

BASSETT FURNITURE INDUSTRIES INC
Form 10-K
February 12, 2009
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C., 20549

FORM 10-K

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

For the fiscal year ended November 29, 2008

.. **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)

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VIRGINIA
(State or other jurisdiction of

54-0135270
(I.R.S. Employer

incorporation or organization)

Identification No.)

3525 FAIRYSTONE PARK HIGHWAY

BASSETT, VIRGINIA
(Address of principal executive offices)

24055
(Zip Code)

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

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

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

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 (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, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (check one) Large Accelerated Filer Accelerated Filer Non-Accelerated Filer

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 30, 2008 was \$139,545,351.

The number of shares of the Registrant's common stock outstanding on January 30, 2009 was 11,428,216.

DOCUMENTS INCORPORATED BY REFERENCE

- (1) Portions of the Bassett Furniture Industries, Incorporated definitive Proxy Statement for its 2009 Annual Meeting of Stockholders to be held April 21, 2009, 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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PART I

ITEM 1. BUSINESS

(dollar amounts in thousands except per share data)

General

Bassett Furniture Industries, Incorporated (together with its consolidated subsidiaries, Bassett, we, our or the Company), based in Bassett, Va., a leading retailer, manufacturer and marketer of branded home furnishings. Our products are sold primarily through a network of licensee- and Company-owned branded stores under the Bassett Furniture Direct (BFD or store) or Bassett Home Furnishings (BHF or store) name, with secondary distribution through Bassett Design Centers and other multi-line furniture stores. Bassettbaby® cribs and casegoods are sold through specialty stores and mass merchants. We were founded in 1902 and incorporated under the laws of Virginia in 1930. Our rich 106-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.

Two primary business developments continue to affect our business as they have for nearly a decade.

First, we created and re-channeled sales through a vertically integrated retail sales network. The store program was created in 1997 as a single source home furnishings retail store that provides a unique combination of stylish, well-made furniture and accessories with a high level of customer service. This service includes complimentary room planning, in-home design visits, fast delivery, and custom-order furniture. This strategy both builds on our strengths (brand name, balance sheet, product offerings) and better positions us to capitalize on the changing furniture retail environment. This store network included 84 licensee-owned stores and 31 Company-owned and operated stores at the end of 2008.

Second, the furniture industry continues to experience a shift from traditional domestic manufacturing to offshore sourcing in lower cost markets, primarily in China and other Pacific Rim countries. This shift in sourcing has resulted in downward pressure on retail prices and reductions in traditional channels of sales distribution. Many retailers now source their own products rather than relying on a traditional domestic manufacturer to supply goods.

We have responded to these changes by reducing our manufacturing production where we can more cost efficiently source product. Over the last eight years, we have reduced our number of facilities from 13 to 3 and reduced our headcount from approximately 4,200 to 1,300. During 2007, we closed our last large wood manufacturing facility in Bassett, Va. This resulted in headcount reductions of approximately 280 employees and leaves us with one small wood assembly plant in Martinsville, Va., one fiberboard supply facility in Bassett, Va., and one upholstery facility in Newton, N.C. We have closed and consolidated seven wood factories over the past eight years. These consolidations have allowed us to focus our manufacturing efforts on delivering custom upholstery and custom casual dining products within thirty days, while expanding our sourcing efforts to drive selection and value for our customers. We will continue to evaluate the cost effectiveness of domestic production on a product by product basis, as we strive to provide our customers with home furnishings at competitive prices.

Operating Segments

We have strategically aligned our business into three reportable segments: Wholesale, Retail and Investments/Real Estate.

The wholesale home furnishings segment is involved principally in the design, manufacture, sourcing, sale and distribution of furniture products to a network of BFD and BHF stores (independently-owned stores and Company-owned retail stores) and independent furniture retailers. The wholesale segment accounted for 66%, 70% and 74%, of net sales during 2008, 2007, and 2006, respectively.

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At the end of fiscal 2008, our retail segment consisted of 31 Company-owned stores in Florida, Georgia, Maryland, Massachusetts, New Mexico, New York, North Carolina, South Carolina, and Texas. Our retail segment accounted for 34%, 30% and 26% of total net sales in 2008, 2007 and 2006, respectively. Subsequent to year end, we acquired the operations of two stores in Arizona and a store in Virginia.

Our investments and real estate business segment consists of a 99.8% interest in the Bassett Industries Alternative Asset Fund (Alternative Asset Fund), a portfolio of marketable securities, an investment in the International Home Furnishings Center (IHFC) in High Point, N.C. and retail real estate utilized by licensee operated BFD and BHF stores.

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. 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 courteous service.

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

	2008		2007		2006	
Wood	\$ 128,678	53.2%	\$ 137,045	55.3%	\$ 164,030	57.6%
Upholstery	109,944	45.4%	108,312	43.7%	117,668	41.3%
Other	3,472	1.4%	2,319	1.0%	3,105	1.1%
Total	\$ 242,094	100.0%	\$ 247,676	100.0%	\$ 284,803	100.0%

Approximately 55% of our 2008 wholesale sales were of imported product compared to 49% in 2007. 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.

Our backlog of wholesale orders believed to be firm was \$13,967 at November 29, 2008 and \$19,972 at November 24, 2007. We expect that the November 29, 2008 backlog will be filled within the 2009 fiscal year, with the majority of our backlog being filled during the first quarter of 2009.

We use lumber, fabric, leather, foam and other materials in the production of wood and upholstered furniture. These components originate from a variety of domestic and international suppliers and are currently widely available. Other than foam, which is highly-dependent on the cost of petroleum, prices for these components have been relatively stable over the last several years. We currently assemble and finish these components in our plants in the United States.

Retail Segment Overview Company Owned Retail Stores

The retail furniture industry remains very competitive and includes local furniture stores, regional furniture retailers and national department and chain stores. Additionally, there are a growing number of single-vendor branded retailers. There are a large number of fairly new entrants into the industry that have approached the industry from more of a consumer lifestyle and home accessory viewpoint. As a whole, our store network with 84 licensee-owned and 31 Company-owned stores, which is smaller than many of our competitors, now ranks in the top 25 in retail furniture sales. Subsequent to year end, we acquired the operations of two stores in Arizona and a store in Virginia bringing our total Company-owned store count to 34. We expect to increase the number of our Company-owned stores during 2009, primarily from acquisitions from certain licensees.

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Retail net sales for our company-owned retail stores for the last three fiscal years are summarized below:

	2008	2007	2006
Retail sales	\$ 97,176	\$ 87,537	\$ 84,401

We believe that having a substantial Company-owned retail store group will provide us with better first-hand retail experience that will allow us to make our entire BFD program more successful.

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, and catalogs, in an effort to maintain and enhance our existing brand equity.

In the fourth quarter of 2007, we unveiled a new store prototype that we believe is critical to our retail success. The design of this store, now fully incorporated into six Company-owned and two licensee-owned stores, is based on extensive research we conducted and assessed over the past several years, including a comprehensive market segmentation study completed in 2006. Aspects of the prototype design have also been incorporated into three other Company-owned and several licensee-owned stores. The prototype was created to allow a more stylish, residential feel while highlighting Bassett's unmatched custom manufacturing capabilities. The prototype design leverages our customization capabilities by dedicating space in the stores for design solutions for dining, upholstery, home entertainment and storage solutions. Domestic custom manufacturing capabilities make it possible for Bassett to offer a 30 day delivery on custom products. We believe this design, organized around four targeted lifestyles, better communicates our capabilities to the consumer. Our lifestyle presentations are Cottage, Contemporary, Casual and Traditional as described below:

Cottage Romantic, laid-back lifestyle of a retreat that is much like an escape to the beach, lake or country.

Contemporary Youthful spirited lifestyle of a sophisticated city life much like Boston's Back Bay, the Village in Manhattan or Washington's Georgetown.

Casual Family-oriented with a relaxed atmosphere.

Traditional Sensible lifestyle of established affluence

Utilizing the basic tenets of our new prototype as a guideline, we are in the midst of a visual standardization program that will ultimately permeate our entire network of both Company-owned and licensee-owned stores. Implementation will occur in stages over the next few years and will logically display not only our styling point of view but also our points of differentiation in the marketplace.

To further solidify ourselves as a complete home furnishings retailer, we have expanded accessory product lines including lighting and lighting customization choices, rug and mirror choices as well as fully coordinating accent pillows that coordinate with each lifestyle presentation throughout the store.

While retail traffic at the stores was under pressure in 2008, traffic to the Company's website, www.bassettfurniture.com, grew significantly. Bassett has worked diligently to strengthen the website's capabilities and ease of use and will continue to make improvements in 2009. In addition, Bassett began in 2008 to sell its product online at our website. Bassett is leveraging its Company-owned and licensed store network to handle delivery and customer service for orders placed online.

Investments/Real Estate Overview

The Company is committed to maintaining a strong balance sheet in order to weather difficult industry conditions, allow it to take advantage of opportunities as market conditions improve, and to execute its long-term

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retail growth strategies. Our balance sheet includes significant investments (Alternative Asset Fund and marketable securities), The International Home Furnishings Center (IHFC) and retail real estate related to licensee BFD stores. Our balances at fiscal year-end for the years presented are as follows:

	2008	2007	2006
Alternative Asset Fund	\$ 23,053	\$ 51,779	\$ 52,755
Other marketable securities	12,007	25,145	25,862
Corporate-store real estate	32,048	28,552	25,243
Licensee-store real estate	29,588	31,207	33,501
IHFC	(11,910)	(12,244)	(12,468)

The Alternative Asset Fund was organized under the Delaware Revised Uniform Limited Partnership Act and commenced operations on July 1, 1998. Private Advisors, L.L.C. is the general partner (the General Partner) of the Alternative Asset Fund. The objective of the Alternative Asset Fund is to achieve consistent positive returns, while attempting to reduce risk and volatility, by placing its capital with a variety of hedge funds and experienced portfolio managers. Such hedge funds and portfolio managers employ a variety of trading styles or strategies, including, but not limited to, convertible arbitrage, merger or risk arbitrage, distressed debt, long/short equity, multi-strategy and other market-neutral strategies. Our marketable securities portfolio is diversified among seven different money managers and consists of a combination of equity and fixed income securities with maturities that range from one to six years.

The International Home Furnishings Center (IHFC) owns and leases showroom space in High Point, North Carolina. Our ownership interest is 46.9% and is accounted for using the equity method. Our investment reflects a credit balance due to our cumulative receipt of dividends exceeding our investment in IHFC and cumulative portion of IHFC s earnings attributable to our ownership interest. This negative book value resulted from IHFC s refinancing of its real estate based on the market value of the property and using the proceeds to pay a special dividend to its owners.

As part of our retail growth strategy, we invest in retail store property that is either used by our Company-owned stores or leased to our licensees. Real estate for our corporate stores is included in the property, plant and equipment balances in our consolidated balance sheet. Licensee-store real estate is presented as an other long-term asset in our consolidated balance sheet. These real estate holdings are typically in urban, high-traffic retail locations.

Trademarks and Patents

Our trademarks, including Bassett and the names 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 patents, trademarks and 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 and tastes. 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.

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Government Regulations

We believe that we have materially complied with all federal, state and local standards in the areas of safety, health and pollution and environmental controls. We are involved in environmental matters at certain of our plant facilities, which arise in the normal course of business. Although the final outcome of these environmental matters cannot be determined, based on the present facts we do not believe that the final resolution of these matters will have a material adverse effect on our financial position or future results of operations.

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 1,329 people as of November 29, 2008. 553 people were employed in our retail segment and 776 people were employed in our wholesale segment. 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 \$5,200, \$4,175, and \$4,333 in 2008, 2007, and 2006, 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 amendments thereto.

ITEM 1A. RISK FACTORS

Our business is subject to a variety of risks. You should carefully consider the risk factors detailed below in conjunction with the other information contained in this document. These risks are not the only ones we face. Interest rates, consumer confidence, housing starts, and other general economic factors that affect many other businesses are particularly significant to us because our principal products are consumer goods. Additional factors that are presently unknown to us or that we currently believe to be immaterial also could affect our business.

Capital and credit market disruptions may adversely impact the availability of credit to us, our customers, licensees and consumers.

If the financial institutions that have extended credit to us are adversely affected by disruptions in the capital and credit markets, they may be unable to fund borrowings to us. Additionally, disruptions in these markets may also adversely affect the ability of our customers, our licensees and consumers to obtain credit, which may restrict their ability to purchase products from us. Any one or combination of these possibilities could adversely impact our financial condition and results of operations, which could severely limit or preclude our ability to borrow funds for working capital and general corporate purposes, store acquisitions and capital expenditures.

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

Many industry analysts believe the current home furnishings environment is as difficult as the industry has ever experienced. Historically, the home furnishings industry has been subject to cyclical variations in the general economy and to uncertainty regarding future economic prospects. This historical uncertainty, combined with general economic uncertainty due to lagging consumer confidence, falling home prices and volatile and often erratic financial markets, may continue to cause inconsistent and unpredictable consumer spending habits. Should consumer demand for home furnishings continue at these current low levels for an extended period of time or further deteriorate, it will be difficult to achieve our planned level of financial improvement in 2009 and it could also impact the performance of our licensees and the ability of a number of them to meet their obligations to us.

Competition from domestic and overseas manufacturers continues to increase and may adversely affect our business, operating results or financial condition.

Our wholesale business segment is involved in the development of our brand, which encompasses the design, manufacture, sourcing, sales and distribution of our home furnishings products, and competes with other U.S. and foreign manufacturers and other wholesalers. Industry globalization and the development of manufacturing capabilities in other countries, particularly within Asia, has led to increased competitive pressures brought about by the increasing volume of imported finished goods and components, particularly for case good products. The increase in overseas production capacity in recent years has created over-capacity for many foreign and U.S. manufacturers, including us, which has led to industry-wide plant consolidation in the U.S. In addition, because many foreign manufacturers are able to maintain substantially lower production costs, including the cost of labor and overhead, imported product is capable of being sold at a lower price to consumers, which, in turn, has led to additional industry-wide price deflation. Governments in the foreign countries where we source our products also 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.

Our company-owned stores and others we may acquire in the future may not achieve the anticipated growth and profitability.

Our Company-owned stores currently operate at a loss. Our goal is to operate these stores at break-even to ultimately protect the operating margins generated by our wholesale operation. To be successful, we need to increase our sales per store while decreasing the support costs as a percentage of sales. As part of our strategy, we must hire, train and retain a qualified staff of design consultants to improve the customer experience. Competition with other furniture retailers for qualified design consultants also continues to increase. We also compete with other retailers for management personnel and appropriate retail locations. Failures and delays in implementing our retail strategies or failure to realize the benefits of these strategies could adversely impact our business and operating results.

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

We have a significant amount of accounts and notes receivable from our network of licensee-owned BFD stores. We also own some of the real estate that is leased to the licensees and guarantee some of the debt and/or leases of some of the licensees. If these stores do not generate the necessary level of sales and profits, they may not be able to fulfill their obligations to us resulting in increased bad debt expenses and real estate related losses.

We receive a substantial amount of our earnings and cash flow from our investment in the International Home Furnishings Center (IHFC).

We own 46.9% of IHFC which owns and leases permanent exhibition space in High Point, North Carolina to furniture and accessory manufacturers throughout the United States and in many foreign countries, who

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showcase their products at the International Home Furnishings Market held each April and October. In fiscal 2008, we recognized \$6,425 in earnings and received \$6,091 in dividends from our investment in IHFC. There can be no assurance that we will continue to recognize this level of earnings or receive this level of dividends in the future as leases are typically for five years and the lessees may not renew their respective leases. In addition, changes in the overall home furnishings industry as well as the competing home furnishings market in Las Vegas could potentially impact the number of manufacturers showcasing their products at the High Point market, thereby reducing the demand for the exhibition space in High Point.

In recent years, we have received a substantial amount of cash flow from liquidating our investments in The Bassett Furniture Industries Alternative Asset Fund LP and our marketable securities portfolio. Our remaining investments may not be readily convertible into cash and may decline in value.

We have \$23,053 invested in The Bassett Industries Alternative Asset Fund L.P. in which we are the only limited partner. Historically, the objective of the Fund has been to achieve consistent positive returns, while attempting to reduce risk and volatility, by placing its capital with a variety of hedge funds and experienced portfolio managers. Such hedge funds and portfolio managers have employed a variety of trading styles or strategies, including, but not limited to, convertible arbitrage, merger or risk arbitrage, distressed debt, long/short equity, multi-strategy and other market-neutral strategies. The general partner has discretion to make all investment and trading decisions, including the selection of investment managers. Our investment in the Fund includes investments in various other private limited partnerships, which contain contractual commitments with elements of market risk. These contractual commitments, which include fixed-income securities and derivatives, may involve future settlements, which give rise to both market and credit risk. The investment partnership's exposure to market risk is determined by a number of factors, including the size, composition, and diversification of positions held, volatility of interest rates, market currency rates, and liquidity. Risks to these funds arise from possible adverse changes in the market value of such interests and the potential inability of counterparties to perform under the terms of the contracts. However, the risk to the Fund is limited to the amount of the Fund investment in each of the funds. In early 2008, we requested our general partner to attempt to liquidate all of our investments in the BIAAF. In 2008, we received \$23,250 in fund redemptions. Due to the magnitude of redemption requests to the funds in which we are invested, we believe that our remaining investment will be redeemed within two to three years. However, there can be no assurance that we will receive our remaining investment within this timeframe and our investments may decline in value before they are fully redeemed. As such, these funds may not be available to support our operating cash flow needs, which could adversely affect on our financial condition and results of operations.

At November 29, 2008, we have \$12,007 in marketable securities on our balance sheet consisting of both equity and debt instruments. This portfolio is diversified among seven different money managers. Until 2008, the portfolio had produced significant positive results. During 2008, the portfolio declined significantly in value. There can be no assurance that this portfolio will return to profitability as it is subject to those risks inherent in the stock and money markets including:

changes in trade, monetary and fiscal policies and laws,

changes in interest rates and the effects of inflation, and

changes in the outlook for the economy as a whole or shifts in investor attitudes.

Additionally, substantially all of our marketable securities are pledged as collateral for our revolving credit agreement. To the extent the value of these marketable securities is below \$16,000, our Borrowing Base, as defined, is decreased by 125% of the difference between \$16,000 and the actual value of those securities.

Unsuccessful implementation of our new store design, or failure to realize the intended benefits of the new design, may be detrimental to future operating results and financial condition.

In 2007, we unveiled a new store prototype that we believe is critical to our retail success. The design of this store concept is based on extensive research we conducted and assessed over the past several years, including a

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comprehensive market segmentation study completed in 2006. We believe this design, organized around four targeted lifestyles that portrays a more stylish residential feel, better communicates our interior design and custom furniture capabilities to the consumer. Utilizing the basic tenants of our new prototype as a guideline, we are in the midst of a visual standardization program that will ultimately permeate our entire fleet of stores. Implementation will occur in stages over the next few years and will logically display not only our styling point of view but also our points of differentiation in the marketplace. Failure to successfully implement the new store design and/or the visual standardization program, or to realize the intended benefits thereof, could prove costly and could adversely impact our operating results and financial condition.

Consolidating variable interest entities into our financial statements may reduce our net income.

Applicable accounting rules categorize an entity that does not have sufficient equity to carry out its business without our financial support as a variable interest entity. If some of our independent dealers do not generate the necessary level of sales and profits, they could be considered variable interest entities. If we are considered the primary beneficiary of a variable interest entity's business activities, the rules require us to consolidate its assets, liabilities, and results of operations into our consolidated financial statements. Once consolidated, the rules require us to absorb all of the dealer's net losses in excess of its equity and to recognize its net earnings, but only to the extent of recouping losses we previously recorded. We continue to assess our licensees to determine whether other subordinated financial support will be required by us to ensure their continued operation, thereby requiring them to be consolidated. Should we be required to consolidate additional variable interest entities, our future earnings would likely be reduced.

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.

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 and radio 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.

Manufacturing realignments could result in a decrease in our near-term earnings.

We regularly review and evaluate our domestic manufacturing operations and offshore (import) sourcing capabilities. As a result, we sometimes realign those operations and capabilities and institute cost savings programs. These programs can include the consolidation and integration of facilities, functions, systems and procedures. We also may shift certain products from domestic manufacturing to offshore sourcing. These

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realignments and cost savings programs generally involve some initial cost and can result in decreases in our near-term earnings until we achieve the expected cost reductions. We may not always accomplish these actions as quickly as anticipated, and we may not fully achieve the expected cost reductions.

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.

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 further downturn in the U.S. economy.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

General

We own our corporate office building located in Bassett, Va. We also lease office space in Greensboro, NC for our retail and marketing headquarters and lease showroom space in the International Home Furnishings Center, an unconsolidated affiliated entity.

We own the following facilities, by segment:

Wholesale Segment:

Facility	Location
Bassett Wood Division	Martinsville, Va.
Bassett Fiberboard	Bassett, Va.
Bassett Upholstery Division	Newton, N.C.
Warehouse	Bassett, Va.
Outlet Store Closing in 2009	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 more than adequate capacity for our manufacturing needs.

The following properties have ceased manufacturing operations and are currently held as idle or temporary warehouse facilities in connection with restructuring efforts:

Facility	Location
J. D. Bassett Manufacturing	Bassett, Va.
Bassett Superior Lines	Bassett, Va.
Bassett Chair	Bassett, Va.

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Bassett Table
Warehouse Closing in 2009

Bassett, Va.
Mt. Airy, N.C.

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Our interest in retail real estate as of November 29, 2008 is as follows:

	Company-Operated Stores	Licensee-Operated Stores	Closed Stores	Total Network
Owned properties	7	7	3	17
Leased properties	24	14	7	45
Lease guarantees		19		19
No real estate involvement		44		44
Total	31	84	10	125

As of November 29, 2008, we had 115 stores in our retail network; 31 Company-owned stores that comprise our retail segment and 84 owned and operated by independent third party licensees. Of the 31 retail store locations owned and operated by us, 7 of the properties are owned and 24 are leased. Of the 7 properties that we own, one property is subject to a land lease.

We also own an additional 7 retail properties that are leased to our licensee dealers. Of these 7 properties, two are subject to land leases. In addition, we lease another 14 properties from third party landlords which we then sublease to our licensee dealers. To further support our licensee dealers, we have also provided lease guarantees on 19 licensee operated stores.

We also own three store properties and lease another 7 properties that are currently closed. We are actively marketing to sell or lease our owned properties and currently have a tenant for one of the properties. We are also actively marketing the leased properties for tenants and currently have long-term subleases in place for two properties. From time-to-time, we may sublease these properties on a short-term basis to defray some of the cash costs. In addition, we may negotiate cash settlements to terminate our obligations under the lease.

See Note 16 to the Consolidated Financial Statements included under Item 8 of this Annual Report for more information with respect to our operating lease obligations.

Subsequent to November 29, 2008, we acquired the operations of one store where we were previously the landlord, one store where we are now the tenant and had no previous interest in the lease and an owned-store that was previously operated by a licensee.

ITEM 3. LEGAL PROCEEDINGS

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

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

ITEM 4B. EXECUTIVE OFFICERS OF THE REGISTRANT

John E. Bassett III, 50, has been with the Company since 1981 and served as Vice President of Wood Manufacturing from 1997 to 2001 and as Vice President Global Sourcing since 2001.

Jason W. Camp, 40, joined the Company in 2006 as Senior Vice President of Retail. Prior to joining Bassett, Mr. Camp was with Restoration Hardware, Inc. for nine years advancing to the position of Senior Vice President and General Manager of the Retail Division.

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Jay R. Hervey, Esq., 49, has served as the General Counsel, Vice President and Secretary for the Company since 1997.

Matthew S. Johnson, 47, has been with the Company since 1984. Since 2000, he has been serving as Vice President of Merchandising and Design.

Mark S. Jordan, 55, 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.

Barry C. Safrit, 46, joined the Company as Vice President and Chief Accounting Officer in 1998. He was promoted to Senior Vice President, Finance and Administration, Chief Financial Officer in 2006.

Robert H. Spilman, Jr., 52, has been with the Company since 1984. Since 2000, he has served as Chief Executive Officer and President.

Table of Contents**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 1,022 registered stockholders at November 29, 2008. 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:

Quarter	Market Prices of Common Stock				Dividends Declared	
	2008		2007		2008	2007
	High	Low	High	Low		
First	\$ 13.19	\$ 8.55	\$ 18.80	\$ 15.00	\$ 0.20	\$ 0.20
Second	13.41	10.00	16.71	13.25	0.225	0.20
Third	12.21	9.73	14.53	11.05	0.975	0.20
Fourth	11.00	3.10	11.89	9.41	0.10	0.20

Issuer Purchases of Equity Securities

(dollar amounts in thousands, except share and per share data)

	Total Shares Purchased	Avg Price Paid	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (1)	Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs (1)
August 31 - October 4, 2008	4,700	\$ 9.91	4,700	\$ 24,109
October 5 - November 1, 2008	108,700	\$ 5.93	108,700	\$ 23,464
November 2 - November 29, 2008				\$ 23,464

- (1) The Company's Board of Directors has authorized the repurchase of up to \$60,000 in Company stock. This repurchase plan was initially announced on June 23, 1998. On March 17, 2008, the Board of Directors increased the repurchase plan by \$20,000. The Board of Directors has temporarily suspended the repurchase plan.

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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.

(dollar amounts in thousands except for per share data)

	2008	2007	2006	2005	2004
Net sales	\$ 288,298	\$ 295,384	\$ 328,214	\$ 335,207	\$ 315,654
Cost of sales	\$ 173,399	\$ 195,001	\$ 225,319	\$ 236,843	\$ 234,612
Operating profit (loss)	\$ (16,454)(1)	\$ (19,916)(1)	\$ (466)(1)	\$ 5,134	\$ 3,727
Other income (loss), net	\$ (6,956)	\$ 5,947	\$ 6,921	\$ 8,061	\$ 7,123
Income (loss) before income taxes	\$ (23,410)	\$ (13,969)	\$ 6,455	\$ 13,195	\$ 10,850
Income tax expense (benefit)	\$ 16,945	\$ (4,059)	\$ 1,026	\$ 3,381	\$ 2,641
Net income (loss)	\$ (40,355)	\$ (9,910)			