenith acquisition. There were no accumulated impairment losses on goodwill as of February 28, 2015 or November 29, 2014.

Amortization expense associated with intangible assets during the quarters ended February 28, 2015 and March 1, 2014 was $42 and $0, respectively. Estimated future amortization expense for intangible assets that exist at February 28, 2015 is as follows:

Remainder of fiscal 2015	$240
Fiscal 2016	322
Fiscal 2017	322
Fiscal 2018	322
Fiscal 2019	322
Fiscal 2020	322
Thereafter	1,980
Total	$3,830

PART I-FINANCIAL INFORMATION-CONTINUED

BASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-UNAUDITED

FEBRUARY 28, 2015

(Dollars in thousands except share and per share data)

5. Accounts Receivable

Accounts receivable consists of the following:

	February 28, 2015	November 29, 2014
Gross accounts receivable	$ 19,086	$ 16,477
Allowance for doubtful accounts	(1,403)	(1,249)
Accounts receivable, net	$ 17,683	$ 15,228

At February 28, 2015 and November 29, 2014 approximately 38% and 46%, respectively, of gross accounts receivable, and approximately 48% and 58%, respectively, of the allowance for doubtful accounts were attributable to amounts owed to us by our licensees. Our remaining receivables are primarily due from national account customers and traditional distribution channel customers.

Activity in the allowance for doubtful accounts for the three months ended February 28, 2015 was as follows:

	2015
Balance at November 29, 2014	$ 1,249
Acquired allowance on accounts receivable (Note 3)	209
Reductions to allowance	(55)
Balance at February 28, 2015	$ 1,403

We believe that the carrying value of our net accounts receivable approximates fair value. The inputs into these fair value estimates reflect our market assumptions and are not observable. Consequently, the inputs are considered to be

Level 3 as specified in the fair value hierarchy in ASC Topic 820, *Fair Value Measurements and Disclosures*. See Note 12.

6. Inventories

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

Inventories were comprised of the following:

	February 28, 2015	November 29, 2014
Wholesale finished goods	$ 33,635	$ 31,399
Work in process	357	298
Raw materials and supplies	9,663	8,109
Retail merchandise	26,963	26,428
Total inventories on first-in, first-out method	70,618	66,234
LIFO adjustment	(7,554)	(7,550)
Reserve for excess and obsolete inventory	(1,388)	(1,412)
	$ 61,676	$ 57,272

PART I-FINANCIAL INFORMATION-CONTINUED

BASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-UNAUDITED

FEBRUARY 28, 2015

(Dollars in thousands except share and per share data)

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

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

	Wholesale Segment	Retail Segment	Total
Balance at November 29, 2014	$ 1,060	$ 352	$ 1,412
Additions charged to expense	268	95	363
Write-offs	(285)	(102)	(387)
Balance at February 28, 2015	$ 1,043	$ 345	$ 1,388

Our estimates and assumptions have been reasonably accurate in the past. We have not made any significant changes to our methodology for determining inventory reserves in 2015 and do not anticipate that our methodology is likely to change in the future.

7. Unconsolidated Affiliated Company

Prior to February 2, 2015 we owned 49% of Zenith and accounted for our investment under the equity method. Our investment in Zenith at November 29, 2014 was $7,915 and is included in other assets in our condensed consolidated balance sheet. The balance of our investment in Zenith was adjusted for our equity in the earnings of Zenith through February 2, 2015 of $220, and increased by $1,345 representing our 49% share of a $2,745 capital contribution made to Zenith, a portion of which was used for retirement of certain of Zenith's debt prior to the acquisition. This activity resulted in carrying value for our investment in Zenith of $9,480 on the date of acquisition. See Note 3 regarding the remeasurement of this carrying value to fair value in connection with the acquisition and the resulting gain.

At November 29, 2014, we owed Zenith $2,628 for services rendered to us. We believe the transactions with Zenith were recorded at current market rates. Prior to our acquisition on February 2, 2015, we recorded the following income from Zenith in other income (loss), net, in our condensed consolidated statements of income:

	Quarter Ended	
	February 28, 2015	March 1, 2014
Earnings recognized	$220	$ 65

PART I-FINANCIAL INFORMATION-CONTINUED

BASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-UNAUDITED

FEBRUARY 28, 2015

(Dollars in thousands except share and per share data)

8. Notes Payable and Bank Credit Facility

Our notes payable consist of the following:

	February 28, 2015		
	Principal Balance	**Unamortized Discount**	**Net Carrying Amount**
Zenith acquisition note payable	$9,000	$ (541)	$ 8,459
Transportation equipment notes payable	3,229	-	3,229
Real estate notes payable	3,606	-	3,606
Total Debt	15,835	(541)	15,294
Less current portion	(4,881)	295	(4,586)
Total long-term debt	$10,954	$ (246)	$ 10,708

	November 29, 2014		
	Principal Balance	**Unamortized Discount**	**Net Carrying Amount**
Real estate notes payable	$2,218	$ -	$ 2,218
Less current portion	(316)	-	(316)
Total long-term debt	$1,902	$ -	$ 1,902

The future maturities of our notes payable are as follows:

Remainder of fiscal 2015	$1,500
Fiscal 2016	5,560
Fiscal 2017	4,165
Fiscal 2018	3,720
Fiscal 2019	486
Fiscal 2020	404
Thereafter	-
	$15,835

Zenith Acquisition Note Payable

As part of the consideration given for our acquisition of Zenith on February 2, 2015, we issued an unsecured note payable to the former owner in the amount of $9,000. The note is payable in three annual installments $3,000 beginning February 2, 2016. Interest is payable annually at the one year LIBOR rate, which was established at 0.62% on February 2, 2015 and resets on each anniversary of the note. The note was recorded at its fair value in connection with the acquisition resulting in a debt discount that is amortized to the principal amount through the recognition of non-cash interest expense over the term of the note. Interest expense resulting from the amortization of the discount was not material for the quarter ended February 28, 2015. The current portion of the note due within one year, including unamortized discount, is $2,705 at February 28, 2015.

Transportation Equipment Notes Payable

Certain of the transportation equipment operated in our logistical services segment is financed by notes payable in the amount of $3,229. These notes are payable in fixed monthly payments of principal and interest at fixed and variable rates ranging from 3.75% to 4.50% at February 28, 2015, with remaining terms of five to fifty months. The current portion of these notes due within one year at February 28, 2015 is $1,289. The notes are secured by tractors, trailers and local delivery trucks with a total net book value of $4,989 at February 28, 2015. In January of 2015, Zenith received a bank commitment in the amount of $1,307 to fund the purchase of new trailers, of which $660 was drawn the first quarter of fiscal 2015 with the remaining $647 expected to be drawn during the second quarter of fiscal 2015.

PART I-FINANCIAL INFORMATION-CONTINUED

BASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-UNAUDITED

FEBRUARY 28, 2015

(Dollars in thousands except share and per share data)

Real Estate Notes Payable

Certain of our retail real estate properties have been financed through commercial mortgages with interest rates of 6.73%. These mortgages are collateralized by the respective properties with net book values totaling approximately $6,093 and $6,127 at February 28, 2015 and November 29, 2014, respectively. The current portion of these mortgages due within one year was $321 and $316 as of February 28, 2015 and November 29, 2014, respectively.

Certain of the real estate located in Conover, NC and operated in our logistical services segment is subject to a note payable in the amount of $1,430. The note is payable in monthly installments of principal and interest at the fixed rate of 3.75% through October 2016, at which time the remaining balance on the note of approximately $1,050 will be due. The current portion of this note due within one year at February 28, 2015 is $270. The note is secured by land and buildings with a total net book value of $6,317 at February 28, 2015.

Fair Value

We believe that the carrying amount of our notes payable approximates fair value at both February 28, 2015 and November 29, 2014. In estimating the fair value, we utilize current market interest rates for similar instruments. The inputs into these fair value calculations reflect our market assumptions and are not observable. Consequently, the inputs are considered to be Level 3 as specified in the fair value hierarchy in ASC Topic 820, *Fair Value Measurements and Disclosures*. See Note 12.

Bank Credit Facility

Our credit facility with our bank provides for a line of credit of up to $15,000. This credit facility, which matures in December of 2015, is secured by our accounts receivable and inventory. The facility contains covenants requiring us to maintain certain key financial ratios. We are in compliance with all covenants under the agreement and expect to remain in compliance for the foreseeable future.

At February 28, 2015, we had $216 outstanding under standby letters of credit, leaving availability under our credit line of $14,784.

9. Commitments and Contingencies

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

PART I-FINANCIAL INFORMATION-CONTINUED

BASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-UNAUDITED

FEBRUARY 28, 2015

(Dollars in thousands except share and per share data)

We lease land and buildings that are used in the operation of our Company-owned retail stores as well as in the operation of certain of our licensee-owned stores, and we lease land and buildings at various locations throughout the continental United States for warehousing and distribution hubs used in our logistical services segment. We also lease tractors, trailers and local delivery trucks used in our logistical services segment. Our real estate lease terms range from one to 15 years and generally have renewal options of between five and 15 years. Some store leases contain contingent rental provisions based upon sales volume. Our transportation equipment leases have terms ranging from two to seven years with fixed monthly rental payments plus variable charges based upon mileage. The following schedule shows future minimum lease payments under non-cancellable operating leases with terms in excess of one year as of February 28, 2015:

	Retail Stores	**Distribution Centers**	**Transportation Equipment**	**Total**
Remainder of fiscal 2015	$13,893	$ 2,297	$ 1,944	$18,134
Fiscal 2016	16,776	2,821	2,232	21,829
Fiscal 2017	14,258	1,581	1,717	17,556
Fiscal 2018	11,818	360	806	12,984
Fiscal 2019	9,952	69	755	10,776
Fiscal 2020	8,670	-	671	9,341
Thereafter	23,090	-	30	23,120
	$98,457	$ 7,128	$ 8,155	$113,740

We also have guaranteed certain lease obligations of licensee operators. Lease guarantees range from one to ten years. We were contingently liable under licensee lease obligation guarantees in the amount of $3,020 and $3,164 at February 28, 2015 and November 29, 2014, respectively.

In the event of default by an independent dealer under the guaranteed lease, we believe that the risk of loss is mitigated through a combination of options that include, but are not limited to, arranging for a replacement dealer, liquidating the collateral (primarily inventory), and pursuing payment under the personal guarantees of the independent dealer. The proceeds of the above options are expected to cover the estimated amount of our future payments under the guarantee obligations, net of recorded reserves. The fair value of lease guarantees (an estimate of the cost to the Company to perform on these guarantees) at February 28, 2015 and November 29, 2014 was not material.

10. Post Employment Benefit Obligations

We have an unfunded Supplemental Retirement Income Plan (the "Supplemental Plan") that covers one current and certain former executives. The liability for this plan was $10,358 and $10,376 as of February 28, 2015 and November 29, 2014, respectively, and is recorded as follows in the condensed consolidated balance sheets:

	February 28, 2015	November 29, 2014
Accrued compensation and benefits	$ 724	$ 724
Post employment benefit obligations	9,634	9,652
Total pension liability	$ 10,358	$ 10,376

Components of net periodic pension costs are as follows:

	Quarter Ended	
	February 28, 2015	March 1, 2014
Service cost	$ 26	$ 20
Interest cost	94	93
Amortization of transition obligation	11	11
Amortization of loss	48	30
Net periodic pension cost	$ 179	$ 154

PART I-FINANCIAL INFORMATION-CONTINUED

BASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-UNAUDITED

FEBRUARY 28, 2015

(Dollars in thousands except share and per share data)

We have an unfunded Deferred Compensation Plan that covers one current executive and certain former executives and provides for voluntary deferral of compensation. This plan has been frozen with no additional participants or deferrals permitted. We recognized expense of $54 and $72 for the quarters ended February 28, 2015 and March 1, 2014, respectively. Our liability under this plan was $2,137 and $2,174 as of February 28, 2015 and November 29, 2014, respectively, and is recorded as follows in the condensed consolidated balance sheets:

	February 28, 2015	November 29, 2014
Accrued compensation and benefits	$ 328	$ 328
Post employment benefit obligations	1,809	1,846
Total deferred compensation liability	$ 2,137	$ 2,174

11. Earnings Per Share

The following reconciles basic and diluted earnings per share:

	Net Income	Weighted Average Shares	Net Income Per Share
For the quarter ended February 28, 2015:			
Basic earnings per share	$ 5,956	10,480,656	$ 0.57
Add effect of dilutive securities:			
Options and restricted shares	-	175,856	(0.01)
Diluted earnings per share	$ 5,956	10,656,512	$ 0.56

For the quarter ended March 1, 2014:

Basic earnings per share	$ 843	10,691,646	$ 0.08
Add effect of dilutive securities:			
Options and restricted shares	-	151,157	-
Diluted earnings per share	$ 843	10,842,803	$ 0.08

For the three months ended February 28, 2015 and March 1, 2014, the following potentially dilutive shares were excluded from the computations as their effect was anti-dilutive:

	Quarter Ended	
	February 28, 2015	March 1, 2014
Stock options	-	207,500
Unvested performance shares	46,000	54,000
Total anti-dilutive securities	46,000	261,500

PART I-FINANCIAL INFORMATION-CONTINUED

BASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-UNAUDITED

FEBRUARY 28, 2015

(Dollars in thousands except share and per share data)

12. Financial Instruments and Fair Value Measurements

Financial Instruments

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

Investments

Our short-term investments of $23,125 at both February 28, 2015 and November 29, 2014 consisted of certificates of deposit (CDs) with original terms generally ranging from six to twelve months, bearing interest at rates ranging from 0.16% to 0.91%. At February 28, 2015, the weighted average remaining time to maturity of the CDs was approximately four months and the weighted average yield of the CDs was approximately 0.21%. Each CD is placed with a Federally insured financial institution and all deposits are within Federal deposit insurance limits. Due to the nature of these investments and their relatively short maturities, the carrying amount of the short-term investments at February 28, 2015 and November 29, 2014 approximates their fair value.

Fair Value Measurement

The Company accounts for items measured at fair value in accordance with ASC Topic 820, *Fair Value Measurements and Disclosures*. ASC 820's valuation techniques are based on observable and unobservable inputs.

Observable inputs reflect readily obtainable data from independent sources, while unobservable inputs reflect our market assumptions. ASC 820 classifies these inputs into the following hierarchy:

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

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

Level 3 Inputs– Instruments with primarily unobservable value drivers.

We believe that the carrying amounts of our current assets and current liabilities approximate fair value due to the short-term nature of these items. The recurring estimate of the fair value of our notes payable for disclosure purposes (see Note 8) involves Level 3 inputs. Our primary non-recurring fair value estimates typically involve business acquisitions (Note 3) which involve a combination of Level 2 and Level 3 inputs, and asset impairments (Note 13) which utilize Level 3 inputs.

13. Asset Disposition, Impairment Charges and Accrued Lease Exit Costs

Asset Disposition

During the quarter ended February 28, 2015, we entered into a contract to sell our retail real estate investment property located in Sugarland, Texas. At February 28, 2015 the $2,835 carrying value of the land and building is classified as an asset held for sale and is included in other current assets in the accompanying balance sheet. This asset was included in other assets at November 29, 2014 along with our other investments in retail real estate. The sale of the real estate closed on March 12, 2015. During the quarter ended February 28, 2015, we recognized a non-cash charge of $182 to write down the carrying value of the Sugarland real estate to the selling price. This charge is included in other income (loss), net in our condensed consolidated income statement.

PART I-FINANCIAL INFORMATION-CONTINUED

BASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-UNAUDITED

FEBRUARY 28, 2015

(Dollars in thousands except share and per share data)

Asset Impairment Charges and Lease Exit Costs

During the quarter ended February 28, 2015 we announced the closing of our Company-owned retail store location in Memphis, Tennessee. In connection with this closing, we recognized non-cash charges of $419 for the accrual of lease exit costs and $106 for the write off of abandoned leasehold improvements and other store assets.

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

Balance at November 29, 2014	$433
Provisions associated with Company-owned retail store closures	419
Payments and other	(5)
Balance at February 28, 2015	$847
Current portion included in other accrued liabilities	$406
Long-term portion included in other long-term liabilities	441
	$847

14. Recent Accounting Pronouncements

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

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

In January 2015, the FASB issued Accounting Standards Update No. 2015-01, *Income Statement — Extraordinary and Unusual Items* (Subtopic 225-20): Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items. ASU 2015-01 eliminates the concept of reporting extraordinary items, but retains current presentation and disclosure requirements for an event or transaction that is of an unusual nature or of a type that indicates infrequency of occurrence. Transactions that meet both criteria would now also follow such presentation and disclosure requirements. For all entities, the guidance is effective for annual periods, and interim periods within those annual periods, beginning after 15 December 2015. Early adoption is permitted; however, adoption must occur at the beginning of an annual period. Therefore the amendments in ASU 2015-01 will become effective for us as of the beginning of our 2017 fiscal year. The adoption of this guidance is not expected to have a material impact upon our financial condition or results of operations.

PART I-FINANCIAL INFORMATION-CONTINUED

BASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-UNAUDITED

FEBRUARY 28, 2015

(Dollars in thousands except share and per share data)

15. Segment Information

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

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

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

Logistical services. With our acquisition of Zenith on February 2, 2015, we created the logistical services operating segment which reflects the operations of Zenith. In addition to providing shipping, delivery and warehousing services for the Company, Zenith also provides similar services to other customers, primarily in the furniture industry. Revenue from the performance of these services to other customers is included in logistics revenue in our condensed consolidated statement of income. Zenith's operating costs are included in selling, general and administrative expenses and total $6,007 from the date of acquisition through February 28, 2015. Amounts charged by Zenith to the Company for logistical services prior to the date of acquisition are included in selling, general and administrative expenses, and our equity in the earnings of Zenith prior to the date of acquisition is included in other income (loss), net, in the accompanying statements of income.

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

Prior to the beginning of fiscal 2015, our former investments and real estate segment included our short-term investments, our holdings of retail real estate previously leased as licensee stores, and our former equity investment in Zenith prior to acquisition. This segment has been eliminated and the assets formerly reported therein are now considered to be part of our wholesale segment. The earnings and costs associated with these assets, including our equity in the income of Zenith prior to the date of acquisition, will continue to be included in other income (loss), net, in our condensed consolidated statements of income.

PART I-FINANCIAL INFORMATION-CONTINUED

BASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-UNAUDITED

FEBRUARY 28, 2015

(Dollars in thousands except share and per share data)

The following table presents our segment information:

	Quarter Ended	
	February 28, 2015	March 1, 2014
Sales Revenue		
Wholesale	$58,805	$51,086
Retail - Company-owned stores	57,183	47,124
Logistical services	5,999	-
Inter-company eliminations:		
Furniture and accessories	(26,440)	(22,563)
Logistical services	(2,740)	-
Consolidated	$92,807	$75,647
Income (loss) from Operations		
Wholesale	$2,927	$2,348
Retail - Company-owned stores	(42)	(1,772)
Logistical services	(8)	-
Inter-company elimination	525	510
Lease exit costs	(419)	-
Asset impairment charges	(106)	-
Consolidated	$2,877	$1,086
Depreciation and Amortization		
Wholesale	$534	$435
Retail - Company-owned stores	1,355	1,257
Logistical services	257	-
Consolidated	$2,146	$1,692
Capital Expenditures		
Wholesale	$961	$1,437
Retail - Company-owned stores	2,111	5,462
Logistical services	846	-
Consolidated	$3,918	$6,899

Identifiable Assets	As of February 28, 2015	As of November 29, 2014
Wholesale	$127,288	$154,275
Retail - Company-owned stores	88,909	86,471
Logistical services	44,218	-
Consolidated	$260,415	$240,746

PART I-FINANCIAL INFORMATION-CONTINUED

BASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIES

FEBRUARY 28, 2015

(Dollars in thousands except share and per share data)

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

Overview

Bassett is a leading retailer, manufacturer and marketer of branded home furnishings. Our products are sold primarily through a network of Company-owned and licensee-owned branded stores under the Bassett Home Furnishings ("BHF") name, with additional distribution through other wholesale channels including multi-line furniture stores, many of which feature Bassett galleries or design centers, specialty stores and mass merchants. We were founded in 1902 and incorporated under the laws of Virginia in 1930. Our rich 113-year history has instilled the principles of quality, value, and integrity in everything that we do, while simultaneously providing us with the expertise to respond to ever-changing consumer tastes and to meet the demands of a global economy.

With 94 BHF stores at February 28, 2015, we have leveraged our strong brand name in furniture into a network of corporate and licensed stores that focus on providing consumers with a friendly environment for buying furniture and accessories. We created our store program in 1997 to provide a single source home furnishings retail store that provides a unique combination of stylish, quality furniture and accessories with a high level of customer service. The store features custom order furniture ready for delivery in less than 30 days, more than 1,000 upholstery fabrics, free in-home design visits, and coordinated decorating accessories. We believe that our capabilities in custom upholstery have become unmatched in recent years. Our manufacturing team takes great pride in the breadth of its options, the precision of its craftsmanship, and the speed of its delivery. The selling philosophy in the stores is based on building strong long-term relationships with each customer. Sales people are referred to as Design Consultants and are each trained to evaluate customer needs and provide comprehensive solutions for their home decor. We continue to strengthen the sales and design talent within our Company-owned retail stores. Our Design Consultants undergo extensive Design Certification training. This training has strengthened their skills related to our house call and design business, and is intended to increase business with our most valuable customers.

In order to reach markets that cannot be effectively served by our retail store network, we also distribute our products through other wholesale channels including multi-line furniture stores, many of which feature Bassett galleries or design centers, specialty stores and mass merchants. We use a network of over 25 independent sales representatives who have stated geographical territories. These sales representatives are compensated based on a standard commission rate. We believe this blended strategy provides us the greatest ability to effectively distribute our products throughout the United States and ultimately gain market share.

For many years we have owned 49% of Zenith Freight Lines, LLC (“Zenith”). During that time the strategic significance of our partnership with Zenith has risen to include the over-the-road transportation of furniture, the operation of regional wholesale distribution centers in eight states, 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 now operates as a wholly-owned subsidiary of Bassett. Our acquisition of Zenith brings to our Company the ability to deliver best-of-class shipping and logistical support services that are uniquely tailored to the needs of the furniture industry, as well as the ability to provide the expedited delivery service which is increasingly demanded by our industry. We believe that our ownership of Zenith will not only enhance our own wholesale and retail distribution capabilities, but will provide additional growth opportunities as Zenith continues to expand its service to other customers.

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 113 year heritage in the furniture industry with the penetration of 96 million households in the United States that HGTV enjoys today. As part of this alliance, the in-store design centers have been co-branded with HGTV to more forcefully market the concept of a “home makeover”, an important point of differentiation for our stores that also mirrors much of the programming content on the HGTV network. We believe the new co-branded design centers coupled with the targeted national advertising on HGTV have played a key role in our improved comparable store sales since their introduction following the third quarter of 2012.

PART I-FINANCIAL INFORMATION-CONTINUED

BASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIES

FEBRUARY 28, 2015

(Dollars in thousands except share and per share data)

At February 28, 2015, our BFH store network included 60 Company-owned stores and 34 licensee-owned stores. Due to the improved operating performance of our retail network along with continued improvement in underlying economic factors such as the housing market and consumer confidence, we have been expanding our retail presence in various parts of the country. As part of this expansion we opened six new stores during fiscal 2014 as well as relocated two others.

We relocated our stores in San Antonio and Southlake, Texas during the first quarter of 2015 and expect to relocate our Newport News, Virginia store late this year (the lease for the existing location expires early in fiscal 2016). We have extended or plan to extend all four of the leases that were scheduled to expire in 2015. We also plan to continue opening new stores, primarily in underpenetrated markets where we currently have stores. We and certain licensees are actively engaged in site selection and lease negotiations for several new stores. We expect to open three to five new corporate stores in 2015, including one in Woodland Hills, California and one in Dulles, Virginia. We also expect one new store will be opened in 2015 by an existing licensee.

As with any retail operation, prior to opening a new store we incur such expenses as rent, training costs and other payroll related costs. These costs generally range between $100 to $300 per store depending on the overall rent costs for the location and the period between the time when we take possession of the physical store space and the time of the store opening. Generally, rent payments between time of possession and opening of a new store are deferred and therefore rent costs recognized during that time do not require cash. Inherent in our retail business model, we also incur significant losses in the first two to three months of operation following a new store opening. Similar to other furniture retailers, we do not recognize a sale in the income statement until the furniture is delivered to our customer. Because our retail business model does not involve maintaining a stock of retail inventory that would result in quick delivery and because of the custom nature of our furniture offerings, delivery to our customers usually does not occur until 30 days after an order is placed. We generally require a deposit at the time of order and collect the remaining balance when the furniture is delivered at which time the sale is recorded in the income statement. Coupled with the previously discussed store pre-opening costs, total start-up losses can range from $300 to $500 per store. While this expansion is initially costly to our operating results, we believe our site selection and new store presentation will generally result in locations that operate at or above a retail break-even level within 12 months of their opening. Even as these stores ramp up to break-even, we are realizing additional wholesale sales volume that will leverage the fixed costs in our wholesale business.

Our wholesale operations include an upholstery plant in Newton, North Carolina that produces a wide range of upholstered furniture. We believe that we are an industry leader with our quick-ship custom upholstery offerings. We also operate a custom dining manufacturing facility in Martinsville, Virginia. Most of our wood furniture and certain of our upholstery offerings are sourced through several foreign plants, primarily in Vietnam, Indonesia and China. We define imported product as fully finished product that is sourced internationally. For the first quarter of fiscal 2015, approximately 38% of our wholesale sales were of imported product compared to 45% for the first quarter of fiscal 2014. Our plans for 2015 include the launch of several significant new product categories. During the first quarter of 2015 we introduced the “Bassett Baby and Kids” program in an effort to leverage our 70 year history in the juvenile and youth furniture products category. These products are initially available solely on our website and in BHF retail stores. Another important new product program for 2015 is “Bench Made”, a selection of American handmade dining furniture that will begin to appear in retail showrooms during the second quarter of 2015. Partnering with nearby hardwood component manufacturers, we are preparing, distressing, finishing, and assembling an assortment of solid maple tables and chairs in our newly renovated Company-owned facility in Bassett, Virginia. Finally, we have undertaken a major makeover of our imported wood product assortment in 2015. All of these new products have been carefully designed in coordination with our merchants, designers, engineers and finishing technicians to achieve the upscale casual decor that we believe speaks to the Bassett consumer today. These new products are appearing in our stores in phases coinciding with key holiday selling periods throughout 2015. Our operating results for the first quarter of 2015 reflect the start-up costs associated with this increased level of product development activity.

PART I-FINANCIAL INFORMATION-CONTINUED

BASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIES

FEBRUARY 28, 2015

(Dollars in thousands except share and per share data)

Results of Operations – Quarter ended February 28, 2015 compared with quarter ended March 1, 2014:

Net sales of furniture and accessories, logistics revenue, cost of furniture and accessories sold, selling, general and administrative (SG&A) expense, other charges and income (loss) from operations were as follows for the periods ended February 28, 2015 and March 1, 2014:

	Quarter Ended February 28, 2015		March 1, 2014	
Sales revenue:				
Furniture and accessories	$89,548	96.5 %	$75,647	100.0%
Logistics revenue	3,259	3.5 %	-	0.0 %
Total sales revenue	92,807	100.0%	75,647	100.0%
Cost of furniture and accessories sold	41,930	45.2 %	35,394	46.8 %
SG&A expenses	47,475	51.2 %	38,580	51.0 %
New store pre-opening costs	-	0.0 %	587	0.8 %
Other charges	525	0.5 %	-	0.0 %
Income from operations	$2,877	3.1 %	$1,086	1.4 %

On a consolidated basis, we reported total sales revenue for the first quarter of 2015 of $92,807 as compared to $75,647 for the first quarter of 2014. Total revenues for the first quarter of 2015 include $3,259 of logistics revenue from the date of our acquisition of Zenith, February 2, 2015, through February 28, 2015. Revenue from sales of furniture and accessories, net of estimates for returns and allowances, for the first quarter of 2015 were $89,548, an increase of $13,901, or 18%, over the first quarter of 2014. Gross margin on the sale of furniture and accessories for the first quarter of 2015 was $47,618, or 53.2% of the revenue from the sale of furniture and accessories, as compared with $40,253, or 53.2%, for the comparable prior year period. Operating income was $2,877 for the first quarter of 2015 as compared to $1,086 for the first quarter of 2014, an increase of $1,791 driven primarily by greater leveraging of fixed costs and lower new store related costs (both pre- and post- opening), partially offset by $525 of charges taken in the first quarter of 2015 related to the closing of our Company-owned retail store in Memphis, Tennessee. The impact of Zenith's one month of operations since acquisition upon our operating results for the quarter was not significant.

PART I-FINANCIAL INFORMATION-CONTINUED

BASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIES

FEBRUARY 28, 2015

(Dollars in thousands except share and per share data)

Segment Information

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

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

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

Logistical services. With our acquisition of Zenith on February 2, 2015, we created the logistical services operating segment which reflects the operations of Zenith. In addition to providing shipping, delivery and warehousing services for the Company, Zenith also provides similar services to other customers, primarily in the furniture industry. Revenue from the performance of these services to other customers is included in logistics revenue in our condensed consolidated statement of income. Zenith's operating costs are included in selling, general and administrative expenses. Amounts charged by Zenith to the Company for transportation and logistical services prior to February 2, 2015 are included in selling, general and administrative expenses, and our equity in the earnings of Zenith prior to the date of acquisition is included in other income (loss), net, in the accompanying statements of income.

Prior to the beginning of fiscal 2015, our former investments and real estate segment included our short-term investments, our holdings of retail real estate previously leased as licensee stores, and our former equity investment in Zenith prior to acquisition. This segment has been eliminated and the assets formerly reported therein are now considered to be part of our wholesale segment. The earnings and costs associated with these assets, including our equity in the income of Zenith prior to the date of acquisition, will continue to be included in other income (loss), net, in our condensed consolidated statements of income.

PART I-FINANCIAL INFORMATION-CONTINUED

BASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIES

FEBRUARY 28, 2015

(Dollars in thousands except share and per share data)

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

	Quarter Ended February 28, 2015				
	Wholesale	Retail	Logistics	Eliminations	Consolidated
Sales revenue:					
Furniture & accessories	$58,805	$57,183	$ -	$ (26,440)(1)	$ 89,548
Logistics	-	-	5,999	(2,740)(2)	3,259
Total sales revenue	58,805	57,183	5,999	(29,180)	92,807
Cost of furniture and accessories sold	39,982	28,400	-	(26,452)(3)	41,930
SG&A expense	15,896	28,825	6,007	(3,253)(4)	47,475
New store pre-opening costs	-	-	-	-	-
Income (loss) from operations (5)	$2,927	$(42)	$ (8)	$ 525	$ 3,402

	Quarter Ended March 1, 2014				
	Wholesale	Retail	Logistics	Eliminations	Consolidated
Sales revenue:					
Furniture & accessories	$51,086	$47,124	$ -	$ (22,563)(1)	$ 75,647
Logistics	-	-	-	-	-
Total sales revenue	51,086	47,124	-	(22,563)	75,647
Cost of furniture and accessories sold	34,554	23,465	-	(22,625)(3)	35,394
SG&A expense	14,184	24,844	-	(448)(4)	38,580
New store pre-opening costs	-	587	-	-	587
Income (loss) from operations	$2,348	$(1,772)	$ -	$ 510	$ 1,086

(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 for the period ended February 28, 2015, logisitcal services expense incurred from Zenith by our retail and wholesale segments.

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

PART I-FINANCIAL INFORMATION-CONTINUED

BASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIES

FEBRUARY 28, 2015

(Dollars in thousands except share and per share data)

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

Wholesale segment

Results for the wholesale segment for the three months ended February 28, 2015 and March 1, 2014 are as follows:

	Quarter Ended February 28, 2015		March 1, 2014	
Net sales	$58,805	100.0%	$51,086	100.0%
Gross profit	18,823	32.0 %	16,532	32.4 %
SG&A expenses	15,896	27.0 %	14,184	27.8 %
Income from operations	$2,927	5.0 %	$2,348	4.6 %

Net sales for the wholesale segment were $58,805 for the first quarter of 2015 as compared to $51,086 for the first quarter of 2014, an increase of $7,719 or 15%. This sales increase was driven by a 15% increase in shipments to the Bassett Home Furnishings store network and a 10% increase in open market shipments (outside the Bassett Home Furnishings store network). Gross margins for the wholesale segment were down slightly to 32.0% for the first quarter of 2015 as compared to 32.4% for the first quarter of 2014 driven largely by increased discounting of wood products as we prepare for a significant makeover of our imported wood furniture line. Pressure on the supply chain for imported products caused by the dockworker labor dispute and port slowdowns on the west coast has resulted in increased marine cargo costs which should slightly impact margins in the second quarter of 2015 as those products are shipped. Wholesale SG&A increased $1,712 to $15,896 for the first quarter of 2015 as compared to $14,184 for the first quarter of 2014. SG&A as a percentage of sales decreased to 27.0% as compared to 27.8% for the first quarter of 2014 primarily due to greater leverage of fixed costs from higher sales volumes. We incurred an additional $332 of advertising and website costs largely associated with the rollout of the previously-announced Bassett Baby and Kids initiative and related website improvements and $121of costs associated with the acquisition of Zenith Freight Lines, LLC. Operating income was $2,927 or 5.0% of sales as compared to $2,348 or 4.6% of sales in the prior year quarter.

Wholesale shipments by type:	Quarter Ended			
	February 28, 2015		March 1, 2014	
Wood	$20,313	34.5%	$19,695	38.6%
Upholstery	37,872	64.4%	30,683	60.1%
Other	620	1.1		