BASSETT FURNITURE INDUSTRIES INC
Form 10-K
January 19, 2017

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C., 20549

FORM 10-K

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

For the fiscal year ended November 26, 2016

OR

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

For the transition period from ______ to ______

Commission File No. 0-209

BASSETT FURNITURE INDUSTRIES, INCORPORATED

(Exact name of registrant as specified in its charter)

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

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

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

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

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

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

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

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

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

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

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

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, 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

Smaller reporting company

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 28, 2016 was $305,120,055.

The number of shares of the Registrant’s common stock outstanding on January 6, 2017 was 10,722,947.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Bassett Furniture Industries, Incorporated definitive Proxy Statement for its 2017 Annual Meeting of Stockholders to be held March 8, 2017, to be filed with the Securities and Exchange Commission pursuant to Regulation 14A under the Securities Exchange Act of 1934 (the “Proxy Statement”) are incorporated by reference into Part III of this Form 10-K.

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As used herein, unless the context otherwise requires, "Bassett," the "Company," "we," "us" and "our" refer to Bassett Furniture Industries, Incorporated and its subsidiaries. References to 2016, 2015, 2014, 2013 and 2012 mean the fiscal years ended November 26, 2016, November 28, 2015, November 29, 2014, November 30, 2013 and November 24, 2012. Please note that fiscal 2013 contained 53 weeks.

Safe-harbor, forward-looking statements

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

- competitive conditions in the home furnishings industry
- general economic conditions, including the strength of the housing market in the United States
- overall retail traffic levels and consumer demand for home furnishings
- ability of our customers and consumers to obtain credit
- Bassett store openings and store closings and the profitability of the stores (independent licensees and Company-owned retail stores)
- ability to implement our Company-owned retail strategies and realize the benefits from such strategies as they are implemented
- fluctuations in the cost and availability of raw materials, labor and sourced products
- results of marketing and advertising campaigns

effectiveness and security of our information technology systems

future tax legislation, or regulatory or judicial positions

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

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

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

PART I

ITEM 1. BUSINESS

(dollar amounts in thousands except per share data)

General

Bassett is a leading retailer, manufacturer and marketer of branded home furnishings. Our products are sold primarily through a network of Company-owned and licensee-owned branded stores under the Bassett Home Furnishings ("BHF") name, with additional distribution through other wholesale channels including multi-line furniture stores, many of which feature Bassett galleries or design centers. We were founded in 1902 and incorporated under the laws of Virginia in 1930. Our rich 114-year history has instilled the principles of quality, value, and integrity in everything we do, while simultaneously providing us with the expertise to respond to ever-changing consumer tastes and meet the demands of a global economy.

With 90 BHF stores at November 26, 2016, we have leveraged our strong brand name in furniture into a network of Company-owned and licensed stores that focus on providing consumers with a friendly environment for buying furniture and accessories. We created our store program in 1997 to provide a single source home furnishings retail store that provides a unique combination of stylish, quality furniture and accessories with a high level of customer service. In order to reach markets that cannot be effectively served by our retail store network, we also distribute our products through other wholesale channels including multi-line furniture stores, many of which feature Bassett galleries or design centers. We use a network of over 25 independent sales representatives who have stated geographical territories. These sales representatives are compensated based on a standard commission rate. We believe this blended strategy provides us the greatest ability to effectively distribute our products throughout the United States and ultimately gain market share.

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

For several years we owned 49% of Zenith Freight Lines, LLC (“Zenith”). During that time the strategic significance of our partnership with Zenith had risen to include the over-the-road transportation of furniture, the operation of regional freight terminals, warehouse and distribution facilities in eleven 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 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 co-branded design centers coupled with the targeted national advertising on HGTV have played a key role in driving sales at our stores. In October of 2015, we announced the extension of our partnership with HGTV through 2019. While continuing to feature HGTV branded custom upholstery products in our HGTV HOME Design Studios in BHF stores, we have now expanded the concept to select independent dealers. We believe this will provide additional growth outside our BHF store network.

Operating Segments

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

The wholesale home furnishings segment is involved principally in the design, manufacture, sourcing, sale and distribution of furniture products to a network of BHF stores (licensee-owned stores and Company-owned retail stores) and independent furniture retailers. Our retail segment consists of 59 Company-owned and operated stores. The following table shows the number of Company-owned stores by state as of November 26, 2016:

State	Number of Stores	State	Number of Stores
Alabama	1	Mississippi	1
Arizona	1	Missouri	1
Arkansas	1	Nevada	1
California	4	New Jersey	1
Connecticut	4	New York	4
Delaware	1	North Carolina	5
Florida	3	Ohio	1
Georgia	3	South Carolina	1
Kentucky	1	Tennessee	1
Maryland	4	Texas	12
Massachusetts	3	Virginia	5
		Total	59

With our acquisition of Zenith on February 2, 2015, we created the logistical services operating segment which reflects the operations of Zenith. In addition to providing shipping, delivery and warehousing services for the Company, Zenith also provides similar services to other customers, primarily in the furniture industry.

Wholesale Segment Overview

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

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

	2016		**2015**		**2014**	
Wood	$88,763	36.9 %	$93,073	36.9 %	$86,577	38.7 %
Upholstery	149,027	62.0 %	156,768	62.2 %	135,831	60.6 %
Other	2,556	1.1 %	2,339	0.9 %	1,585	0.7 %
Total	$240,346	100.0%	$252,180	100.0%	$223,993	100.0%

Approximately 31% of our 2016 wholesale sales were of imported product compared to 37% and 42% in 2015 and 2014, respectively. We define imported product as fully finished product that is sourced. Our domestic product includes certain products that contain components which were also sourced. We continue to believe that a blended strategy including domestically produced products primarily of a custom-order nature combined with sourcing of major collections provides the best value and quality of products to our customers. The decline in imported goods share of our wholesale sales over the last three years has been driven primarily by increasing sales of our domestic custom wood and upholstery product offerings.

The dollar value of our wholesale backlog, representing orders received but not yet shipped to the BHF store network or independent dealers, was $22,130 at November 26, 2016 and $17,131 at November 28, 2015. We expect that the November 26, 2016 backlog will be filled within fiscal 2017, with the majority of the backlog being filled during the first quarter.

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

Other Investments and Real Estate

Our balance sheet at November 26, 2016 and November 28, 2015 included short-term investments in certificates of deposit and certain retail real estate related to former licensee-owned stores. At November 29, 2014 we also carried an equity investment in Zenith. The impact upon earnings arising from these assets is included in other loss, net, in our consolidated statements of income. Our investment balances at each of the last three fiscal year-ends are as follows:

	November 26, 2016	November 28, 2015	November 29, 2014
Investments in certificates of deposit	$ 23,125	$ 23,125	$ 23,125
Certain retail real estate	2,969	3,120	6,302
Zenith (Recorded in Other long-term assets)	-	-	7,915

Our short-term investments at November 26, 2016 consist of certificates of deposit (CDs) with original terms generally ranging from six to twelve months, bearing interest at rates ranging from 0.28% to 1.00% with a weighted average yield of approximately 0.65%. At November 26, 2016, the weighted average remaining time to maturity of the CDs was approximately seven months. Each CD is placed with a federally insured financial institution and all deposits are within Federal deposit insurance limits.

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

Prior to February 2, 2015 we owned a 49% interest in Zenith which was accounted for under the equity method and was included in other long-term assets in our consolidated balance sheets.

Retail Segment Overview – Company-Owned Retail Stores

The retail furniture industry remains very competitive and includes local furniture stores, regional furniture retailers, national department and chain stores and single-vendor branded retailers. As a whole, our store network with 59 Company-owned stores and 31 licensee-owned, ranks in the top 30 in retail furniture sales in the United States. We plan to continue opening new stores, primarily in underpenetrated markets where we currently have stores. In this regard we are currently considering several locations for new store expansion over the next three years, with at least five of these planned to open in fiscal 2017.

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

	2016	2015	2014
Net sales	$254,667	$249,379	$216,631

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

Our stores incorporate a stylish, residential feel while highlighting our unmatched custom manufacturing capabilities. We leverage our customization capabilities by dedicating space in the stores to design solutions for dining, upholstery, home entertainment and storage. Domestic custom manufacturing capabilities make it possible for us to offer a 30 day delivery promise on custom products.

Logistical Services Segment Overview

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

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

Our customer solutions are provided through the following services:

- Network line haul freight
- Warehousing, distribution and inventory management
- Home delivery services to end-consumer

At November 26, 2016, our shipping and delivery fleet consisted of the following:

	Owned	**Leased**	**Total**
Tractors	154	92	246
Trailers	242	275	517
Home delivery trucks	20	15	35

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

Trademarks

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

Research and Development

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

Government Regulations

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

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

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

People

We employed 2,487 people as of November 26, 2016, of which 783 were employed in our retail segment, 913 were employed in our wholesale segment and 791 were employed in our logistical services segment, which also utilized another 133 temporary workers provided through staffing agencies. None of our employees are subject to collective bargaining arrangements and we have not experienced any recent work stoppages. We consider our relationship with our employees to be good.

Foreign and Domestic Operations and Export Sales

We have no foreign manufacturing or retail operations. We define export sales as sales to any country or territory other than the United States or its territories or possessions. Our export sales were approximately $3,607, $4,516, and $4,774 in 2016, 2015, and 2014, respectively. At November 26, 2016 and November 28, 2015, we had $3,018 and $4,316, respectively of our finished goods inventory physically warehoused in Vietnam at November 26, 2016 and Vietnam and Indonesia at November 28, 2015.

Major Customers

Our risk exposure related to our customers, consisting primarily of trade accounts receivable along with certain guarantees, net of recognized reserves, totaled approximately $20,233 and $23,648 at November 26, 2016 and November 28, 2015, respectively. At November 26, 2016, approximately 30% of the aggregate risk exposure, net of reserves, was attributable to four customers. At November 28, 2015, approximately 26% of the aggregate risk exposure, net of reserves, was attributable to three customers. In fiscal 2016, 2015 and 2014, no customer accounted for more than 10% of total consolidated net sales. However, one customer accounted for approximately 36% and 26% of our consolidated revenue from logistical services during 2016 and 2015, respectively.

Available Information

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

ITEM 1A. RISK FACTORS

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

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

The home furnishings industry has experienced a difficult period over the last eight years marked with depressed housing starts, high unemployment, changing consumer confidence and uncertain fiscal policies. While the economy has improved over the most recent three years, the pace of the recovery continues to be slow by historical standards and remains fragile. Historically, the home furnishings industry has been subject to cyclical variations in the general economy and to uncertainty regarding future economic prospects. Should the current economic recovery falter or the current recovery in housing starts stall, consumer confidence and demand for home furnishings could deteriorate which could adversely affect our business through its impact on the performance of our Company-owned stores, as well as our licensees and the ability of a number of them to meet their obligations to us.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

ITEM 1B. UNRESOLVED STAFF COMMENTS
None.

ITEM 2. PROPERTIES

General

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

We own the following facilities, by segment:

Wholesale Segment:

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

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

Retail Segment:

Real estate associated with our retail segment consists of 11 owned locations with an aggregate square footage of 276,887 and a net book value of $26,454. These stores are located as follows:

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

Of these locations, two are subject to land leases and two are subject to mortgages. Our remaining 48 store locations are leased from third-parties.

Logistical Services Segment:

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

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

In addition to the owned facilities listed above, we also lease warehouse space in 19 locations across the United States with an aggregate square footage of 1,408,154.

Other Real Estate Owned:

We hold investments in retail store property that we previously leased to licensees and now lease to others. Such properties consist of two locations with aggregate square footage of 41,021 and net book value of $2,969 at November 26, 2016.

At November 26, 2016, there was one closed store for which we are paying the monthly lease amount due to being the lessee. We have a sublease agreement on this property which helps to defray a portion of the on-going cash requirements.

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

ITEM 3. LEGAL PROCEEDINGS

None.

ITEM 4B. EXECUTIVE OFFICERS OF THE REGISTRANT

David C. Baker, 56, joined the Company in 2005 as Director, Store Operations. From 2006 to 2015 he served as Vice President – Corporate Retail, and currently serves as Senior Vice President, Corporate Retail. Prior to joining Bassett, Mr. Baker managed Bassett stores for licensees from 1999 to 2005 after having previously managed stores for other furniture retail chains including Haverty's and Rhodes Furniture.

John E. Bassett III, 58, has been with the Company since 1981 and served in various wood manufacturing and product sourcing capacities, including Vice President, Wood Manufacturing; Vice President, Global Sourcing from 2001 to 2007 and Vice President, Wood 2008. He was appointed Senior Vice President, Wood in 2009.

Bruce R. Cohenour, 58, has been with the Company since 2011, starting as Senior Vice President of Upholstery Merchandising, and serving as Senior Vice President of Sales and Merchandising since January 2013. Prior to joining Bassett, Mr. Cohenour was with Hooker Furniture Corp. from 2007 through 2010, last serving as President of the Case Goods Division.

J. Michael Daniel, 55, joined the Company in 2007 as Corporate Controller. From April 2009 through December 2009, he served as Corporate Controller and Interim Chief Financial Officer. In January 2010, he was appointed Vice President and Chief Accounting Officer. In January 2013, he was promoted to Senior Vice President and Chief Financial Officer.

Jack L. Hawn, 63, has been with the company since 2015 as Senior Vice President, Bassett and President, Zenith. His company, Zenith Transportation, Inc. was majority owner of Zenith (Zenith Freight Lines, LLC) from 1999 until its interest in Zenith was acquired by the Company in 2015. He has served as President of Zenith since its formation in 1999.

Jay R. Hervey, Esq., 57, has served as the General Counsel, Vice President – Real Estate and Secretary for the Company since 1997.

Mark S. Jordan, 63, joined the Company in 1999 as Plant Manager. In 2001, he was promoted to Vice President of Upholstery Manufacturing and in 2002 he was promoted to Vice President and General Manager-Upholstery. He has served as Senior Vice President of Upholstery since 2009.

Robert H. Spilman, Jr., 60, has been with the Company since 1984. Since 2000, he has served as Chief Executive Officer and President, and in 2016 also became Chairman of the Board of Directors.

PART II

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

Market and Dividend Information:

Bassett’s common stock trades on the NASDAQ global select market system under the symbol “BSET.” We had approximately 1,300 registered stockholders at November 26, 2016. The range of per share amounts for the high and low market prices and dividends declared for the last two fiscal years are listed below:

	Market Prices of Common Stock				**Dividends Declared**	
	2016		**2015**			
Quarter	**High**	**Low**	**High**	**Low**	**2016**	**2015**
First	$31.98	$23.65	$26.97	$18.22	$0.09	$0.08
Second	33.20	26.79	32.54	24.59	0.09	0.08
Third	29.60	23.94	38.02	26.81	0.10	0.09
Fourth	30.00	22.75	33.30	27.85	0.40	0.29

Issuer Purchases of Equity Securities
(dollar amounts in thousands, except share and per share data)

	Total Shares Purchased	**Average Price Paid**	**Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (1)**	**Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (1)**

August 28 - October 1, 2016	38,600	$ 24.61	38,600	$ 12,989
October 2 - October 29, 2016	52,900	$ 23.84	52,900	$ 11,728
October 30 - November 26, 2016	8,300	$ 23.15	8,300	$ 11,536

(1) The Company is authorized to repurchase Company stock under a plan which was originally announced in 1998. On October 9, 2014, the Board of Directors increased the remaining limit of the repurchase plan to $20,000. At November 26, 2016, $11,536 remains available for stock repurchases under the plan.

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ITEM 6. SELECTED FINANCIAL DATA

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

	2016		**2015**		**2014**	**2013 (1)**	**2012**	
Net sales	$432,038	(2)	$ 430,927	(2)	$340,738	$321,286	$269,972	
Operating income (loss)	$28,193	(3)	$ 25,989	(4)	$15,131	$10,005	$5,080	(4)
Other income (loss), net	$(2,416)	(5)	$ 5,879	(5)	$(524)	$(1,818)	$6,934	(6)
Income before income taxes	$25,777		$ 31,868		$14,607	$8,187	$12,014	
Income tax expense (benefit)	$9,948		$ 11,435		$5,308	$3,091	$(14,699)	(7)
Net income	$15,829		$ 20,433		$9,299	$5,096	$26,713	
Diluted earnings per share	$1.46		$ 1.88		$0.87	$0.47	$2.41	
Cash dividends declared	$7,345		$ 5,805		$5,085	$4,565	$15,920	
Cash dividends per share	$0.68		$ 0.54		$0.48	$0.42	$1.45	
Total assets	$278,267		$ 282,543		$240,746	$225,849	$227,180	
Long-term debt	$3,821		$ 8,500		$1,902	$2,467	$3,053	
Current ratio (8)	1.83 to 1		1.84 to 1		1.95 to 1	2.37 to 1	2.39 to 1	
Book value per share	$16.85		$ 16.25		$14.95	$14.50	$14.51	

(1) Fiscal 2013 contained 53 weeks, whereas all other fiscal years presented above contained 52 weeks.
(2) Fiscal 2016 and 2015 included logistical services revenue from Zenith in the amount of $54,842 and $43,522, respectively, since the acquisition of Zenith on February 2, 2015.
(3) Fiscal 2016 operating income includes the benefit of a $1,428 award received from the settlement of class action litigation (see Note 15 to the Consolidated Financial Statements related to the antitrust litigation settlement).
(4) Fiscal 2015 included restructuring and asset impairment charges and lease exit costs totaling $974. Fiscal 2012 included restructuring and asset impairment charges and lease exit costs totaling $1,070.
(5) See Note 3 to the Consolidated Financial Statements related to a remeasurement gain of $7,212 arising from our acquisition of Zenith during fiscal 2015. Also see Note 16 to the Consolidated Financial Statements related to $240 and $1,156 of income from the Continued Dumping and Subsidy Offset Act (“CDSOA”) received in fiscal 2016 and 2015, respectively.
(6) During fiscal 2012 other income (loss), net included income from the CDSOA of $9,010.
(7) Fiscal 2012 included the effects of changes in our valuation allowance on deferred tax assets resulting in a credit to income of $18,704.
(8) In fiscal 2015 we adopted Accounting Standards Update 2015-17, which required the classification of all deferred tax assets and liabilities as non-current. The current ratio presented for all periods prior to fiscal 2015 has been restated to reflect the reclassification of our current deferred tax assets to non-current.

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

(Amounts in thousands except share and per share data)

Overview

Bassett is a leading retailer, manufacturer and marketer of branded home furnishings. Our products are sold primarily through a network of Company-owned and licensee-owned branded stores under the Bassett Home Furnishings ("BHF") name, with additional distribution through other wholesale channels including multi-line furniture stores, many of which feature Bassett galleries or design centers. We were founded in 1902 and incorporated under the laws of Virginia in 1930. Our rich 114-year history has instilled the principles of quality, value, and integrity in everything we do, while simultaneously providing us with the expertise to respond to ever-changing consumer tastes and meet the demands of a global economy.

With 90 BHF stores at November 26, 2016, we have leveraged our strong brand name in furniture into a network of Company-owned and licensed stores that focus on providing consumers with a friendly environment for buying furniture and accessories. Our store program is designed to provide a single source home furnishings retail store that provides a unique combination of stylish, quality furniture and accessories with a high level of customer service. In order to reach markets that cannot be effectively served by our retail store network, we also distribute our products through other wholesale channels including multi-line furniture stores, many of which feature Bassett galleries or design centers. We use a network of over 25 independent sales representatives who have stated geographical territories. These sales representatives are compensated based on a standard commission rate. We believe this blended strategy provides us the greatest ability to effectively distribute our products throughout the United States and ultimately gain market share.

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

We have factories in Newton, North Carolina and Grand Prairie, Texas that manufacture upholstered furniture, a factory in Martinsville, Virginia that primarily assembles and finishes our custom casual dining offerings and a factory in Bassett, Virginia that assembles and finishes our recently introduced "Bench Made" line of furniture. Our manufacturing team takes great pride in the breadth of its options, the precision of its craftsmanship, and the speed of its process, with custom pieces often manufactured within two weeks of taking the order in our stores. Our logistics team then promptly ships the product to one of our home delivery hubs or to a location specified by our licensees in a timeframe to meet the 30 day promise. In addition to the furniture that we manufacture domestically, we source most of our formal bedroom and dining room furniture and certain upholstery offerings from several foreign plants, primarily in Vietnam and China. Over 65% of the products we currently sell are manufactured in the United States.

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

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

In September of 2011, we announced the formation of a strategic partnership with HGTV (Home and Garden Television), a division of Scripps Networks, LLC, which combines our heritage in the furniture industry with the penetration of 96 million households in the United States that HGTV enjoys today. As part of this alliance, the in-store design centers have been co-branded with HGTV to more forcefully market the concept of a “home makeover”, an important point of differentiation for our stores that also mirrors much of the programming content on the HGTV network. We believe the new co-branded design centers coupled with the targeted national advertising on HGTV have played a key role in driving sales at our stores. In October of 2015, we announced the extension of our partnership with HGTV through 2019. While continuing to feature HGTV branded custom upholstery products in our HGTV Home Design Studios in BHF stores, we have now expanded the concept to select independent dealers. We believe this will provide additional growth outside our BHF store network.

At November 26, 2016, our BHF store network included 59 Company-owned stores and 31 licensee-owned stores. During fiscal 2016, we closed three underperforming stores in Tucson, Arizona; Egg Harbor, New Jersey and Fountain Valley, California. We opened a new store in Sterling, Virginia during the second quarter of 2016 and opened another new store in Hunt Valley, Maryland during the third quarter of 2016.

Due to the improved operating performance of our retail network over the last few years, we are expanding our retail presence in various parts of the country. We currently have signed leases for four new stores that we expect to open during fiscal 2017. In addition, we have signed leases for the repositioning of two of our legacy stores to improved locations which we expect to occur in 2017. We are also in various stages of negotiation on several leases for both new store locations and the relocation of existing stores. Our plans for 2017 include at least two additional new store openings bringing the total to six for the year. Four of these openings would be in existing markets with the other two in new markets. Because we only opened two new stores in 2016, we expect to incur an additional $2,000 of new store preopening costs and post-opening losses as compared to 2016. There can be no assurance that any of these leases will be completed in 2017 or beyond.

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

Our website, www.bassettfurniture.com, provides our consumers with the ability to research and purchase our merchandise online. The ultimate goal of our digital strategy is to drive traffic to our stores while deepening interactions with our consumers. We have worked diligently to enhance our online presence by making it easier for consumers to browse our wide array of goods and to design custom furniture. Late in 2015, we launched a new responsive platform allowing smartphone and tablet users to browse and purchase our product assortment on their mobile devices. Our e-commerce platform is simple, easy to use and amplifies the experience of the Bassett brand reflected in our stores, direct mail and television commercials. We constantly update our website to reflect current product availability, pricing and special offers. In 2017, we will continue to make improvements to our website to improve brand interaction and drive more qualified prospects to our stores. We are leveraging our Company-owned and licensed store network to handle delivery and customer service for orders placed online.

Analysis of Operations

Net sales revenue, cost of furniture and accessories sold, selling, general and administrative (SG&A) expense, new store pre-opening costs, other charges, and income from operations were as follows for the years ended November 26, 2016, November 28, 2015 and November 29, 2014:

	2016		2015		2014	
Sales Revenue:						
Furniture and accessories	$377,196	87.3 %	$387,405	89.9 %	$340,738	100.0%
Logistics	54,842	12.7 %	43,522	10.1 %	-	0.0 %
Total net sales revenue	432,038	100.0%	430,927	100.0%	340,738	100.0%
Cost of furniture and accessories sold	167,519	38.8 %	179,291	41.6 %	158,317	46.5 %
SG&A	235,178	54.4 %	224,050	52.0 %	166,073	48.7 %
New store pre-opening costs	1,148	0.3 %	623	0.2 %	1,217	0.4 %
Other charges	-	0.0 %	974	0.2 %	-	0.0 %
Income from operations	$28,193	6.5 %	$25,989	6.0 %	$15,131	4.4 %

Our consolidated net sales by segment were as follows:

	2016	2015	2014
Wholesale	$240,346	$252,180	$223,993
Retail	254,667	249,379	216,631
Logistical services	95,707	77,250	-
Inter-company eliminations:			
Furniture and accessories	(117,817)	(114,154)	(99,886)
Logistical services	(40,865)	(33,728)	-
Consolidated net sales	$432,038	$430,927	$340,738

Refer to the segment information which follows for a discussion of the significant factors and trends affecting our results of operations for fiscal 2016 and 2015 as compared with the prior year periods.

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

Segment Information

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

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

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

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

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

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

	Year Ended November 28, 2015					
	Wholesale	Retail	Logistics	Eliminations		Consolidated
Sales revenue:						
Furniture & accessories	$252,180	$249,379	$-	$(114,154)	(1)	$387,405
Logistics	-	-	77,250	(33,728)	(2)	43,522
Total sales revenue	252,180	249,379	77,250	(147,882)		430,927
Cost of furniture and accessories sold	168,792	124,376	-	(113,877)	(3)	179,291
SG&A expense	67,770	118,210	73,722	(35,652)	(4)	224,050
New store pre-opening costs	-	623	-	-		623
Income from operations (5)	$15,618	$6,170	$3,528	$1,647		$26,963

	Year Ended November 29, 2014					
	Wholesale	Retail	Logistics	Eliminations		Consolidated
Sales revenue:						
Furniture & accessories	$223,993	$216,631	$ -	$(99,886)	(1)	$340,738
Logistics	-	-	-	-	(2)	-
Total sales revenue	223,993	216,631	-	(99,886)		340,738
Cost of furniture and accessories sold	149,646	108,174	-	(99,503)	(3)	158,317
SG&A expense	60,227	107,768	-	(1,922)	(4)	166,073
New store pre-opening costs	-	1,217	-	-		1,217
Income (loss) from operations	$14,120	$(528)	$ -	$1,539		$15,131

(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 fiscal years 2016 and 2015, logistical services expense incurred from Zenith by our retail and wholesale segments.

	Year Ended		
	November 26, 2016	November 28, 2015	November 29, 2014
Intercompany logistical services	$ (40,865)	$ (33,728)	$ -
Intercompany rents	(1,911)	(1,924)	(1,922)
Total SG&A expense elimination	$ (42,776)	$ (35,652)	$ (1,922)

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

Wholesale Segment

Net sales, gross profit, selling, general and administrative (SG&A) expense and operating income (loss) from operations for our Wholesale Segment were as follows for the years ended November 26, 2016, November 28, 2015 and November 29, 2014:

	2016		**2015**		**2014**	
Net sales	$240,346	100.0%	$252,180	100.0%	$223,993	100.0%
Gross profit	83,452	34.7 %	83,388	33.1 %	74,347	33.2 %
SG&A	64,780	27.0 %	67,770	26.9 %	60,227	26.9 %
Income from operations	$18,672	7.8 %	$15,618	6.2 %	$14,120	6.3 %

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

	2016		**2015**		**2014**	
Wood	$88,763	36.9 %	$93,073	36.9 %	$86,577	38.7 %
Upholstery	149,027	62.0 %	156,768	62.2 %	135,831	60.6 %
Other	2,556	1.1 %	2,339	0.9 %	1,585	0.7 %
Total	$240,346	100.0%	$252,180	100.0%	$223,993	100.0%

Fiscal 2016 as Compared to Fiscal 2015

Net sales for the wholesale segment were $240,346 for 2016 as compared to $252,180 for 2015, a decrease of $11,834 or 4.7%. This sales decrease was driven by a 13% decrease in open market shipments (outside the BHF network) while shipments to the BHF store network were essentially flat compared to the prior year. The decrease in sales to the open market was primarily due to lower sales of imported product primarily from the discontinuation of our relationship with a significant customer and loss of sales from the HGTV Home Collection brand, exited late in 2015. Gross margins for the wholesale segment increased to 34.7% for 2016 as compared to 33.1% for 2015. This increase is due in part to the $1,428 million settlement of the Polyurethane Foam Antitrust Litigation in 2016. Excluding the effects of the legal settlement, the gross margin would have been 34.1%. This increase over 2015 was driven largely by higher margins in the imported wood operation from favorable ocean freight and lower impact from discounting, as we were exiting the open market HGTV Home Collection brand in 2015. Wholesale SG&A decreased $2,990 to $64,780 for 2016 as compared to $67,770 for 2015. SG&A as a percentage of sales was 27.0% and 26.9% for fiscal 2016 and 2015, respectively. SG&A for 2016 included decreases in incentive compensation expenses of $877 and bad debt costs of $652. The prior year period also included $209 of costs associated with the acquisition of Zenith. Operating income was $18,672 or 7.8% of sales for 2016 as compared to $15,618 or 6.2% of sales in 2015.

Fiscal 2015 as Compared to Fiscal 2014

Net sales for the wholesale segment were $252,180 for 2015 as compared to $223,993 for 2014, an increase of $28,187 or 13%. This sales increase was driven by a 13% increase in shipments to the BHF store network and a 7.4% increase in open market shipments (outside the BHF store network). Gross margins for the wholesale segment decreased slightly to 33.1% for 2015 as compared to 33.2% for 2014. Wholesale SG&A increased $7,543 to $67,770 for 2015 as compared to $60,227 for 2014. SG&A as a percentage of sales was 26.9% for both fiscal 2015 and 2014. Included in SG&A for 2015 is an additional $850 in increased legal and environmental costs, an additional $541 of incentive compensation, and a $289 increase in bad debt costs largely associated with one remaining long-term note from a prior licensee. Also included in SG&A during 2015 are $209 of costs associated with the acquisition of Zenith. Operating income was $15,618 or 6.2% of sales for 2015 as compared to $14,120 or 6.3% of sales in 2014.

Wholesale Backlog

The dollar value of our wholesale backlog, representing orders received but not yet delivered to dealers and Company stores as of November 26, 2016, November 28, 2015, and November 29, 2014 was as follows:

	2016	**2015**	**2014**
Year end wholesale backlog	$22,130	$17,131	$13,644

Retail Segment – Company Owned Stores

Net sales, gross profit, selling, general and administrative (SG&A) expense, new store pre-opening costs and operating income (loss) for our Retail Segment were as follows for the years ended November 26, 2016, November 28, 2015 and November 29, 2014:

	2016 vs 2015				2015 vs 2014			
	2016		2015		2015		2014	
Net sales	$254,667	100.0%	$249,379	100.0%	$249,379	100.0%	$216,631	100.0%
Gross profit	126,459	49.7 %	125,003	50.1 %	125,003	50.1 %	108,457	50.1 %
SG&A expense	120,978	47.5 %	118,210	47.4 %	118,210	47.4 %	107,768	49.7 %
New store pre-opening costs	1,148	0.5 %	623	0.2 %	623	0.2 %	1,217	0.6 %
Income (loss) from operations	$4,333	1.7 %	$6,170	2.5 %	$6,170	2.5 %	$(528)	-0.2 %

The following tables present operating results on a comparable store basis for each comparative set of periods. Table A compares the results of the 56 stores that were open and operating for all of 2016 and 2015. Table B compares the results of the 53 stores that were open and operating for all of 2015 and 2014.

Comparable Store Results:

	Table A: 2016 vs 2015 (56 Stores)				Table B: 2015 vs 2014 (53 Stores)			
	2016		2015		2015		2014	
Net sales	$243,062	100.0%	$239,713	100.0%	$225,444	100.0%	$199,048	100.0%
Gross profit	121,327	49.9 %	120,535	50.3 %	112,815	50.0 %	99,591	50.0 %
SG&A expense	114,097	46.9 %	112,484	46.9 %	105,347	46.7 %	97,325	48.9 %
Income (loss) from operations	$7,230	3.0 %	$8,051	3.4 %	$7,468	3.3 %	$2,266	1.1 %

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

All Other (Non-Comparable) Store Results:

	2016 vs 2015 All Other Stores				2015 vs 2014 All Other Stores			
	2016		2015		2015		2014	
Net sales	$11,605	100.0%	$9,666	100.0%	$23,935	100.0%	$17,583	100.0%
Gross profit	5,132	44.2 %	4,468	46.2 %	12,188	50.9 %	8,866	50.4 %
SG&A expense	6,881	59.3 %	5,726	59.2 %	12,863	53.7 %	10,443	59.4 %
New store pre-opening costs	1,148	9.9 %	623	6.4 %	623	2.6 %	1,217	6.9 %
Loss from operations	$(2,897)	-25.0 %	$(1,881)	-19.5 %	$(1,298)	-5.4 %	$(2,794)	-15.9 %

Fiscal 2016 as Compared to Fiscal 2015

Net sales for the 59 Company-owned BHF stores were $254,667 for the fiscal 2016 as compared to $249,379 for fiscal 2015, an increase of $5,288 or 2.1%. The increase was due to a $3,349 or 1.4% increase in comparable store sales coupled with a $1,939 increase in non-comparable store sales.

While we do not recognize sales until goods are delivered to the consumer, management tracks written sales (the retail dollar value of sales orders taken, rather than delivered) as a key store performance indicator. Written sales for comparable stores increased by 1.4% for fiscal 2016 as compared to 2015.

The consolidated retail operating income for fiscal 2016 was $4,333 as compared to $6,170 for the 2015. The 56 comparable stores generated operating income of $7,230 for fiscal 2016, or 3.0% of sales, as compared to $8,051, or 3.4% of sales, for 2015. Gross margins for comparable stores were 49.9% for fiscal 2016 compared to 50.3% for 2015. Lower gross margins were due primarily to increased discounting of clearance items in preparation for a significant product rollout for the Memorial Day holiday promotion. Also, Company-owned stores experienced increased clearance activity in reducing imported wood furniture placements to make room for more upholstery on the retail floors. SG&A expenses for comparable stores increased $1,613 to $114,097 or 46.9% of sales, unchanged from the 2015 percentage.

Losses from the non-comparable stores in fiscal 2016 were $2,897 compared with $1,881 for fiscal 2015, an increase of $1,016. The loss for fiscal 2016 included $1,148 of pre-opening costs primarily associated with the Sterling, Virginia and Hunt Valley, Maryland stores which opened at the end of the second and third quarters of 2016, respectively, along with three other stores expected to open during the first half of 2017. These costs include rent, training costs and other payroll-related costs specific to a new store location incurred during the period leading up to its opening and generally range between $200 to $400 per store based on the overall rent costs for the location and the period between the time when the Company takes possession of the physical store space and the time of the store opening. Also included in the non-comparable store loss for 2016 are losses arising from the closure of our stores in Tucson, Arizona; Egg Harbor, New Jersey and Fountain Valley, California and the post-opening losses of the Woodland Hills, California store which opened during the fourth quarter of 2015.

We incur losses in the first two to three months of operation following a store opening as sales are not recognized in the income statement until the furniture is delivered to its customers resulting in operating expenses without the normal sales volume. Because we do not maintain a stock of retail inventory that would result in quick delivery, and because of the custom nature of the furniture offerings, such deliveries are generally not made until 30 days after the furniture is ordered by the customer. Coupled with the pre-opening costs, total start-up losses typically amount to $400 to $600 per store. During fiscal 2016, we had post-opening losses of $482 which were primarily associated with the Sterling, Virginia and Hunt Valley, Maryland stores, compared with post-opening losses of $112 during fiscal 2015 associated with the Woodland Hills, California store.

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

Fiscal 2015 as Compared to Fiscal 2014

Net sales for the 60 Company-owned Bassett Home Furnishings stores were $249,379 for fiscal 2015 as compared to $216,631 for fiscal 2014, an increase of $32,748 or 15%. The increase was primarily due to a $26,396 or 13% increase in comparable store sales coupled with a $6,352 increase in non-comparable store sales from 7 new stores opened in the last 24 months.

While we do not recognize sales until goods are delivered to the consumer, management tracks written sales (the retail dollar value of sales orders taken, rather than delivered) as a key store performance indicator. Written sales for comparable stores increased by 11% for 2015 over 2014.

The consolidated retail operating income for 2015 was $6,170 as compared to a loss of $528 for 2014, a $6,698 improvement. The 53 comparable stores generated operating income of $7,468 for the year, or 3.3% of sales, as compared to $2,266, or 1.1% of sales, for the prior year. Gross margins were 50.0% for 2015, unchanged from the prior year. SG&A expenses for comparable stores increased $8,022 to $105,347 or 46.7% of sales as compared to 48.9% of sales for 2014. This decrease is primarily due to greater leverage of fixed costs due to higher sales volumes.

Losses from the non-comparable stores in 2015 were $1,298 compared to $2,794 for 2014. This decrease is due in part to a decline in new store pre-opening costs from $1,217 recognized in 2014 due to the six new store openings during that year as compared with $623 in 2015 primarily associated with the Woodland Hills, California store which opened in early October of 2015. These costs included rent, training costs and other payroll-related costs specific to a new store location incurred during the period leading up to its opening and generally range between $200 to $400 per store based on the overall rent costs for the location and the period between the time when we take possession of the physical store space and the time of the store opening. Also included in the non-comparable store loss for 2014 was $983 in post-opening losses from six stores opened during 2014. We incur losses in the two to three months of operation following a store opening as sales are not recognized in the income statement until the furniture is delivered to its customers resulting in operating expenses without the normal sales volume. Because we do not maintain a stock of retail inventory that would result in quick delivery, and because of the custom nature of the furniture offerings, such deliveries are generally not made until after 30 days from when the furniture is ordered by the customer. Coupled with the pre-opening costs, total start-up losses typically amount to $400 to $600 per store.

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

Retail Comparable Store Sales Increases

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

	2016	2015	2014
Delivered	1.4 %	13.3%	3.7 %
Written	1.4 %	11.0%	4.3 %

Retail Backlog

The dollar value of our retail backlog, representing orders received but not yet delivered to customers as of November 26, 2016, November 28, 2015, and November 29, 2014, was as follows:

	2016	2015	2014
Year end retail backlog	$32,788	$31,871	$30,206
Retail backlog per open store	$556	$531	$503

Logistical Services Segment

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

	2016		2015 (1)	
Logistics revenue	$95,707	100.0%	$77,250	100.0%
Operating expenses	92,196	96.3 %	73,722	95.4 %
Income from operations	$3,511	3.7 %	$3,528	4.6 %

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

Operating expenses include depreciation and amortization of $4,204 for the year ended November 26, 2016 and $2,634 from the date of acquisition through November 28, 2015. Operating expenses as a percentage of sales increased primarily due to increases in fixed costs in anticipation of planned higher revenue.

Other Items Affecting Net Income (Loss)

Other items affecting net income for fiscal 2016, 2015 and 2014 are as follows:

	2016	2015	2014
Remeasurement gain on acquisition of affiliate (1)	$-	$7,212	$-
Income from unconsolidated affiliated company (2)	-	220	661
Income from Continued Dumping & Subsidy Offset Act (3)	240	1,156	-
Interest expense (4)	(552)	(607)	(188)
Loan and lease guarantee recovery (5)	59	73	66
Investment income (6)	296	228	352
Other (7)	(2,459)	(2,403)	(1,415)
Total other income (loss), net	$(2,416)	$5,879	$(524)

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

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

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

(4) Our interest expense prior to fiscal 2015 consisted primarily of interest on our retail real estate mortgage obligations and has been declining steadily as those obligations are being repaid. During fiscal 2015 our interest expense increased significantly due to debt arising from our acquisition of Zenith. See Note 3 to the Consolidated Financial Statements regarding debt incurred and assumed at the date of the acquisition. In the fourth quarter of fiscal 2016, we repaid all of the outstanding debt which had been secured by certain of Zenith’s real estate and transportation equipment. See Note 10 to the Consolidated Financial Statements for additional information regarding our outstanding debt at November 26, 2016.

(5) Loan and lease guarantee recovery consists of adjustments to reduce our reserves for the net amount of our estimated losses on loan and lease guarantees that we have entered into on behalf of our licensees. The recovery recognized for fiscal 2016, 2015 and 2014 reflects the changes in our estimates of the risk that we may have to assume the underlying obligations with respect to our guarantees.

(6) Investment income for fiscal 2016, 2015 and 2014 includes interest income arising from our short-term investments. See Note 4 to the Consolidated Financial Statements for additional information regarding our investments in certificates of deposit. Investment income for Fiscal 2016, 2015 and 2014 also includes gains of $176, $136 and $280, respectively, arising from the partial liquidation of our previously impaired investment in the Fortress Value Recovery Fund I, LLC, which was fully impaired during fiscal 2012.

(7) Fiscal 2014 includes $827 in death benefits received from life insurance policies covering former executives. No such benefits were received in fiscal 2016 or 2015.

Provision for Income taxes

We recorded an income tax provision of $9,948, $11,629 and $5,308 in fiscal 2016, 2015 and 2014, respectively. For fiscal 2016, our effective tax rate of 38.6% differs from the statutory rate of 35.0% primarily due to the effects of state income taxes and various permanent differences including the favorable impact of the Section 199 manufacturing deduction. For fiscal 2015, our effective tax rate of approximately 35.9% differs from the statutory rate of 35.0% primarily due to the effects of state income taxes, partially offset by a lower effective tax rate on the gain associated with our acquisition of Zenith arising from the remeasurement of our previous 49% equity method investment in Zenith. For fiscal 2014, our effective tax rate of approximately 36.3% differs from the statutory rate of 35.0% primarily due to the effects of state income taxes, adjustments to state net operating loss carryforwards, a reduction in the valuation allowance on deferred tax assets and permanent differences arising from non-taxable income. See Note 14 to the Consolidated Financial Statements for additional information regarding our income tax provision (benefit), as well as our net deferred tax assets and other matters.

We have net deferred tax assets of $8,071 as of November 26, 2016, which, upon utilization, are expected to reduce our cash outlays for income taxes in future years. It will require approximately $23,000 of future taxable income to utilize our net deferred tax assets.

Liquidity and Capital Resources

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

Cash Flows

Cash provided by operations for fiscal 2016 was $39,062 compared to $34,396 for fiscal 2015, an increase of $4,666. The improvement is primarily the result of higher operating income coupled with improved working capital management. Cash provided by operations for fiscal 2016 includes cash flows arising from excess tax benefits related to stock based compensation in the amount of $87 compared to $1,998 associated with such excess tax benefits during the comparable prior year period. This amount was previously reported as a cash flow from financing activities and has been reclassified due to our adoption of Accounting Standards Update No. 2016-09 (see Note 2 to our consolidated financial statements).

Our overall cash position decreased by $1,124 during 2016. Offsetting the cash provided by operations, we used $20,834 of cash in investing activities, primarily consisting of capital expenditures which included the purchase of freight transportation equipment, retail store relocations, retail store remodels, and in-process spending on new stores and expanding and upgrading our manufacturing capabilities. Net cash used in financing activities was $19,352, including dividend payments of $6,311 and stock repurchases of $6,393 under our existing share repurchase plan, of which $11,536 remains authorized at November 26, 2016. In addition, we had net repayments of long-term debt totaling $6,867, which included the full repayment of all debt previously secured by certain of Zenith's transportation equipment and real estate. With cash and cash equivalents and short-term investments totaling $58,269 on hand at November 26, 2016, we believe we have sufficient liquidity to fund operations for the foreseeable future.

Debt and Other Obligations

Effective December 5, 2015, we entered into a new credit facility with our bank which provides for a line of credit of up to $15,000. This credit facility, which matures in December of 2018, is unsecured and contains covenants requiring us to maintain certain key financial ratios. We are in compliance with all covenants under the agreement and expect to remain in compliance for the foreseeable future. At November 26, 2016, we had $1,972 outstanding under standby letters of credit against our line, leaving availability under our credit line of $13,028. In addition, we have outstanding standby letters of credit with another bank totaling $456.

At November 26, 2016 we have outstanding principal totaling $7,219, excluding discounts, under notes payable of which $3,385 matures within one year of the balance sheet date. See Note 10 to our consolidated financial statements for additional details regarding these notes, including collateral and future maturities. We expect to satisfy these obligations as they mature using cash flow from operations or our available cash on hand.

We lease land and buildings that are used in the operation of our Company-owned retail stores as well as in the operation of certain of our licensee-owned stores, and we lease land and buildings at various locations throughout the continental United States for warehousing and distribution hubs used in our logistical services segment. We also lease tractors, trailers and local delivery trucks used in our logistical services segment. We had obligations of $149,259 at November 26, 2016 for future minimum lease payments under non-cancelable operating leases having remaining terms in excess of one year. We also have guaranteed certain lease obligations of licensee operators. Remaining terms under these lease guarantees range from approximately one to three years. We were contingently liable under licensee lease obligation guarantees in the amount of $1,868 at November 26, 2016. See Note 17 to our condensed consolidated financial statements for additional details regarding our leases and lease guarantees.

Dividends and Share Repurchases

During fiscal 2016, we declared four quarterly dividends totaling $4,127, or $0.38 per share, and one special dividend of $3,218, or $0.30 per share. Cash dividend payments to our shareholders during fiscal 2016 totaled $6,311. During fiscal 2016, we also repurchased 254,450 shares of our stock for $6,393 under our share repurchase program. The weighted-average effect of these share repurchases was to increase both our basic and diluted earnings per share in 2016 by approximately $0.01.

Capital Expenditures

We currently anticipate that total capital expenditures for fiscal 2017 will be approximately $20 million which will be used primarily for the build out of new and relocated stores in our retail segment, build out of our permanent upholstery manufacturing space in Grand Prairie, Texas, various equipment upgrades in our wholesale manufacturing plants and the purchase of transportation equipment for our logistical services segment. Our capital expenditure and working capital requirements in the foreseeable future may change depending on many factors, including but not limited to the overall performance of the new stores, our rate of growth, our operating results and any adjustments in our operating plan needed in response to industry conditions, competition or unexpected events. We believe that our existing cash, together with cash from operations, will be sufficient to meet our capital expenditure and working capital requirements for the foreseeable future.

Fair Value Measurements

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

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

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

Level 3 Inputs– Instruments with primarily unobservable value drivers.

We believe that the carrying amounts of our current assets and current liabilities approximate fair value due to the short-term nature of these items. The recurring estimate of the fair value of our mortgages and notes payable for disclosure purposes (see Note 10 to the Consolidated Financial Statements) involves Level 3 inputs. Our primary non-recurring fair value estimates, typically involving the valuation of business acquisitions (see Note 3 to the Consolidated Financial Statements) and asset impairments (see Note 15 to the Consolidated Financial Statements) have utilized Level 3 inputs.

Contractual Obligations and Commitments

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

	2017	2018	2019	2020	2021	Thereafter	Total
Post employment benefit obligations (1)	$1,072	$1,034	$974	$928	$920	$ 10,948	$15,876
Notes payable	3,385	3,412	422	-	-	-	7,219
Other obligations & commitments	890	790	790	150	150	350	3,120
Contractual advertising	3,190	3,375	3,560	-	-	-	10,125
Interest payable	138	120	15	-	-	-	273
Letters of credit	2,428	-	-			-	2,428
Operating leases (2)	28,132	23,584	20,520	18,459	15,560	43,004	149,259
Lease guarantees (3)	860	728	280	-	-	-	1,868
Purchase obligations (4)	-	-	-			-	-
Total	$40,095	$33,043	$26,561	$19,537	$16,630	$ 54,302	$190,168

(1) Does not reflect a reduction for the impact of any company owned life insurance proceeds to be received. Currently, we have life insurance policies with net death benefits of $3,022 to provide funding for these obligations. See Note 11 to the Consolidated Financial Statements for more information.

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

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

(4) The Company is not a party to any long-term supply contracts with respect to the purchase of raw materials or finished goods. At the end of fiscal year 2016, we had approximately $14,413 in open purchase orders, primarily for imported inventories, which are in the ordinary course of business.

Off-Balance Sheet Arrangements

We utilize stand-by letters of credit in the procurement of certain goods in the normal course of business. We lease land and buildings that are primarily used in the operation of BHF stores and Zenith distribution facilities. We have guaranteed certain lease obligations of licensee operators as part of our retail strategy. See Contractual Obligations and Commitments table above and Note 17 to the Consolidated Financial Statements, included in Item 8 of this

Annual Report on Form 10-K, for further discussion of operating leases and lease guarantees, including descriptions of the terms of such commitments and methods used to mitigate risks associated with these arrangements.

Contingencies

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

Critical Accounting Policies and Estimates

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

Consolidation – The consolidated financial statements include the accounts of Bassett Furniture Industries, Incorporated and its majority-owned subsidiaries for whom we have operating control. In accordance with ASC Topic 810, *Consolidation,* we have evaluated our licensees and certain other entities to determine whether they are variable interest entities (“VIEs”) of which we are the primary beneficiary and thus would require consolidation in our financial statements. To date we have concluded that none of our licensees nor any other of our counterparties represent VIEs.

Revenue Recognition - Revenue is recognized when the risks and rewards of ownership and title to the product have transferred to the buyer. This generally occurs upon the shipment of goods to independent dealers or, in the case of Company-owned retail stores, upon delivery to the customer. Our wholesale payment terms generally vary from 30 to 60 days. For retail sales, we typically receive a significant portion of the purchase price as a customer deposit upon order, with the balance typically collected upon delivery. An estimate for returns and allowances has been provided in recorded sales. The contracts with our licensee store owners do not provide for any royalty or license fee to be paid to us. For our logistical services segment, line-haul freight revenue and home delivery revenue are recognized upon delivery to the destination. Warehousing services revenue is based upon warehouse space occupied by a customer's goods and inventory movements in and out of a warehouse and is recognized as such services are provided.

Staff Accounting Bulletin No. 104, *Revenue Recognition* ("SAB 104") outlines the four basic criteria for recognizing revenue as follows: (1) persuasive evidence of an arrangement exists, (2) delivery has occurred or services have been rendered, (3) the seller's price to the buyer is fixed or determinable, and (4) collectibility is reasonably assured. SAB 104 further asserts that if collectibility of all or a portion of the revenue is not reasonably assured, revenue recognition should be deferred until payment is received. During fiscal 2016, 2015 and 2014, there were no dealers for which these criteria were not met.

Allowance for Doubtful Accounts - We maintain an allowance for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments. Our accounts receivable reserves were $799 and $1,175 at November 26, 2016 and November 28, 2015, respectively, representing 4.2% and 5.3% of our gross accounts receivable balances at those dates, respectively. The allowance for doubtful accounts is based on a review of specifically identified customer accounts in addition to an overall aging analysis. We evaluate the collectibility of our receivables from our licensees and other customers on a quarterly basis based on factors such as their financial condition, our collateral position, potential future plans with licensees and other similar factors. Our allowance for doubtful accounts represents our best estimate of potential losses on our accounts and notes receivable and is adjusted accordingly based on historical experience, current developments and present economic conditions and trends. Although actual losses have not differed materially from our previous estimates, future losses could differ from our current estimates. Unforeseen events such as a licensee or customer bankruptcy filing could have a material impact on our results of operations.

Inventories - Inventories are stated at the lower of cost or market. Cost is determined for domestic furniture inventories using the last-in, first-out method. The cost of imported inventories is determined on a first-in, first-out basis. We estimate an inventory reserve for excess quantities and obsolete items based on specific identification and historical write-offs, taking into account future demand and market conditions. Our reserves for excess and obsolete inventory were $1,350 and $1,397 at November 26, 2016 and November 28, 2015, respectively, representing 2.5% and 2.3%, respectively, of our inventories on a last-in, first-out basis. If actual demand or market conditions in the future are less favorable than those estimated, additional inventory write-downs may be required.

Goodwill – Goodwill represents the excess of the purchase price over the value assigned to tangible assets and liabilities and identifiable intangible assets of businesses acquired. The acquisition of assets and liabilities and any resulting goodwill is allocated to the respective reporting unit; Wood, Upholstery, Retail or Logistical Services. We review goodwill at the reporting unit level annually for impairment or more frequently if events or circumstances indicate that assets might be impaired.

In accordance with ASC Topic 350, *Intangibles – Goodwill & Other,* the goodwill impairment test consists of a two-step process, if necessary. However, we first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test described in ASC Topic 350. The more likely than not threshold is defined as having a likelihood of more than 50 percent. If, after assessing the totality of events or circumstances, we determine that it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then performing the two-step impairment test is unnecessary and our goodwill is considered to be unimpaired. However, if based on our qualitative assessment we conclude that it is more likely than not that the fair value of a reporting unit is less than its carrying amount, we will proceed with performing the two-step process. Based on our qualitative assessment as described above, we have concluded that our goodwill in the amount of $11,588 is not impaired as of November 26, 2016.

The first step compares the carrying value of each reporting unit that has goodwill with the estimated fair value of the respective reporting unit. Should the carrying value of a reporting unit be in excess of the estimated fair value of that reporting unit, the second step is performed whereby we must calculate the implied fair value of goodwill by deducting the fair value of all tangible and intangible net assets of the reporting unit from the fair value of the reporting unit. This second step represents a hypothetical purchase price allocation as if we had acquired the reporting unit on that date. Our impairment methodology uses a discounted cash flow analysis requiring certain assumptions and estimates to be made regarding future profitability of the reporting unit and industry economic factors. While we believe such assumptions and estimates are reasonable, the actual results may differ materially from the projected amounts.

Other Intangible Assets – Intangible assets acquired in a business combination and determined to have an indefinite useful life are not amortized but are tested for impairment annually or between annual tests when an impairment indicator exists. The recoverability of indefinite-lived intangible assets is assessed by comparison of the carrying value of the asset to its estimated fair value. If we determine that the carrying value of the asset exceeds its estimated fair value, an impairment loss equal to the excess would be recorded. At November 26, 2016, our indefinite-lived intangible assets other than goodwill consist of trade names acquired in the acquisition of Zenith and have a carrying value of $2,490.

Definite-lived intangible assets are amortized over their respective estimated useful lives and reviewed for impairment whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. We estimate the useful lives of our intangible assets and ratably amortize the value over the estimated useful lives of those assets. If the estimates of the useful lives should change, we will amortize the remaining book value over the remaining useful lives or, if an asset is deemed to be impaired, a write-down of the value of the asset may be required at such time. At November 26, 2016 our definite-lived intangible assets consist of customer relationships and customized technology applications acquired in the acquisition of Zenith with a total carrying value of $3,282.

Impairment of Long-Lived Assets - We periodically evaluate whether events or circumstances have occurred that indicate long-lived assets may not be recoverable or that the remaining useful life may warrant revision. When such events or circumstances are present, we assess the recoverability of long-lived assets by determining whether the carrying value will be recovered through the expected undiscounted future cash flows resulting from the use of the asset. In the event the sum of the expected undiscounted future cash flows is less than the carrying value of the asset, an impairment loss equal to the excess of the asset’s carrying value over its fair value is recorded. When analyzing our real estate properties for potential impairment, we consider such qualitative factors as our experience in leasing and selling real estate properties as well as specific site and local market characteristics. Upon the closure of a Bassett Home Furnishings store, we generally write off all tenant improvements which are only suitable for use in such a store.

Recent Accounting Pronouncements

See note 2 to our Consolidated Financial Statements regarding the impact or potential impact of recent accounting pronouncements upon our financial position and results of operations.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to market risk from changes in the value of foreign currencies. Substantially all of our imports purchased outside of North America are denominated in U.S. dollars. Therefore, we believe that gains or losses resulting from changes in the value of foreign currencies relating to foreign purchases not denominated in U.S. dollars would not be material to our results from operations in fiscal 2016.

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

We are also exposed to commodity price risk related to diesel fuel prices for fuel used in our logistical services segment. We manage our exposure to that risk primarily through the application of fuel surcharges to our customers.

We have potential exposure to market risk related to conditions in the commercial real estate market. Our retail real estate holdings of $2,969 and $3,120 at November 26, 2016 and November 28, 2015, respectively, for stores formerly operated by licensees as well as our holdings of $26,454 and $27,175 at November 26, 2016 and November 28, 2015, respectively, for Company-owned stores could suffer significant impairment in value if we are forced to close additional stores and sell or lease the related properties during periods of weakness in certain markets. Additionally, if we are required to assume responsibility for payment under the lease obligations of $1,868 and $2,537 which we have guaranteed on behalf of licensees as of November 26, 2016 and November 28, 2015, respectively, we may not be able to secure sufficient sub-lease income in the current market to offset the payments required under the guarantees.

	Number of Locations	Aggregate Square Footage	Net Book Value (in thousands)
Real estate occupied by Company-owned and operated stores, included in property and equipment, net (1)	11	276,887	$ 26,454
Investment real estate leased to others	2	41,021	2,969

Total Company investment in retail real estate	13	317,908	$ 29,423

(1) Includes two properties encumbered under mortgages totaling $1,219 at November 26, 2016.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of Bassett Furniture Industries, Incorporated and Subsidiaries

We have audited the accompanying consolidated balance sheets of Bassett Furniture Industries, Incorporated and Subsidiaries as of November 26, 2016 and November 28, 2015, and the related consolidated statements of income, comprehensive income, stockholders' equity and cash flows for each of the three years in the period ended November 26, 2016. Our audits also included Financial Statement Schedule II - Analysis of Valuation and Qualifying Accounts for each of the three years in the period ended November 26, 2016. These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Bassett Furniture Industries, Incorporated and Subsidiaries at November 26, 2016 and November 28, 2015, and the consolidated results of their operations and their cash flows for each of the three years in the period ended November 26, 2016, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Bassett Furniture Industries, Incorporated and Subsidiaries’ internal control over financial reporting as of November 26, 2016, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework), and our report dated January 19, 2017 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Richmond, Virginia

January 19, 2017

Consolidated Balance Sheets

Bassett Furniture Industries, Incorporated and Subsidiaries

November 26, 2016 and November 28, 2015

(In thousands, except share and per share data)

	2016	2015
Assets		
Current assets		
Cash and cash equivalents	$35,144	$36,268
Short-term investments	23,125	23,125
Accounts receivable, net of allowance for doubtful accounts of $799 and $1,175 as of November 26, 2016 and November 28, 2015, respectively	18,358	21,197
Inventories	53,215	59,896
Other current assets	10,727	6,798
Total current assets	140,569	147,284
Property and equipment, net	104,655	96,104
Other long-term assets		
Deferred income taxes, net	8,071	13,471
Goodwill and other intangible assets	17,360	17,682
Other	7,612	8,002
Total other long-term assets	33,043	39,155
Total assets	$278,267	$282,543
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable	$21,281	$20,916
Accrued compensation and benefits	13,602	14,345
Customer deposits	25,181	23,999
Dividends payable	3,218	2,184
Current portion of long-term debt	3,290	5,273
Other accrued liabilities	10,441	13,133
Total current liabilities	77,013	79,850
Long-term liabilities		
Post employment benefit obligations	12,760	12,694
Notes payable	3,821	8,500
Other long-term liabilities	3,968	4,133
Total long-term liabilities	20,549	25,327
Commitments and Contingencies		

Stockholders' equity		
Common stock, $5 par value; 50,000,000 shares authorized; issued and outstanding 10,722,947 at November 26, 2016 and 10,916,021 at November 28, 2015	53,615	54,580
Retained earnings	129,388	120,904
Additional paid-in-capital	255	4,560
Accumulated other comprehensive loss	(2,553)	(2,678)
Total stockholders' equity	180,705	177,366
Total liabilities and stockholders' equity	$278,267	$282,543

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

Consolidated Statements of Income

Bassett Furniture Industries, Incorporated and Subsidiaries

For the years ended November 26, 2016, November 28, 2015, and November 29, 2014

(In thousands, except per share data)

	2016	2015	2014
Sales revenue:			
Furniture and accessories	$377,196	$387,405	$340,738
Logistics	54,842	43,522	-
Total sales revenue	432,038	430,927	340,738
Cost of furniture and accessories sold	167,519	179,291	158,317
Selling, general and administrative expenses excluding new store pre-opening costs	235,178	224,050	166,073
New store pre-opening costs	1,148	623	1,217
Lease exit costs	-	419	-
Asset impairment charges	-	106	-
Management restructuring costs	-	449	-
Income from operations	28,193	25,989	15,131
Remeasurement gain on acquisition of affiliate	-	7,212	-
Income from Continued Dumping & Subsidy Offset Act	240	1,156	-
Income from unconsolidated affiliated company	-	220	661
Interest expense	(552)	(607)	(188)
Other loss, net	(2,104)	(2,102)	(997)
Income before income taxes	25,777	31,868	14,607
Income tax expense	9,948	11,435	5,308
Net income	$15,829	$20,433	$9,299
Net income per share			
Basic income per share	$1.47	$1.91	$0.88
Diluted income per share	$1.46	$1.88	$0.87
Dividends per share			
Regular dividends	$0.38	$0.34	$0.28
Special dividend	$0.30	$0.20	$0.20

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

Consolidated Statements of Comprehensive Income

Bassett Furniture Industries, Incorporated and Subsidiaries

For the years ended November 26, 2016, November 28, 2015, and November 29, 2014

(In thousands)

	2016	**2015**	**2014**
Net income	$15,829	$20,433	$9,299
Other comprehensive income (loss):			
Actuarial adjustment to supplemental executive retirement defined benefit plan (SERP)	201	(1,135)	(918)
Income taxes related to SERP	(76)	431	358
Other comprehensive income (loss), net of tax	125	(704)	(560)
Total comprehensive income	$15,954	$19,729	$8,739

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

Consolidated Statements of Cash Flows

Bassett Furniture Industries, Incorporated and Subsidiaries

For the years ended November 26, 2016, November 28, 2015, and November 29, 2014

(In thousands)

	2016	2015	2014
Operating activities:			
Net income	$15,829	$20,433	$9,299
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	12,249	10,137	7,316
Equity in undistributed income of investments and unconsolidated affiliated companies	-	(220)	(661)
Non-cash asset impairment charges	-	106	-
Non-cash portion of lease exit costs	-	419	-
Remeasurement gain on acquisition of affiliate	-	(7,212)	-
Tenant improvement allowances received from lessors	914	1,283	3,060
Collateral deposited with insurance carrier	(300)	-	(1,150)
Deferred income taxes	5,324	1,930	544
Excess tax benefits from stock-based compensation	87	1,998	300
Other, net	1,055	2,082	264
Changes in operating assets and liabilities			
Accounts receivable	3,228	(2,354)	775
Inventories	6,681	(2,624)	(4,203)
Other current and long-term assets	(3,629)	1,494	1,548
Customer deposits	1,182	1,796	5,912
Accounts payable and accrued liabilities	(3,558)	5,128	7,257
Net cash provided by operating activities	39,062	34,396	30,261
Investing activities:			
Purchases of property and equipment	(21,501)	(13,974)	(17,980)
Proceeds from sales of property and equipment	667	2,981	5,157
Cash paid for business acquisition, net of cash acquired	-	(7,323)	-
Capital contribution to affiliate	-	(1,345)	-
Proceeds from sale of affiliate	-	-	2,348
Proceeds from maturities and sales of investments	-	-	5,000
Cash received on notes receivable and other	-	-	320
Net cash used in investing activities	(20,834)	(19,661)	(5,155)
Financing activities:			
Cash dividends	(6,311)	(5,786)	(5,155)
Proceeds from exercise of stock options	114	4,031	297
Issuance of common stock	182	325	311
Repurchases of common stock	(6,393)	(2,071)	(5,602)

Taxes paid related to net share settlement of equity awards	(77)	(178)	(489)
Proceeds from equipment loan	7,384	1,307	-
Payments on notes and equipment loans	(14,251)	(2,768)	(528)
Net cash used in financing activities	(19,352)	(5,140)	(11,166)
Change in cash and cash equivalents	(1,124)	9,595	13,940
Cash and cash equivalents - beginning of year	36,268	26,673	12,733
Cash and cash equivalents - end of year	$35,144	$36,268	