

BASSETT FURNITURE INDUSTRIES INC  
Form 10-Q/A  
August 21, 2009  
Table of Contents

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q/A**

(Amendment No. 1)

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

For the quarterly period ended February 28, 2009

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**  
(State or other jurisdiction of  
incorporation or organization)

**54-0135270**  
(I.R.S. Employer  
Identification No.)

**3525 Fairystone Park Highway**

**Bassett, Virginia 24055**

(Address of principal executive offices)

(Zip Code)

**(276) 629-6000**

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Large accelerated Filer  Accelerated Filer  Non-accelerated Filer

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

At July 31, 2009, 11,444,612 shares of common stock of the Registrant were outstanding.

**Table of Contents**

**EXPLANATORY NOTE**

During the first quarter of 2009, the Staff of the United States Securities and Exchange Commission (the "SEC") began its triennial review of our Form 10-K for the year ended November 29, 2008 and subsequently our Form 10-Q for the quarter ended February 28, 2009. As a result of the issues raised in that review and the Company's reevaluation of certain of its accounting policies and processes as they related to those issues, we determined that it was necessary to restate our Form 10-Q for the quarterly period ended February 28, 2009.

We have filed Amendment No. 1 to our Form 10-Q ( "Amendment") for the period ended February 28, 2009 for the purpose of restating our financial statements, related notes to the financial statements and Management's Discussion and Analysis. See Note 2 "Restatement of Previously Reported Results" for additional information concerning this restatement.

The disclosures in the Amendment continue to speak as of the date of the Original Report and do not reflect events occurring after the filing of the Original Report. Accordingly, the Amendment should be read in conjunction with our other filings made with the SEC subsequent to the filing of the Original Report. The filing of the Amendment shall not be deemed to be an admission that the Original Report, when made, included any untrue statement of material fact or omitted to state a material fact necessary to make a statement not misleading.

BASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIES

TABLE OF CONTENTS

ITEM	PAGE
PART I - FINANCIAL INFORMATION	
1. Condensed Consolidated Financial Statements as of February 28, 2009 (unaudited) and November 29, 2008 and for the quarters ended February 28, 2009 (restated and unaudited) and March 1, 2008 (unaudited)	
<u>Condensed Consolidated Statements of Operations and Retained Earnings</u>	3
<u>Condensed Consolidated Balance Sheets</u>	4
<u>Condensed Consolidated Statements of Cash Flows</u>	5
<u>Notes to Condensed Consolidated Financial Statements</u>	6
2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	20
3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	29
4. <u>Controls and Procedures</u>	30
PART II - OTHER INFORMATION	
1. <u>Legal Proceedings</u>	33
1A. <u>Risk Factors</u>	33
2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	33
3. <u>Defaults Upon Senior Securities</u>	33
4. <u>Submission of Matters to a Vote of Security Holders</u>	33
6. <u>Exhibits</u>	34

**Table of Contents****PART I - FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****BASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND RETAINED EARNINGS****FOR THE PERIODS ENDED FEBRUARY 28, 2009 (RESTATED) AND MARCH 1, 2008 UNAUDITED**

(In thousands except per share data)

	Quarter Ended	
	As restated 13 Weeks February 28, 2009	14 Weeks March 1, 2008
Net sales	\$ 57,811	\$ 81,599
Cost of sales	33,668	48,972
Gross profit	24,143	32,627
Selling, general and administrative expenses	32,744	32,215
Income (loss) from operations	(8,601)	412
Other income (loss), net	(3,297)	187
Income (loss) before income taxes	(11,898)	599
Income tax provision	(65)	(81)
Net income (loss)	\$ (11,963)	\$ 518
Retained earnings-beginning of period	73,160	131,725
Cumulative effect of change in accounting principle Adoption of FIN 48		(746)
Cash dividends		(2,362)
Retained earnings-end of period	\$ 61,197	\$ 129,135
Basic earnings (loss) per share	\$ (1.05)	\$ 0.04
Diluted earnings (loss) per share	\$ (1.05)	\$ 0.04
Dividends per share	\$	\$ 0.20

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

**Table of Contents****PART I - FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****BASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIES****CONDENSED CONSOLIDATED BALANCE SHEETS****FEBRUARY 28, 2009 (RESTATED) AND NOVEMBER 29, 2008**

(In thousands)

	<b>As restated (Unaudited) February 28, 2009</b>	<b>November 29, 2008</b>
<b><u>Assets</u></b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 11,604	\$ 3,777
Accounts receivable, net	39,927	40,793
Inventories	43,404	42,293
Other current assets	11,033	13,628
<b>Total current assets</b>	<b>105,968</b>	<b>100,491</b>
Property and equipment		
Cost	157,807	156,068
Less accumulated depreciation	99,222	98,913
<b>Property and equipment, net</b>	<b>58,585</b>	<b>57,155</b>
Investments	19,791	35,060
Retail real estate	27,476	29,588
Notes receivable, net	11,478	13,608
Other	8,949	9,140
	67,694	87,396
<b>Total assets</b>	<b>\$ 232,247</b>	<b>\$ 245,042</b>
<b><u>Liabilities and Stockholders' Equity</u></b>		
<b>Current liabilities</b>		
Accounts payable	\$ 15,321	\$ 18,747
Accrued compensation and benefits	4,748	4,818
Bank debt	18,000	
Customer deposits	8,234	6,725
Dividends payable		1,142
Other accrued liabilities	12,868	10,577
Current portion of real estate notes payable	6,389	1,012
<b>Total current liabilities</b>	<b>65,560</b>	<b>43,021</b>

Edgar Filing: BASSETT FURNITURE INDUSTRIES INC - Form 10-Q/A

**Long-term liabilities**

Post employment benefit obligations	12,718	12,829
Bank debt		19,000
Real estate notes payable	15,573	21,346
Distributions in excess of affiliate earnings	13,927	11,910
Other long-term liabilities	6,221	6,757
	48,439	71,842

**Commitments and Contingencies**

**Stockholders equity**

Common stock	56,837	57,102
Retained earnings	61,197	73,160
Additional paid-in-capital	627	346
Accumulated other comprehensive loss	(413)	(429)
Total stockholders equity	118,248	130,179

**Total liabilities and stockholders equity** \$ 232,247 \$ 245,042

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

**Table of Contents****PART I FINANCIAL INFORMATION CONTINUED****ITEM 1. FINANCIAL STATEMENTS****BASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****FOR THE PERIODS ENDED FEBRUARY 28, 2009 (RESTATED) AND MARCH 1, 2008 UNAUDITED**

(In thousands)

	Quarter Ended	
	As restated 13 Weeks February 28, 2009	14 Weeks March 1, 2008
<b>Operating activities:</b>		
Net income (loss)	\$ (11,963)	\$ 518
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation and amortization	1,482	2,036
Equity in undistributed income of investments and unconsolidated affiliated companies	338	(883)
Provision for losses on accounts and notes receivable	5,892	770
Provision for lease and loan guarantees	426	44
Other than temporary impairment of investments	1,255	
Realized income from investments	(104)	(182)
Deferred income taxes		(78)
Payment to terminate lease	(400)	
Other, net	51	(61)
Changes in operating assets and liabilities		
Accounts receivable	(4,109)	(4,803)
Inventories	(498)	471
Other current assets	2,669	1,947
Accounts payable and accrued liabilities	(95)	(8,403)
<b>Net cash used in operating activities</b>	<b>(5,056)</b>	<b>(8,624)</b>
<b>Investing activities:</b>		
Purchases of property and equipment	(589)	(199)
Purchases of retail real estate	(2)	(594)
Proceeds from sales of property and equipment	14	88
Acquisition of retail licensee stores, net of cash acquired		(216)
Proceeds from sales of investments	13,758	11,761
Purchases of investments	(858)	(4,739)
Dividends from an affiliate	2,811	2,811
Net cash received on licensee notes	131	281
Other, net	8	(45)
<b>Net cash provided by investing activities</b>	<b>15,273</b>	<b>9,148</b>
<b>Financing activities:</b>		
Net borrowings (repayments) under revolving credit facility	(1,000)	4,000

Edgar Filing: BASSETT FURNITURE INDUSTRIES INC - Form 10-Q/A

Repayments of real estate notes payable	(196)	(176)
Issuance of common stock	23	35
Repurchases of common stock	(75)	
Cash dividends	(1,142)	(2,362)
<b>Net cash provided by / (used in) financing activities</b>	<b>(2,390)</b>	<b>1,497</b>
<b>Change in cash and cash equivalents</b>	<b>7,827</b>	<b>2,021</b>
<b>Cash and cash equivalents - beginning of period</b>	<b>3,777</b>	<b>3,538</b>
<b>Cash and cash equivalents - end of period</b>	<b>\$ 11,604</b>	<b>\$ 5,559</b>

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



**Table of Contents**

**PART I-FINANCIAL INFORMATION-CONTINUED**

**BASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-UNAUDITED**

**FEBRUARY 28, 2009 (RESTATED)**

**(Dollars in thousands except share and per share data)**

**1. Basis of Presentation**

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

The condensed consolidated financial statements include the accounts of Bassett Furniture Industries, Incorporated ( Bassett , we , our , the Company ) and our majority owned subsidiaries of which we have operating control. The equity method of accounting is used for our investments in affiliated companies in which we exercise significant influence but do not maintain control, unless consolidated pursuant to Financial Accounting Standards Board ( FASB ) Revised Interpretation No. 46 Consolidation of Variable Interest Entities ( FIN46R ).

For comparative purposes, certain amounts in the 2008 financial statements have been reclassified to conform to the 2009 presentation.

Due to our fiscal calendar, our first quarter of 2008 consisted of 14 weeks as compared to 13 weeks for the first quarter of 2009.

**2. Restatement of Previously Reported Results**

During the first quarter of 2009, the Staff of the Securities and Exchange Commission (the SEC ) began its triennial review of our Form 10-K for the year ended November 29, 2008 and subsequently our Form 10-Q for the quarter ended February 28, 2009. Three primary issues were identified by the SEC as a result of their review. These included our initial valuation of notes receivable issued to our licensees (primarily for amounts converted from past due accounts receivable due from them), our methodology for determining reserves for our accounts receivable, notes receivable, and loan guarantees, and our classification of our revolving debt as current or long-term.

As a result of the SEC s comments, we began a review of the accounting policies and processes in the areas previously mentioned. Consequently, we determined that we should have recorded lower values for certain of our notes receivable upon inception and, subsequently, recorded additional reserves on those notes due to an error in how we determined an appropriate market rate of interest for those notes. In addition, we also concluded that we should have recognized revenue for certain customers on a cost recovery basis for shipments beginning in the first quarter of 2009 and that additional reserves for loan guarantees should be established. Therefore, we recorded an additional \$3,280 of net charges in the quarter ended February 28, 2009 to account for these lower note values, increased reserves and reduced revenue. Of the amount recorded, \$1,936 related to periods prior to the quarter ended February 28, 2009. However, based on our consideration of the underlying quantitative and qualitative factors surrounding the prior period errors, the effects on the previous annual and interim periods were determined to be immaterial and, therefore, prior periods have not been restated.

As a result, our net loss increased \$3,280 to \$11,963 and net loss per share increased \$0.29 per share to \$1.05 per share. The recognition of this additional expense and reduced revenue caused us to violate the net worth covenant contained in our revolving credit facility for the quarter ended February 28, 2009. As such, we have reclassified our debt under the revolving credit facility from long-term to current and have provided expanded disclosures around our liquidity. The following consolidated statements of operations and retained earnings, consolidated balance sheet, and consolidated statement of cash flows reconcile the previously reported and restated information.

**Table of Contents**PART I-FINANCIAL INFORMATION-CONTINUEDBASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIESNOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-UNAUDITEDFEBRUARY 28, 2009 (RESTATED)(Dollars in thousands except share and per share data)**Consolidated Statements of Operations and Retained Earnings (Restated)****for the quarter ended February 28, 2009**

	<b>For the Quarter Ended February 28, 2009</b>		
	<b>As previously reported</b>	<b>Restatement Adjustments</b>	<b>Restated</b>
Net sales	\$ 59,368	\$ (1,557) (a)	\$ 57,811
Cost of sales	34,758	(1,090) (a)	33,668
<b>Gross profit</b>	<b>24,610</b>	<b>(467)</b>	<b>24,143</b>
Selling, general and administrative expenses	30,174	2,570 (b)	32,744
Income (loss) from operations	(5,564)	(3,037)	(8,601)
Other income (loss), net	(3,054)	(243) (c)	(3,297)
Income (loss) before income taxes	(8,618)	(3,280)	(11,898)
Income tax provision	(65)		(65)
<b>Net income (loss)</b>	<b>\$ (8,683)</b>	<b>\$ (3,280)</b>	<b>\$ (11,963)</b>
Retained earnings-beginning of period	73,160		73,160
Cumulative effect of change in accounting principle Adoption of FIN 48			
Cash dividends			
<b>Retained earnings-end of period</b>	<b>\$ 64,477</b>	<b>\$ (3,280)</b>	<b>\$ 61,197</b>
Basic earnings (loss) per share	\$ (0.76)	\$ (0.29)	\$ (1.05)
Diluted earnings (loss) per share	\$ (0.76)	\$ (0.29)	\$ (1.05)
Dividends per share	\$	\$	\$

(a) Represents revenue and cost of sales reversed for shipments that do not meet the requirement for revenue recognition at the time of shipment.

Edgar Filing: BASSETT FURNITURE INDUSTRIES INC - Form 10-Q/A

- (b) Represents additional bad debt and notes receivable valuation charges.
- (c) Represents additional loan guarantee charges.

7 of 39

**Table of Contents****PART I-FINANCIAL INFORMATION-CONTINUED****BASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-UNAUDITED****FEBRUARY 28, 2009 (RESTATED)****(Dollars in thousands except share and per share data)****Consolidated Balance Sheet (Restated)****as of February 28, 2009**

	As previously reported	As of February 28, 2009 Restatement Adjustments	Restated
<b><u>Assets</u></b>			
<b>Current assets</b>			
Cash and cash equivalents	\$ 11,604	\$	\$ 11,604
Accounts receivable, net	37,887	2,040 (a)	39,927
Inventories	43,404		43,404
Other current assets	11,033		11,033
<b>Total current assets</b>	<b>103,928</b>	<b>2,040</b>	<b>105,968</b>
Property and equipment			
Cost	157,807		157,807
Less accumulated depreciation	99,222		99,222
<b>Property and equipment, net</b>	<b>58,585</b>		<b>58,585</b>
Investments			
Retail real estate	19,791		19,791
Notes receivable, net	27,476		27,476
Other	15,603	(4,125)(b)	11,478
	8,949		8,949
	71,819	(4,125)	67,694
<b>Total assets</b>	<b>\$ 234,332</b>	<b>\$ (2,085)</b>	<b>\$ 232,247</b>
<b><u>Liabilities and Stockholders' Equity</u></b>			
<b>Current liabilities</b>			
Accounts payable	\$ 15,321	\$	\$ 15,321
Accrued compensation and benefits	4,748		4,748
Bank debt		18,000 (c)	18,000
Customer deposits	8,234		8,234
Dividends payable			
Other accrued liabilities	11,673	1,195 (d)	12,868

Edgar Filing: BASSETT FURNITURE INDUSTRIES INC - Form 10-Q/A

Current portion of real estate notes payable	6,389		6,389
<b>Total current liabilities</b>	<b>46,365</b>	<b>19,195</b>	<b>65,560</b>
<b>Long-term liabilities</b>			
Post employment benefit obligations	12,718		12,718
Bank debt	18,000	(18,000) (c)	
Real estate notes payable	15,573		15,573
Distributions in excess of affiliate earnings	13,927		13,927
Other long-term liabilities	6,221		6,221
	66,439	(18,000)	48,439
<b>Commitments and Contingencies</b>			
<b>Stockholders equity</b>			
Common stock	56,837		56,837
Retained earnings	64,477	(3,280) (e)	61,197
Additional paid-in-capital	627		627
Accumulated other comprehensive loss	(413)		(413)
<b>Total stockholders equity</b>	<b>121,528</b>	<b>(3,280)</b>	<b>118,248</b>
<b>Total liabilities and stockholders equity</b>	<b>\$ 234,332</b>	<b>\$ (2,085)</b>	<b>\$ 232,247</b>

- (a) Represents reclassification of reserves to notes receivable, net and loan guarantee reserves (Other long-term liabilities) and reduction of accounts receivable due to revenue recognition reversals.
- (b) Represents additional bad debt and note discount reserves.
- (c) Represents reclassification of debt from long-term to current.
- (d) Represents additional reserves for loan guarantees.
- (e) Represents total additional charges for bad debt, notes receivable valuation and loan guarantee reserves.

**Table of Contents****PART I-FINANCIAL INFORMATION-CONTINUED****BASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-UNAUDITED****FEBRUARY 28, 2009 (RESTATED)****(Dollars in thousands except share and per share data)****Consolidated Statements of Cash Flows (Restated)****for the quarter ended February 28, 2009**

	<b>For the Quarter ended February 28, 2009</b>		
	<b>As previously reported</b>	<b>Restatement adjustments</b>	<b>Restated</b>
<b>Operating activities:</b>			
Net income (loss)	\$ (8,683)	\$ (3,280) (a)	\$ (11,963)
Adjustments to reconcile net income (loss) to net cash used in operating activities:			
Depreciation and amortization	1,482		1,482
Equity in undistributed income of investments and unconsolidated affiliated companies	338		338
Provision for losses on accounts and notes receivable	3,322	2,570(b)	5,892
Provision for lease and loan guarantees		426(c)	426
Other than temporary impairment of investments	1,255		1,255
Realized income from investments	(104)		(104)
Deferred income taxes			
Payment to terminate lease	(400)		(400)
Other, net	234	(183) (d)	51
Changes in operating assets and liabilities			
Accounts receivable	(4,576)	467(e)	(4,109)
Inventories	(498)		(498)
Other current assets	2,669		2,669
Accounts payable and accrued liabilities	(95)		(95)
<b>Net cash used in operating activities</b>	<b>(5,056)</b>		<b>(5,056)</b>
<b>Investing activities:</b>			
Purchases of property and equipment	(589)		(589)
Purchases of retail real estate	(2)		(2)
Proceeds from sales of property and equipment	14		14
Acquisition of retail licensee stores, net of cash acquired			
Proceeds from sales of investments	13,758		13,758
Purchases of investments	(858)		(858)
Dividends from an affiliate	2,811		2,811
Net cash received on licensee notes	131		131
Other, net	8		8
<b>Net cash provided by investing activities</b>	<b>15,273</b>		<b>15,273</b>

Edgar Filing: BASSETT FURNITURE INDUSTRIES INC - Form 10-Q/A

**Financing activities:**

Net borrowings (repayments) under revolving credit facility	(1,000)		(1,000)
Repayments of real estate notes payable	(196)		(196)
Issuance of common stock	23		23
Repurchases of common stock	(75)		(75)
Cash dividends	(1,142)		(1,142)
<b>Net cash provided by / (used in) financing activities</b>	<b>(2,390)</b>		<b>(2,390)</b>
<b>Change in cash and cash equivalents</b>	<b>7,827</b>		<b>7,827</b>
<b>Cash and cash equivalents - beginning of period</b>	<b>3,777</b>		<b>3,777</b>
<b>Cash and cash equivalents - end of period</b>	<b>\$ 11,604</b>	<b>\$</b>	<b>\$ 11,604</b>

- (a) Represents the increase in the net loss as a result of the restatement.
- (b) Represents additional bad debt and notes receivable valuation charges.
- (c) Represents total amount of charges recorded for loan and lease guarantee reserves.
- (d) Represents reclass of initial charge for loan and lease guarantee reserves which were previously recorded in other, net.
- (e) Represents net reduction to accounts receivable for revenue reversal adjustment.

---

**Table of Contents**

**PART I-FINANCIAL INFORMATION-CONTINUED**

**BASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-UNAUDITED**

**FEBRUARY 28, 2009 (RESTATED)**

**(Dollars in thousands except share and per share data)**

**3. Interim Financial Presentation**

All intercompany accounts and transactions have been eliminated in the condensed consolidated financial statements. The results of operations for the quarter ended February 28, 2009, as restated, are not necessarily indicative of results for the fiscal year. These interim condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and accompanying notes included in our Annual Report on Form 10-K for the year ended November 29, 2008.

We calculate an anticipated effective tax rate for the year based on our annual estimates of pretax income or loss and use that effective tax rate to record our year-to-date income tax provision. Any change in annual projections of pretax income or loss could have a significant impact on our effective tax rate for the respective quarter. During the fourth quarter of 2008, we recorded a \$23,383 charge to establish a valuation allowance against substantially all of our deferred tax assets as we were in a cumulative loss position for the past three years, which is considered significant negative evidence as to whether our deferred tax assets will be realized. Since we reported losses in the quarter and remained in this cumulative loss position, we recorded no tax benefits on the losses generated for the quarter ended February 28, 2009. The tax provision for the quarter ended February 28, 2009 represents the accrual of income taxes to be paid in certain states and the accrual of penalties and interest associated with certain unrecognized tax benefits.

**4. Revenue Recognition**

Revenue is recognized when the risks and rewards of ownership and title to the product have transferred to the buyer. This occurs upon the shipment of goods to independent dealers or, in the case of Company-owned retail stores, upon delivery to the customer.

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. In our judgment, collectibility is not reasonably assured when the decision has been made to exit a dealer. Currently, there are 6 dealers where revenue is being recognized on a cost recovery basis. This resulted in a deferral of revenue and cost of \$2,789 and \$1,952, respectively, for the quarter ended February 28, 2009. There were no such dealers that met the criteria for revenue deferral during the quarter ended March 1, 2008.

**5. Inventories**

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



**Table of Contents****PART I-FINANCIAL INFORMATION-CONTINUED****BASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-UNAUDITED****FEBRUARY 28, 2009 (RESTATED)****(Dollars in thousands except share and per share data)**

Inventories were comprised of the following:

	<b>February 28, 2009</b>	<b>November 29, 2008</b>
Finished goods	\$ 28,507	\$ 29,092
Work in process	214	251
Raw materials and supplies	7,710	7,853
Retail merchandise	17,035	14,995
<b>Total inventories at FIFO</b>	<b>53,466</b>	<b>52,191</b>
LIFO adjustment	(7,509)	(7,393)
Reserve for excess and obsolete inventory	(2,553)	(2,505)
	<b>\$ 43,404</b>	<b>\$ 42,293</b>

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

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

	<b>Balance at November 29, 2008</b>	<b>Additions Charged to Expense</b>	<b>Deductions</b>	<b>Balance at February 28, 2009</b>
Wholesale	\$ 2,071	\$ 801	\$ (825)	\$ 2,047
Retail	434	223	(151)	506
	<b>\$ 2,505</b>	<b>\$ 1,024</b>	<b>\$ (976)</b>	<b>\$ 2,553</b>

Our estimates and assumptions have been reasonably accurate in the past. We have not made any significant changes to our methodology for determining inventory reserves during the quarter ended February 28, 2009 and do not anticipate that our methodology is reasonably likely to change in the future. A plus or minus 10% change in our inventory reserves would not have been material to our financial statements for the periods presented.



**Table of Contents****PART I-FINANCIAL INFORMATION-CONTINUED****BASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-UNAUDITED****FEBRUARY 28, 2009 (RESTATED)****(Dollars in thousands except share and per share data)****6. Notes Receivable**

Our notes receivable consist of the following:

	<b>February 28, 2009</b>	<b>November 29, 2008</b>
Notes receivable	\$ 22,747	\$ 21,801
Allowance for doubtful accounts	(4,004)	(3,604)
Discounts on notes receivable	(5,583)	(2,992)
Notes receivable, net	13,160	15,205
Less: current portion of notes receivable	(1,682)	(1,597)
Long term notes receivable	\$ 11,478	\$ 13,608

Our notes receivable, which bear interest at rates ranging from 8.25% to 2%, consist primarily of amounts due from our licensees from loans made by the Company to help licensees fund their operations. 67% and 65% of our notes receivable represent conversions of past due accounts receivable at February 28, 2009 and November 29, 2008, respectively. At the inception of the note receivable, and in accordance with the provisions of Accounting Principles Board Opinion No. 21, *Interest on Receivables and Payables*, we determine whether the note bears a market rate of interest. A discount on the note is recorded if we determine that the note bears an interest rate below the market rate. We amortize the related note discount over the contractual term of the note and cease amortizing the discount to interest income when the present value of expected future cash flows is less than the carrying value of the note. We recorded \$189 and \$206 in total interest income on these notes for the quarters ended February 28, 2009 and March 1, 2008, respectively, which is included in other income (loss), net.

As part of the improvement plans with one of our licensees, we converted \$1,100 of past due trade accounts receivable and refinanced an existing note with a remaining balance of \$224 into a \$1,324 long-term note bearing interest at 4.75% during the quarter ended February 28, 2009. This note requires interest only payments through 2011 and interest and principal payments due monthly through its maturity on December 31, 2016. The initial carrying value of the note is determined using present value techniques which consider the fair market rate of interest based on the licensee's risk profile and estimated cash flows to be received. We considered the stated interest rate to be below market due to the overall lack of availability of credit in the financial markets. Consequently, we discounted the estimated cash flows at a 19.5% discount rate which resulted in an initial fair value of \$672. The inputs into this fair value calculation reflect our market assumptions and are not observable. Consequently, the inputs are considered to be Level III as specified in the fair value hierarchy in SFAS No. 157, *Fair Value Measurements* (See also Note 14).

On a quarterly basis and in accordance with the provisions of Statement of Financial Accounting Standards No. 114, *Accounting by Creditors for Impairment of a Loan - an amendment of FASB Statements No. 5 and 15* ( SFAS 114 ), we examine these notes for evidence of impairment, considering factors such as licensee capitalization, projected operating performance, the viability of the market in which the licensee operates and the licensee's operating history, including our cash receipts from the licensee, licensee sales and any underlying collateral. After considering these factors, should we believe that all or a portion of the expected cash flows attributable to the note receivable will not be received, we record an impairment charge on the note by estimating future cash flows and discounting them at the effective interest rate. Any difference between the estimated discounted cash flows and the carrying value of the note is recorded as an increase to the allowance for doubtful accounts.

## Edgar Filing: BASSETT FURNITURE INDUSTRIES INC - Form 10-Q/A

These notes, as well as our accounts receivable, are secured by the filing of security statements in accordance with the Uniform Commercial Code and/or real estate owned by the note holder and in some cases, personal guarantees by our licensees.

12 of 39

**Table of Contents****PART I-FINANCIAL INFORMATION-CONTINUED****BASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-UNAUDITED****FEBRUARY 28, 2009 (RESTATED)****(Dollars in thousands except share and per share data)****7. Unconsolidated Affiliated Companies**

The International Home Furnishings Center ( IHFC ) owns and leases out floor space in a showroom facility in High Point, North Carolina. We owned 46.9% of IHFC at February 28, 2009, and March 1, 2008, and accounted for the investment using the equity method since we do not maintain operating control of IHFC. Our investment reflects a credit balance of \$13,927 and \$11,910 at February 28, 2009, and November 29, 2008, respectively, which is reflected in the liabilities section in the accompanying consolidated balance sheets as distributions in excess of affiliate earnings. Based on current and expected future earnings of IHFC, we believe the market value of this investment is positive and substantially greater than its negative book value at February 28, 2009. This negative book value resulted from IHFC's refinancing of its real estate based on the market value of the property and using the proceeds to pay a special dividend to its owners. We recorded income and received dividends from IHFC as follows:

	<b>Quarter ended</b>	
	<b>February 28, 2009</b>	<b>March 1, 2008</b>
Income recorded	\$ 794	\$ 1,040
Dividends received	2,811	2,811

Summarized unaudited income statement information for IHFC for its first three months of 2009 and 2008, respectively, is as follows:

	<b>2009</b>	<b>2008</b>
Revenue	\$ 8,356	\$ 9,239
Operating income	5,021	5,809
Net income	1,696	2,220

In addition to our investment in IHFC, we have a 49% ownership interest in Zenith Freight Lines, LLC ( Zenith ) and we recorded the following in other income (loss), net in our condensed consolidated statements of operations and retained earnings:

	<b>Quarter ended</b>	
	<b>February 28, 2009</b>	<b>March 1, 2008</b>
Income (loss)	\$ 60	\$ (228)

**8. Real Estate Notes Payable and Other Long-Term Debt**

Certain of our retail real estate properties have been financed through commercial mortgages with interest rates ranging from 6.73% to 9.18%. These mortgages are collateralized by the respective properties with net book values totaling approximately \$29,814 and \$29,668 at February 28, 2009, and November 29, 2008, respectively. The current portion of these mortgages, \$6,389 and \$812 as of February 28, 2009, and November 29, 2008, respectively, has been included as a current liability in the accompanying condensed consolidated balance sheets. The long-term portion, \$15,573 and \$21,346 as of February 28, 2009, and November 29, 2008, respectively, is presented as real estate notes payable in the condensed consolidated balance sheets.

## Edgar Filing: BASSETT FURNITURE INDUSTRIES INC - Form 10-Q/A

We currently have \$18,000 outstanding on our revolving credit facility which provides for borrowings of up to \$45,000 at a variable interest rate of LIBOR plus 1.75% (1.92% on February 28, 2009). The facility is secured by a pledge of certain marketable securities and substantially all of our receivables and inventories and matures on November 30, 2010. It contains, among other provisions, certain defined financial covenants including a minimum level of net worth that requires us to have Tangible Net Worth, as defined in the credit agreement, of \$118,000 as of the quarterly testing dates. As a result of the impact of the adjustments made as outlined in Note 2, we were no longer in compliance with the Tangible Net Worth covenant which represents an Event of Default as defined in our credit agreement. Consequently, our bank has the ability to immediately demand repayment of the loan and we have

13 of 39

**Table of Contents****PART I-FINANCIAL INFORMATION-CONTINUED****BASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-UNAUDITED****FEBRUARY 28, 2009 (RESTATED)****(Dollars in thousands except share and per share data)**

reclassified the debt to the current liabilities section of our condensed consolidated balance sheet. During the quarter, our tangible net worth decreased by \$11,931 due primarily to operating losses of \$8,601 and both realized and unrealized losses associated with the Alternative Asset Fund and our marketable securities portfolio of \$2,369. This covenant violation also prevents us from making any additional borrowings under the facility until the covenant is waived and/or amended. However, had there been no covenant violation, we would have had an additional \$8,013 of availability under the facility.

We have begun discussions with our lender to amend the Tangible Net Worth covenant. We expect to complete these discussions during the third quarter of 2009. We currently believe that we will be successful in obtaining an amendment. However, should we be unsuccessful, the lender has the ability to accelerate repayment under the facility. If such liquidity needs were to arise, we would explore other liquidity options such as negotiating with another lender, sale of our interest in IHFC, sale of existing investment real estate or mortgaging other investment real estate. Should we be unsuccessful with these and all other potential options in obtaining the necessary liquidity, this could have a material adverse effect on our operations.

**9. Comprehensive Income**

For the quarters ended February 29, 2008, and March 1, 2008, total comprehensive loss was \$(11,947) and \$(774), respectively. Changes in accumulated other comprehensive income (loss) for the quarters ended February 28, 2009, and March 1, 2008 are as follows:

	<b>Quarter ended</b>	
	<b>February 28, 2009</b>	<b>March 1, 2008</b>
Balance at beginning of period	\$ (429)	\$ 1,914
Unrealized holding gains (losses)	10	(1,298)
Amortization associated with SERP Plan	6	6
Balance at end of quarter	\$ (413)	\$ 622

**10. Licensee Acquisition**

Effective December 1, 2008, we acquired the net assets of our licensee stores in Scottsdale and Tucson, Arizona and began operating them as Company-owned stores. The net assets acquired consisted of inventory of \$613 and leasehold improvements and other assets of \$470 and we assumed certain liabilities of \$180. The acquisition was primarily funded through existing accounts receivable from the licensee and did not result in any goodwill or other intangibles.

Our Fredericksburg, Maryland store ceased operations as a licensee-owned store as of the end of January, 2009. Beginning in February, 2009, this store began operating as a Company-owned store. We own the real estate associated with this store.

**11. Contingencies**

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

## Edgar Filing: BASSETT FURNITURE INDUSTRIES INC - Form 10-Q/A

adverse effect on our financial position or future results of operations.

We lease land and buildings that are used in the operation of our Company-owned retail stores as well as in the operation of licensee-owned stores. We had obligations of \$93,301 and \$96,773 at February 28, 2009 and November 29, 2008, respectively, 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. Lease guarantees range from one to ten years. We were contingently liable under licensee lease obligation guarantees in the amount of \$11,147 and \$11,605 at February 28, 2009, and November 29, 2008, respectively.

14 of 39



**Table of Contents****PART I-FINANCIAL INFORMATION-CONTINUED****BASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-UNAUDITED****FEBRUARY 28, 2009 (RESTATED)****(Dollars in thousands except share and per share data)**

We have also guaranteed loans to certain of our licensees to finance initial inventory packages and other operating requirements for those stores. The total contingent liabilities with respect to these loan guarantees as of February 28, 2009, and November 29, 2008, were \$6,900 and \$7,869, respectively.

In the event of default by an independent dealer under the guaranteed lease or loan, we believe that the risk of loss is mitigated through a combination of options that include, but are not limited to, arranging for a replacement dealer, liquidating the collateral (primarily inventory), and pursuing payment under the personal guarantees of the independent dealer. The proceeds of the above options are expected to cover the estimated amount of our future payments under the guarantee obligations, net of recorded reserves. The fair value of lease and loan guarantees (an estimate of the cost to the Company to perform on these guarantees) at February 28, 2009, and November 29, 2008, was \$2,131 and \$2,005, respectively, and are recorded in accrued liabilities in the accompanying condensed consolidated balance sheets.

**12. Post Employment Benefit Obligations**

We have an unfunded Supplemental Retirement Income Plan (the Supplemental Plan ) that covers one current and certain former executives. The liability for this plan was \$10,584 and \$10,671 as of February 28, 2009 and November 29, 2008, respectively, and is recorded as follows in the consolidated balance sheets:

	<b>February 28, 2009</b>	<b>November 29, 2008</b>
Other accrued liabilities	\$ 1,189	\$ 1,189
Post employment benefit obligations	9,395	9,482
<b>Total pension liability</b>	<b>\$ 10,584</b>	<b>\$ 10,671</b>

Components of net periodic pension costs are as follows:

	<b>Quarter Ended</b>	
	<b>February 28, 2009</b>	<b>March 1, 2008</b>
Service cost	\$ 9	\$ 13
Interest cost	157	158
Amortization of transition obligation	11	11
<b>Net periodic pension cost</b>	<b>\$ 177</b>	<b>\$ 182</b>

We have an unfunded Deferred Compensation Plan that covers one current and certain former executives and provides for voluntary deferral of compensation. This plan has been frozen with no additional participants or deferrals permitted. We recognized expense of \$114 for the first quarter of both 2009 and 2008. Our liability under this plan was \$3,323 and \$3,347 as of February 28, 2009 and November 29, 2008, respectively, and is reflected in post employment benefit obligations.



**Table of Contents****PART I-FINANCIAL INFORMATION-CONTINUED****BASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-UNAUDITED****FEBRUARY 28, 2009 (RESTATED)****(Dollars in thousands except share and per share data)****13. Earnings Per Share**

The following reconciles basic and diluted earnings per share:

	<b>Net Income (Loss)</b>	<b>Weighted Average Shares</b>	<b>Earnings (loss) per share</b>
<b><u>For the quarter ended February 28, 2009 (as restated):</u></b>			
Net loss	\$ (11,963)	11,423,869	\$ (1.05)
Add effect of dilutive securities:			
Options *			
Diluted earnings per share	\$ (11,963)	11,423,869	\$ (1.05)
<b><u>For the quarter ended March 1, 2008:</u></b>			
Net income	\$ 518	11,809,345	\$ 0.04
Add effect of dilutive securities:			
Options		18	
Diluted earnings per share	\$ 518	11,809,363	\$ 0.04

\* Due to the net loss, the potentially dilutive securities would have been antidilutive and are therefore excluded.

Options to purchase 1,206,138 and 1,458,685 shares of common stock at February 28, 2009 and March 1, 2008, respectively, were excluded from the computation as their effect is antidilutive.

**14. Fair Value Disclosures**

Our investments consist of the Alternative Asset Fund with a value of \$8,942 and \$23,053 and a portfolio of marketable securities with a value of \$10,849 and \$12,007 as of February 28, 2009 and November 29, 2008, respectively. Collectively, these are recorded in our consolidated balance sheet under the caption of investments.

In September 2006, the Financial Accounting Standards Board issued SFAS No. 157, Fair Value Measurements ( SFAS 157 or the Standard ). The Standard defines fair value, provides a consistent framework for measuring fair value under accounting principles generally accepted in the United States and expands fair value financial statement disclosure requirements. SFAS 157 does not require any new fair value measurements. It only applies to accounting pronouncements that already require or permit fair value measures, except for standards that relate to share-based payments (SFAS 123R Share Based Payment.)

## Edgar Filing: BASSETT FURNITURE INDUSTRIES INC - Form 10-Q/A

SFAS 157'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. The Standard 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.

Our investment in the Bassett Industries Alternative Asset Fund LP (BIAAF) is valued at fair value primarily based on the net asset values which are determined by the investee fund, based on its underlying financial instruments as provided by the general partner. Investment balances by fund are presented below.

**Table of Contents**PART I-FINANCIAL INFORMATION-CONTINUEDBASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIESNOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-UNAUDITEDFEBRUARY 28, 2009 (RESTATED)(Dollars in thousands except share and per share data)

	February 28, 2009	November 29, 2008
Styx Partners, L.P.	\$ 1,355	\$ 13,461
HBK Fund, L.P.	4,903	6,022
DB Zwirn Special Opportunities Fund, L.P.	2,289	3,254
Cash and Other	395	316
	\$ 8,942	\$ 23,053

We have requested our general partner to attempt to liquidate all of our investments in BIAAF. During the first quarter of 2009, we received \$12,900 for liquidations associated with Styx Partners, L.P. and HBK Fund, L.P. We expect to receive the remaining portion of our investment in Styx Partners, L.P. during our third quarter subject to completion of their audit. Due to the level of redemption requests, we have been informed that the remainder of the investment in HBK Fund, L.P. should be redeemed with quarterly distributions over the next two years. We also have been informed that due to the magnitude of other redemption requests on the DB Zwirn Special Opportunities Fund, L.P., it is likely that it will be three to four years before our investment is fully redeemed. We expect to receive the total stated net asset value for the HBK and Zwirn investments, subject to any further change in the net asset value due to market variations.

The fair values of our marketable securities and our investment in BIAAF based on the level of inputs are summarized below:

	February 28, 2009			Assets at Fair Value
	Fair Value Level 1	Measurements Using Level 2	Level 3	
<b>Assets</b>				
Marketable Securities	\$ 10,849			\$ 10,849
Investment in BIAAF			8,942	8,942
<b>Total Assets</b>	\$ 10,849	\$ 8,942		\$ 19,791

**Table of Contents****PART I-FINANCIAL INFORMATION-CONTINUED****BASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-UNAUDITED****FEBRUARY 28, 2009 (RESTATED)****(Dollars in thousands except share and per share data)**

The table below provides a reconciliation of all assets measured at fair value on a recurring basis which use level three or significant unobservable inputs for the quarter ended February 28, 2009.

	<b>Fair value Measurements Using Significant Unobservable Inputs (Level 3 Inputs)</b>	
	<b>Investment in BIAAF</b>	
<b>Balance at November 29, 2008</b>	\$	23,053
Total losses included in earnings related to change in underlying net assets		(1,192)
Tax withholdings by general partner		(19)
Redemptions		(12,900)
Transfers in and/or out of Level 3		
<b>Balance February 28, 2009</b>	\$	8,942

We have \$10,849 of marketable securities consisting of a combination of equity and fixed income securities. We classify our marketable securities as available-for-sale, which are reported at fair value. Unrealized holding gains and losses, net of the related income tax effect, on available-for-sale securities are excluded from income and are reported as other comprehensive income in stockholders' equity. Realized gains and losses from securities classified as available-for-sale are included in income. We determine the fair value of our marketable securities based on quoted market prices.

Although we have the ability to buy and sell the individual marketable securities, we are required to maintain a certain dollar amount in those brokerage accounts subject to the Securities Account Control Agreement as part of the revolving credit facility.

In accordance with SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities*, we review our marketable securities to determine whether a decline in fair value of a security below the cost basis is other than temporary. Should the decline be considered other than temporary, we write down the cost basis of the security and include the loss in current earnings as opposed to recording an unrealized holding loss. Due to the continued decline in the financial markets during the fiscal first quarter of 2009, many of our holdings sustained significant losses. Consequently, we recorded \$1,255 in losses that are considered other than temporary in our consolidated statement of operations for the quarter ended February 28, 2009.

**15. Segment Information**

We have strategically aligned our business into three reportable segments: Wholesale, Retail and Investments/Real Estate. The wholesale home furnishings segment is involved principally in the design, manufacture, sourcing, sale and distribution of furniture products to a network of Bassett stores (independently-owned stores, Company-owned retail stores and partnership licensees) and independent furniture retailers. Our wholesale segment includes our wood and upholstery operations as well as all corporate selling, general and administrative expenses.

## Edgar Filing: BASSETT FURNITURE INDUSTRIES INC - Form 10-Q/A

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

Our investments/real estate segment consists of our investments (Alternative Asset Fund and marketable securities), distributions in excess of affiliate earnings (IHFC) and retail real estate related to licensee stores. Although this segment does not have operating earnings, income or loss from the segment is included in other income in our condensed consolidated statements of operations and retained earnings. Our equity investment in IHFC is not

**Table of Contents****PART I-FINANCIAL INFORMATION-CONTINUED****BASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-UNAUDITED****FEBRUARY 28, 2009 (RESTATED)****(Dollars in thousands except share and per share data)**

included in the identifiable assets of this segment since it has a negative book value and is therefore included in the long-term liabilities section of our condensed consolidated balance sheet. See Note 7 for a further discussion of IHFC.

Inter-company net sales elimination represents the elimination of wholesale sales to our Company-owned stores. Inter-company income elimination represents the embedded wholesale profit in the Company-owned store inventory that has not been realized. These profits will be recorded when merchandise is delivered to the end retail consumer.

The following table presents our segment information:

	Quarter Ended	
	As restated February 28, 2009	March 1, 2008
<b>Net Sales</b>		
Wholesale	\$ 47,948	\$ 69,309
Retail	23,743	25,927
Inter-company elimination	(13,880)	(13,637)
Consolidated	\$ 57,811	\$ 81,599
<b>Income (loss) from Operations</b>		
Wholesale	\$ (5,716)	\$ 2,883
Retail	(2,658)	(2,057)
Inter-company elimination	(227)	(414)
Consolidated	\$ (8,601)	\$ 412
<b>Depreciation and Amortization</b>		
Wholesale	\$ 456	\$ 1,058
Retail	666	548
Investments/real estate	360	430
Consolidated	\$ 1,482	\$ 2,036
<b>Capital Expenditures</b>		
Wholesale	\$ 114	\$ 137
Retail	473	656
Investments/real estate	2	



Edgar Filing: BASSETT FURNITURE INDUSTRIES INC - Form 10-Q/A

Consolidated \$ 589 \$ 793

	<b>As restated As of February 28, 2009</b>	<b>As of November 29, 2008</b>
<b>Identifiable Assets</b>		
Wholesale	\$ 124,923	\$ 126,619
Retail	60,057	53,775
Investments/real estate	47,267	64,648
<b>Consolidated</b>	<b>\$ 232,247</b>	<b>\$ 245,042</b>

19 of 39

**Table of Contents**

**PART I-FINANCIAL INFORMATION-CONTINUED**

**BASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIES**

**FEBRUARY 28, 2009 (RESTATED)**

**(Dollars in thousands except share and per share data)**

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

The following discussion should be read along with the unaudited condensed consolidated financial statements included in this Form 10-Q, as well as the company's 2008 Annual Report on Form 10-K filed with the Securities and Exchange Commission, which provides a more thorough discussion of the Company's products and services, industry outlook, and business trends.

Bassett Furniture Industries Inc., based in Bassett, Va., is a leading retailer, manufacturer and marketer of branded home furnishings. Bassett's products are sold primarily through Bassett Furniture Direct (BFD) and Bassett Home Furnishings (BHF) stores, with secondary distribution through multi-line furniture stores, many with in-store Bassett Design Centers. Bassettbaby cribs and casegoods are sold through specialty stores and mass merchants.

Bassett Furniture Direct (BFD or store) was created in 1997 as a single source home furnishings retail store that provides a unique combination of stylish, well-made furniture and accessories with a high level of customer service. This service includes complimentary room planning, in-home design visits, quick delivery, and custom-order furniture. The retail store program had 115 stores in operation at the end of the first quarter of 2009, 34 of which we own and operate.

We define imported product as fully finished product that is sourced internationally. In the first quarter of 2009, 53% of our wholesale sales were of imported product compared to 58% in the first quarter of 2008. Our domestic product includes certain products that contain components which are also sourced internationally. We continue to believe that a blended strategy including domestically produced products primarily of a custom-order nature combined with importing certain product categories and major collections, provides the best combination of value and quality to our customers.

Overall conditions for our industry and our Company have been difficult over the past several years and have persisted throughout the first quarter of 2009. New housing starts are down significantly and consumers continue to be faced with general economic uncertainty fueled by deteriorating consumer credit markets and lagging consumer confidence as a result of volatile and often erratic financial markets. All of these factors have significantly impacted big ticket consumer purchases such as furniture. Consequently, this has put pressure on certain of our dealers ability to generate adequate profits to fully pay us for the furniture we have sold to them. As a result, we incurred significantly increased bad debt related losses during the second half of 2008 as well as during the first quarter of 2009. Although management will continue to work closely with our licensees to ensure the success of both the licensee and Bassett, we expect an additional ten to twelve underperforming stores to close during the remainder of 2009 of which four are currently running liquidation sales. We also expect to increase the number of Company-owned stores during 2009, through acquisitions of certain licensee-owned stores. During the first quarter of 2009, we acquired licensee stores in Scottsdale and Tucson, Arizona and Fredericksburg, Virginia.

Maintenance of a strong balance sheet is a stated management goal and vital to our retail growth strategy. The store program entails key business risks, including the realization of receivables and the coverage of both direct and contingent liabilities primarily associated with retail real estate. We have established decision criteria and business disciplines aimed at minimizing potential losses from these risks.

Given the difficult and somewhat unprecedented environment, we have had no choice but to take several important actions aimed at improving our results and liquidity in the short-term. These include:

Aggressively working with certain licensees to close those stores that are underperforming thereby limiting further exposure in our accounts receivable.

Reducing our inventory levels to improve working capital and cash flow.

Right-sizing our expense structure in both our wholesale and corporate retail divisions.

Suspending our quarterly dividend.

Delaying certain capital expenditures.

**Table of Contents**

**PART I-FINANCIAL INFORMATION-CONTINUED**

**BASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIES**

**FEBRUARY 28, 2009 (RESTATED)**

**(Dollars in thousands except share and per share data)**

We will also continue to work diligently with our network of licensees to improve their operating results. With the existing and planned improvements in our retail program and our strong balance sheet, we believe we are well positioned not only to survive these turbulent times, but also to gain market share as some of our competitors exit the industry.

On March 19, 2009, we announced actions to reduce our overall cost structure that will result in lower expenditures for payroll, employee benefits, warehousing and distribution, marketing, and other miscellaneous items. Approximately 50 positions in departments throughout the Company were affected including corporate retail, administration, customer service, manufacturing, and marketing resulting in an approximate 6% reduction in payroll. Additionally, our Mt. Airy, N.C., distribution facility closed on March 1, 2009 and has been consolidated to other warehouses in the U.S. and Asia. Overall distribution costs will be reduced by 7%. The Mt. Airy facility has been listed for sale. Marketing expenditures will be trimmed primarily through reduced television production costs and upcoming changes to our consumer catalog format. We do, however, plan to continue to invest in our website. Upcoming improvements will feature enhanced aesthetics, easier navigation for individual items and collections, and improved E-commerce capabilities. The new site will debut approximately May 1st. As a result of these actions, we expect to realize annualized savings of \$7,000 to \$8,000. In addition, we plan to record severance charges during the second quarter of 2009 of \$300 to \$500.

*Restatement of Previously Reported Results*

During the first quarter of 2009, the Staff of the Securities and Exchange Commission (the SEC) began its triennial review of our Form 10-K for the year ended November 29, 2008 and subsequently our Form 10-Q for the quarter ended February 28, 2009. Three primary issues were identified by the SEC as a result of their review. These included our initial valuation of notes receivable issued to our licensees (primarily for amounts converted from past due accounts receivable due from them), our methodology for determining reserves for our accounts receivable, notes receivable, and loan guarantees, and our classification of our revolving debt as current or long-term.

As a result of the SEC's comments, we began a review of the accounting policies and processes in the areas previously mentioned. Consequently, we determined that we should have recorded lower values for certain of our notes receivable upon inception and, subsequently, recorded additional reserves on those notes due to an error in how we determined an appropriate market rate of interest for those notes. In addition, we also concluded that we should have recognized revenue for certain customers on a cost recovery basis for shipments beginning in the first quarter of 2009 and that additional reserves for loan guarantees should be established. Therefore, we recorded an additional \$3,280 of net charges in the quarter ended February 28, 2009 to account for these lower note values, increased reserves and reduced revenue. Of the amount recorded, \$1,936 related to periods prior to the quarter ended February 28, 2009. However, based on our consideration of the underlying quantitative and qualitative factors surrounding the prior period errors, the effects on the previous annual and interim periods were determined to be immaterial and, therefore, prior periods have not been restated.

As a result, our net loss increased \$3,280 to \$11,963 and net loss per share increased \$0.29 per share to \$1.05 per share. The recognition of this additional expense and reduced revenue caused us to violate the net worth covenant contained in our revolving credit facility for the quarter ended February 28, 2009. As such, we have reclassified our debt under the revolving credit facility from long-term to current and have provided expanded disclosures around our liquidity.

**Table of Contents****PART I-FINANCIAL INFORMATION-CONTINUED****BASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIES****FEBRUARY 28, 2009 (RESTATED)****(Dollars in thousands except share and per share data)****Results of Operations** Period ended February 28, 2009 (restated) compared with the period ended March 1, 2008:

Net sales, gross profit, selling, general and administrative (SG&A) expense, and operating income (loss) were as follows for the periods ended February 28, 2009 and March 1, 2008:

	Quarter Ended			
	As restated February 28, 2009		March 1, 2008	
Net sales	\$ 57,811	100.0%	\$ 81,599	100.0%
Gross profit	24,143	41.8%	32,627	40.0%
SG&A (see note below)	26,852	46.4%	31,445	38.5%
Bad debt and notes receivable valuation charges	5,892	10.2%	770	0.9%
Income (Loss) from operations	\$ (8,601)	-14.8%	\$ 412	0.6%

*Note: For comparability purposes, we have presented our selling, general and administrative expenses above without consideration of the effects of the bad debt and notes receivable valuation charges.*

On a consolidated basis, we reported net sales for the first quarter of 2009 of \$57,811, a decrease of \$23,788, or 29.2% from sales levels attained in the first quarter of 2008. Due to our fiscal calendar, the quarter ended March 1, 2008 included 14 weeks compared to 13 weeks for the quarter ended February 28, 2009.

***Segment Information***

We have strategically aligned our business into three reportable segments: Wholesale, Retail and Investments/Real Estate. The wholesale home furnishings segment is involved principally in the design, manufacture, sourcing, sale and distribution of furniture products to a network of stores (independently-owned stores, Company-owned retail stores and partnership licensees) 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 corporate and licensee owned stores.

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

Our investments/real estate segment consists of our investments (Alternative Asset Fund and marketable securities), distributions in excess of affiliate earnings (IHFC) and retail real estate related to licensee stores. Although this segment does not have operating earnings, income from the segment is included in other income, net in our condensed consolidated statements of income and retained earnings.

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

**Wholesale Segment**

Edgar Filing: BASSETT FURNITURE INDUSTRIES INC - Form 10-Q/A

	Quarter Ended			
	As restated February 28, 2009		March 1, 2008	
Net sales	\$ 47,948	100.0%	\$ 69,309	100.0%
Gross profit	13,189	27.5%	20,992	30.3%
SG&A (see note below)	13,013	27.1%	17,339	25.0%
Bad debt and notes receivable valuation charges	5,892	12.3%	770	1.1%
Income (Loss) from operations	\$ (5,716)	-11.9%	\$ 2,883	4.2%

*Note: For comparability purposes, we have presented our selling, general and administrative expenses above without consideration of the effects of the bad debt and notes receivable valuation charges.*

**Table of Contents****PART I-FINANCIAL INFORMATION-CONTINUED****BASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIES****FEBRUARY 28, 2009 (RESTATED)****(Dollars in thousands except share and per share data)**

Net sales for the wholesale segment were \$47,948 for the first quarter of 2009 as compared to \$69,309 for the first quarter of 2008, a decrease of 30.8%. Due to our fiscal calendar, the quarter ended March 1, 2008 included 14 weeks compared to 13 weeks for the quarter ended February 28, 2009. Approximately 53% of wholesale shipments during the first quarter of 2009 were imported products compared to 58% for the first quarter of 2008. Gross margins for the wholesale segment were 27.1% for the first quarter of 2009 as compared to 30.3% for the first quarter of 2008. This decrease is primarily due to lower realized margins on our wood furniture and certain discount programs designed to sell more furniture, partially offset by increased margins on our upholstered furniture due to its custom nature. Wholesale SG&A decreased \$4,326 primarily due to decreased sales volumes. We recorded \$5,892 of bad debt and notes receivable valuation charges for the first quarter of 2009 as compared to \$770 for the first quarter of 2008.

Wholesale shipments by type:

	<b>Quarter Ended</b>			
	<b>As restated</b>			
	<b>February 28, 2009</b>		<b>March 1, 2008</b>	
Wood	\$ 25,338	52.8%	\$ 37,003	53.4%
Upholstery	22,118	46.2%	31,377	45.3%
Other	492	1.0%	929	1.3%
<b>Total</b>	<b>\$ 47,948</b>	<b>100.0%</b>	<b>\$ 69,309</b>	<b>100.0%</b>

**Retail Segment – Company-Owned Retail Stores**

	<b>Quarter Ended</b>			
	<b>February 28, 2009</b>		<b>March 1, 2008</b>	
Net sales	\$ 23,743	100.0%	\$ 25,927	100.0%
Gross profit	11,180	47.1%	12,049	46.5%
SG&A	13,838	58.3%	14,106	54.4%
Operating loss	\$ (2,658)	-11.2%	\$ (2,057)	-7.9%

Our Company-owned store network had sales of \$23,743 in the first quarter of 2009 as compared to \$25,927 in the first quarter of 2008, a decrease of 8.4%. On a comparable store basis, sales decreased 12.4%. Sales decreases were recorded for each major retail market for the Company-owned store network. Gross margins for the quarter increased 0.6 percentage points due to improved pricing and promotional strategies, coupled with less clearance sales activity as compared to 2008. SG&A decreased \$268 due to lower sales. However, as part of the store acquisitions during the first quarter of 2009 and late in 2008, we did not acquire the existing delivery backlog at the time of acquisition. Consequently, we incurred significant SG&A expenses (rent and administrative payroll) without a commensurate level of delivered sales. Excluding the effects of these acquired stores, SG&A as a percent of sales would have been 56.0% for the first quarter of 2009.

## Edgar Filing: BASSETT FURNITURE INDUSTRIES INC - Form 10-Q/A

Our retail segment includes the expenses of retail real estate utilized by Company-owned retail stores. Rental income and expenses from our properties utilized by independent licensees and partnership licensees are included in our investment and real estate segment.

### Investment and Real Estate Segment and Other Items Affecting Net Income (Loss)

Our investments and real estate segment consists of our investments (Alternative Asset Fund and marketable securities), distributions in excess of affiliate earnings (IHFC) and retail real estate related to licensee-owned stores. Although this segment does not have operating earnings, income (loss) from the segment is included in other income (loss), net in our condensed consolidated statements of operations. Our equity investment in IHFC is not included in the identifiable assets of this segment since it has a negative book value and is therefore included in the long term



**Table of Contents****PART I-FINANCIAL INFORMATION-CONTINUED****BASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIES****FEBRUARY 28, 2009 (RESTATED)****(Dollars in thousands except share and per share data)**

liabilities section of our consolidated balance sheet. Income and expense items for the first quarter of 2009 and 2008, are as follows:

	<b>As restated February 28, 2009</b>	<b>March 1, 2008</b>
Loss from Alternative Asset Fund	\$ (1,192)	\$ (204)
Income (loss) from marketable securities	(1,151)	495
Income from unconsolidated affiliated companies, net	854	812
Interest expense	(954)	(989)
Loan and lease guarantee expense	(426)	(34)
Other	(428)	107
<b>Other income (loss), net</b>	<b>\$ (3,297)</b>	<b>\$ 187</b>

In accordance with SFAS No. 115, Accounting for Certain Investments in Debt and Equity Securities, we review our marketable securities to determine whether a decline in fair value of a security below the cost basis is other than temporary. Should the decline be considered other than temporary, we write down the cost basis of the security and include the loss in current earnings as opposed to recording an unrealized holding loss. Due to the continued decline in the financial markets during the fiscal first quarter of 2009, many of our holdings sustained significant losses. Consequently, we recorded \$1,255 in losses in our consolidated statement of operations for the quarter ended February 28, 2009.

Income from unconsolidated affiliated companies, net includes income from our investment in IHFC as well as income (loss) from other equity method investments. We recognized income from IHFC of \$794 in the first quarter of 2009 as compared to \$1,040 during the first quarter of 2008.

Loan and lease guarantee expense consists of adjustments to record the fair value of our loan and lease guarantee obligations that we have entered into on behalf of our licensees. We recognized expense of \$426 and \$34, respectively, for the quarters ended February 28, 2009 and March 1, 2008, to reflect the additional risk that we may have to assume the underlying obligations with respect to our guarantees.

Other includes several items including losses related to our real estate investments that support our licensees.

*Income taxes*

We calculate an anticipated effective tax rate for the year based on our annual estimates of pretax income or loss and use that effective tax rate to record our year-to-date income tax provision. Any change in annual projections of pretax income or loss could have a significant impact on our effective tax rate for the respective quarter. During the fourth quarter of 2008, we recorded a \$23,383 charge to establish a valuation allowance against substantially all of our deferred tax assets as we were in a cumulative loss position for the past three years, which is considered significant negative evidence as to whether our deferred tax assets will be realized. Since we reported losses in the quarter and remained in this cumulative loss position, we recorded no tax benefits on the losses generated for the quarter ended February 28, 2009. The tax provision for the quarter ended February 28, 2009 represents the accrual of income taxes to be paid in certain states and the accrual of penalties and interest associated with certain unrecognized tax benefits.

The effective income tax rate for the first quarter of 2008 was 13.5% and was lower than the statutory rate primarily due to exclusions for dividends received from our investment in IHFC.

**Liquidity and Capital Resources**

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

Due to the continued housing slump and deterioration in the major financial markets and the overall recessionary economic environment, consumer spending has decreased resulting in significant financial losses for us and

**Table of Contents**

**PART I-FINANCIAL INFORMATION-CONTINUED**

**BASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIES**

**FEBRUARY 28, 2009 (RESTATED)**

**(Dollars in thousands except share and per share data)**

damaging the ability of certain of our licensees to generate sufficient cash flow in their businesses. Currently, we are aggressively pursuing expense reduction and cash preservation initiatives throughout all parts of the business to enhance our cash flow. As previously discussed, we announced certain cost reduction actions that we expect to provide \$7,000 to \$8,000 in annualized cost savings.

As part of the improvement plans with one of our licensees, we converted \$1,100 of trade accounts receivable to long-term interest bearing notes during the quarter ended February 28, 2009 and expect additional conversions of accounts receivable to long-term notes over the remainder of the year. We continually assess our level of bad debt reserves and recorded \$5,892 in provisions for losses on accounts and notes receivable in the first quarter of 2009, a \$5,122 increase over the corresponding period in 2008. A continuing difficult and weak retail environment could result in further bad debt expenses, reduced revenue and store real estate charges, including lease termination and impairment charges. Although we believe we have adequate reserves for bad debts, we will continue to work with our licensees to help limit bad debt exposure. We expect ten to twelve underperforming stores to close during 2009.

We used \$5,056 of cash in operating activities during the first quarter of 2009 primarily due to the continued difficult environment at retail resulting in lower collections on accounts receivable as well as increased cash requirements to fund the January new product rollout. These cash requirements were funded through \$12,900 of investment redemptions and \$2,811 in dividends from our investment in the International Home Furnishings Center. We expect to receive additional redemptions from the Alternative Asset Fund of \$2,000 to \$3,000 over the remainder of the year. In addition, we expect our wholesale inventories to decrease \$3,000 to \$4,000 over the remainder of the year through improved management and coordination with our foreign suppliers. As a result of an anticipated debt refinancing for IHFC, it is likely that dividend distributions will decrease or be eliminated for the remainder of 2009.

We currently have \$18,000 outstanding on our revolving credit facility which provides for borrowings of up to \$45,000 at a variable interest rate of LIBOR plus 1.75% (1.92% on February 28, 2009). The facility is secured by a pledge of certain marketable securities and substantially all of our receivables and inventories and matures on November 30, 2010. It contains, among other provisions, certain defined financial covenants including a minimum level of net worth that requires us to have Tangible Net Worth, as defined in the credit agreement, of \$118,000 as of the quarterly testing dates. As a result of the impact of the adjustments made as outlined in Note 2, we were no longer in compliance with the Tangible Net Worth covenant which represents an Event of Default as defined in our credit agreement. Consequently, our bank has the ability to immediately demand repayment of the loan and we have reclassified the debt to the current liabilities section of our condensed consolidated balance sheet. During the quarter, our tangible net worth decreased by \$11,931 due primarily to operating losses of \$8,601 and both realized and unrealized losses associated with the Alternative Asset Fund and our marketable securities portfolio of \$2,369. This covenant violation also prevents us from making any additional borrowings under the facility until the covenant is waived and/or amended. However, had there been no covenant violation, we would have had an additional \$8,013 of availability under the facility.

We have begun discussions with our lender to amend the Tangible Net Worth covenant. We expect to complete these discussions during the third quarter of 2009. We currently believe that we will be successful in obtaining an amendment. However, should we be unsuccessful, the lender has the ability to accelerate repayment under the facility. If such liquidity needs were to arise, we would explore other liquidity options such as negotiating with another lender, sale of our interest in IHFC, sale of existing investment real estate or mortgaging other investment real estate. Should we be unsuccessful with these and all other potential options in obtaining the necessary liquidity, this could have a material adverse effect on our operations.

We currently have eight retail real estate properties that have been financed through commercial mortgages with interest rates ranging from 6.73% to 9.18%. These mortgages, with a total balance of \$21,962, are collateralized by the respective properties with net book values totaling approximately \$29,814 at February 28, 2009. Two of the mortgages mature in the first quarter of 2010 with another maturing in the second quarter of 2010. Collectively, the balance for these three mortgages at February 28, 2009 was \$8,377. Although negotiations have not begun, we expect to refinance, obtain alternate financing or forbearance of payment by the stated maturity dates. However, there can be no certainty that any of these may occur and should we be required to fund these payments on the maturity dates, it could have a material adverse effect on our liquidity.



**Table of Contents****PART I-FINANCIAL INFORMATION-CONTINUED****BASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIES****FEBRUARY 28, 2009 (RESTATED)****(Dollars in thousands except share and per share data)**

We currently anticipate that total capital expenditures for the remainder of fiscal 2009 will be approximately \$2,500 and will be used primarily for retrofits for the new prototype design at Company-owned stores and information systems to support e-commerce initiatives.

**Receivables and Inventory**

Cash collections on our accounts and notes receivable have a significant impact on our overall liquidity. We used \$5,056 of cash in operating activities during the first three months of 2009 due to the continued difficult environment at retail resulting in lower cash collections on accounts receivable as well as increased cash requirements to fund the January new product rollout.

These slow cash collections have resulted in increasing accounts and notes receivable, deteriorating accounts receivable aging with increases in our relative past due amounts, and a corresponding increase to our allowance for doubtful accounts. As such, we recorded \$5,892 of bad debt and notes receivable valuation charges for the first quarter of 2009 as compared to \$770 for the first quarter of 2008. In response to slow collections, certain of our licensees have been placed on a temporary cash before delivery program for current orders that is designed to prevent any additional increase in the accounts receivable exposure. We expect the rate of cash collections to increase when the recessionary environment begins to subside such that our total receivables will begin to decrease. The following table reflects our accounts receivable and notes receivable and related bad debt reserves:

	<b>As restated February 28, 2009</b>	<b>November 29, 2008</b>
Gross accounts receivable	\$ 49,339	\$ 48,780
Allowance for doubtful accounts	(9,412)	(7,987)
Net accounts receivable	\$ 39,927	\$ 40,793
Gross notes receivable	22,747	21,801
Allowance for doubtful accounts and notes discounts	(9,587)	(6,596)
Net notes receivable	\$ 13,160	\$ 15,205

Our accounts and notes receivable reserve and notes discount activity for the three months ended February 28, 2009 is as follows:

	<b>Accounts Receivable</b>	<b>Notes Receivable</b>	<b>Total</b>
Balance at November 29, 2008	\$ 7,987	\$ 6,596	\$ 14,583
Bad debt and note valuation charges	2,876	3,016	5,892
Write-offs	(1,451)		(1,451)
Discount amortization		(25)	(25)
Balance at February 28, 2009, as restated	\$ 9,412	\$ 9,587	\$ 18,999

Our licensee review committee (LRC) consists of our CEO, CFO, Senior VP of Retail, VP of Licensed Retail, and Corporate Director of Credit. The LRC meets frequently to review licensee performance, typically reviewing a wide-range of licensee related issues, including licensee capitalization, projected operating performance, the viability of the market in which the licensee operates and the licensee's operating history, including our cash receipts from the licensee and its sales. Should a licensee have substantial past due amounts due to us, but is otherwise considered viable and likely to continue as a going concern, the committee may decide to move all or a portion of the licensee's past due accounts receivables to a note receivable. We believe that the note receivable allows the licensee to focus on keeping current and future amounts current, while continuing to meet its financial obligations to us.

**Table of Contents****PART I-FINANCIAL INFORMATION-CONTINUED****BASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIES****FEBRUARY 28, 2009 (RESTATED)****(Dollars in thousands except share and per share data)**

As part of the improvement plans with one of our licensees, we converted \$1,100 of past due trade accounts receivable and refinanced an existing note with a remaining balance of \$224 into a \$1,324 long-term note bearing interest at 4.75% during the quarter ended February 28, 2009. This note requires interest only payments through 2011 and interest and principal payments due monthly through its maturity on December 31, 2016. The initial carrying value of the note is determined using present value techniques which consider the fair market rate of interest based on the licensee's risk profile and estimated cash flows to be received. We considered the stated interest rate to be below market due to the overall lack of availability of credit in the financial markets. Consequently, we discounted the estimated cash flows at a 19.5% discount rate which resulted in an initial fair value of \$672.

Our investment in inventory affects our liquidity in several different ways. First, cash paid for raw materials, labor, and factory overhead for the manufacture or assembly of our domestic inventories is typically paid out well in advance of receiving cash from the sale of these inventories. Payments for our imported inventories are funded much further in advance of receiving cash from the sale of these inventories as compared to our domestically manufactured or assembled inventories. The length of our import supply chain necessitates complex forecasting of future demand levels and is highly judgmental. In economic downturns, the speed at which we can respond to decreasing demand is slowed, as we may have imported inventory in shipment or being manufactured at any given time. In addition, we may also have inventory commitments under purchase orders that have not begun the manufacturing process. Consequently, as inventories build temporarily during downturns or as we near new product roll-outs, our liquidity is reduced as we have more cash invested in our products. Second, the availability under our revolving credit facility is impacted by changes in our inventory balances. Lastly, if we fail to respond to changes in consumer tastes quickly enough, inventories may build and decrease our liquidity.

Our inventories consist of the following:

	<b>February 28, 2009</b>	<b>November 29, 2008</b>
Finished goods	\$ 28,507	\$ 29,092
Work in process	214	251
Raw materials and supplies	7,710	7,853
Retail merchandise	17,035	14,995
<b>Total inventories at FIFO</b>	<b>53,466</b>	<b>52,191</b>
LIFO adjustment	(7,509)	(7,393)
Reserve for excess and obsolete inventory	(2,553)	(2,505)
	<b>\$ 43,404</b>	<b>\$ 42,293</b>

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





**Table of Contents****PART I-FINANCIAL INFORMATION-CONTINUED****BASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIES****FEBRUARY 28, 2009 (RESTATED)****(Dollars in thousands except share and per share data)**

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

	Balance at November 29, 2008	Additions Charged to Expense	Deductions	Balance at February 28, 2009
Wholesale	\$ 2,071	\$ 801	\$ (825)	\$ 2,047
Retail	434	223	(151)	506
	\$ 2,505	\$ 1,024	\$ (976)	\$ 2,553

Our estimates and assumptions have been reasonably accurate in the past. We have not made any significant changes to our methodology for determining inventory reserves in 2009 and do not anticipate that our methodology is reasonably likely to change in the future. A plus or minus 10% change in our inventory reserves would not have been material to our financial statements for the periods presented.

We currently have a \$45 million revolving credit facility. However, our borrowings are limited by the amount of eligible accounts receivable and inventory as defined in our credit agreement. Although the facility has a \$45 million maximum, our eligible accounts receivable and inventory amount to \$42,559 at February 28, 2009. Decreases in our eligible accounts receivable and inventory would have a negative effect on the total availability under our revolving credit facility.

**Critical Accounting Policies**

There have been no material changes to our critical accounting policies and estimates from the information provided in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, included in our 10-K for the fiscal year ended November 29, 2008, except as follows:

*Long Term Notes Receivable* In the ordinary course of business, should a licensee have substantial past due amounts due to the Company, but is otherwise considered viable and likely to continue as a going concern, the Company may decide to move all or a portion of a licensee's past due accounts receivable to a long-term interest-bearing note receivable. The Company believes that contractually extending the time for repayment through a note allows the licensee to focus on keeping future amounts current, while continuing to meet its financial obligations to us. While the majority of our notes receivable were issued as conversions of existing accounts receivable, some were issued to assist licensees in opening or acquiring new stores in underserved markets, which we believed would benefit both the licensee and the Company. Some of these notes are collateralized by real estate. At the inception of the note receivable, and in accordance with the provisions of Accounting Principles Board Opinion No. 21 *Interest on Receivables and Payables*, we determine whether the note bears a market rate of interest. In estimating a market rate of interest, we first consider factors such as licensee capitalization, projected operating performance, the viability of the market in which the licensee operates and the licensee's operating history, including our cash receipts from the licensee, licensee sales and any underlying collateral. For those licensees where there is a concern of collectability, our estimated market rate of interest is based on certain published high yield bond indices. For those where collectability is less of a concern, the estimated market rate of interest is generally based on the prime rate. A discount on the note is recorded if we determine that the note bears an interest rate below the market rate and a premium is recorded if we determine that the note bears an interest rate above the market rate. At February 28, 2009, we had \$5,583 in net discounts recorded on our notes receivable. We amortize the related note discount or premium over the contractual term of the note and cease amortizing the discount to interest income when the present value of expected future cash flows is less than the carrying value of the note. Interest income associated with the discount amortization is immaterial and is recorded in other income (loss), net, in our consolidated statement of operations. On a quarterly basis and in accordance with the provisions of Statement of Financial Accounting Standards No. 114, *Accounting by Creditors for Impairment of a Loan* and an amendment of FASB Statements No. 5 and 15 (SFAS 114), we examine these notes for evidence of impairment, considering factors such as

## Edgar Filing: BASSETT FURNITURE INDUSTRIES INC - Form 10-Q/A

licensee capitalization, projected operating performance, the viability of the market in which the licensee operates and the licensee's operating history, including our cash receipts from the licensee, licensee sales and any underlying collateral. After considering these factors, should we believe that all or a portion of the note receivable cannot or will not be paid, we record an impairment charge on the note using discounted cash flow methods to determine the impairment charge.

28 of 39

---

**Table of Contents**

**PART I-FINANCIAL INFORMATION-CONTINUED**

**BASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIES**

**FEBRUARY 28, 2009 (RESTATED)**

**(Dollars in thousands except share and per share data)**

An impairment charge does not necessarily indicate that the loan has no recovery or salvage value, but rather that, based on management's judgment and the consideration of specific licensee factors, it is more prudent than not to record an impairment charge. Additionally, and in accordance with SFAS 114, we estimate future cash flows on our notes receivable and discount them at the effective interest rate in order to determine appropriate notes receivable reserves. At February 28, 2009, we had \$4,004 in notes receivable reserves and \$5,583 in notes receivable discounts recorded against a gross notes receivable balance of \$22,747.

**Off-Balance Sheet Arrangements**

We utilize stand-by letters of credit in the procurement of certain goods in the normal course of business. We lease land and buildings that are primarily used in the operation of both Company-owned and licensee stores. We have guaranteed certain lease obligations of licensee operators of the stores, as part of our retail expansion strategy. We also have guaranteed loans of certain of our dealers to finance initial inventory packages for these stores. See Note 9 to our condensed consolidated financial statements for further discussion of operating leases, lease guarantees and loan guarantees, including descriptions of the terms of such commitments and methods used to mitigate risks associated with these arrangements.

**Contingencies**

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

**Item 3. Quantitative and Qualitative Disclosure About Market Risk:**

We are exposed to market risk for changes in market prices of our various types of investments. Our investments include marketable securities and an investment partnership (Alternative Asset Fund). Our marketable securities portfolio, which totaled \$10,849, at February 28, 2009, is diversified among seven different money managers. As part of our current debt facility, we have pledged certain of our marketable securities as collateral. To the extent the value of the marketable securities falls below \$16,000, our Borrowing Base, as defined, is decreased by 125% of the difference between \$16,000 and the actual value of those securities.

The Bassett Industries Alternative Asset Fund L.P. was organized under the Delaware Revised Uniform Limited Partnership Act and commenced operations on July 1, 1998. Private Advisors, L.L.C. is the general partner (the General Partner) of the Alternative Asset Fund. We and the General Partner are the only two partners. The objective of the Alternative Asset Fund is to achieve consistent positive returns, while attempting to reduce risk and volatility, by placing its capital with a variety of hedge funds and experienced portfolio managers. Such hedge funds and portfolio managers employ a variety of trading styles or strategies, including, but not limited to, convertible arbitrage, merger or risk arbitrage, distressed debt, long/short equity, multi-strategy and other market-neutral strategies. The Alternative Asset Fund includes investments in various other private limited partnerships, which contain contractual commitments with elements of market risk. These contractual commitments, which include fixed income securities and derivatives, may involve future settlements, which give rise to both market and credit risk.

The investment partnership's exposure to market risk is determined by a number of factors, including the size, composition, and diversification of positions held, volatility of interest rates, market currency rates, and liquidity. Risks to these funds arise from possible adverse changes in the market value of such interests and the potential inability of counterparties to perform under the terms of the contracts. However, the risk to the Company is limited to the amount of the Alternative Asset Fund investment in each of the funds.

Investment balances by fund are presented below.



**Table of Contents****PART I-FINANCIAL INFORMATION-CONTINUED****BASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIES****FEBRUARY 28, 2009 (RESTATED)****(Dollars in thousands except share and per share data)**

	<b>February 28, 2009</b>	<b>November 29, 2008</b>
Styx Partners, L.P.	\$ 1,355	\$ 13,461
HBK Fund, L.P.	4,903	6,022
DB Zwirn Special Opportunities Fund, L.P.	2,289	3,254
Cash and Other	395	316
	<b>\$ 8,942</b>	<b>\$ 23,053</b>

We have requested our general partner to attempt to liquidate all of our investments in the Alternative Asset Fund. During the first quarter of 2009, we received \$12,900 for liquidations associated with Styx Partners, L.P. and HBK Fund, L.P. We expect to receive the remaining portion of our investment in Styx Partners, L.P. during our third quarter subject to completion of their audit. Due to the level of redemption requests, we have been informed that the remainder of the investment in HBK Fund, L.P. should be redeemed over the next two years. We also have been informed that due to the magnitude of other redemption requests on the DB Zwirn Special Opportunities Fund, L.P., it is likely that it will be three to four years before our investment is fully redeemed. We expect to receive the total stated net asset value for the Zwirn investment, subject to any further change in the net asset value due to market variations.

**Item 4. Controls and Procedures:**

As described in Item 9A. Controls and Procedures in our 2008 Form 10-K, our CEO (principal executive officer) and CFO (principal financial officer) concluded that our disclosure controls and procedures (as defined in Exchange Act Rule 13a-15(e)) ( Disclosure Controls ) were not effective as of November 29, 2008, due to our management control processes being insufficient to ensure that certain non-routine accounting estimates and other transactions were accounted for correctly. Among other things, this control deficiency resulted in the need for two material adjustments being identified by our independent registered public accountants as part of the year-end audit process. One adjustment involved the recognition of losses on certain of our marketable securities where a significant portion of the decline in value of the investments was determined to be other than temporary . This led to the recording of a \$2,900 adjustment. The other adjustment involved our reserve for doubtful accounts where management had failed to adequately anticipate the extent to which the current economic and business conditions would accelerate the deterioration in, as well as anticipated future restructurings by, some of our retail licensees. This led to our recording a \$1,100 increase to this reserve. As these items arose primarily from the economic deterioration during our fourth quarter of 2008, none of these adjustments should have been recorded in prior periods. The steps we are taking to remediate this deficiency include the following:

*Reassess the assumptions used in certain accounting estimates.* We will continually challenge all assumptions inherent in our significant judgmental accounting estimates to ensure that those assumptions are reasonable based on the current environment and supportable within the current accounting literature. We will ensure a second level review is conducted for all such accounting estimates.

*Proactively review for other new or changed non-routine transactions and challenge the accounting prior to the commencement of the period end closing process.* We will proactively review for new non-routine transactions and for non-routine transactions that may require an accounting process change due to new accounting pronouncements, changes in the business environment or changes in the Company. As business, regulatory and other matters evolve in the future, we will consult with our independent registered public accountant, other third party advisors, or the audit committee to ensure issues with accounting and financial reporting

## Edgar Filing: BASSETT FURNITURE INDUSTRIES INC - Form 10-Q/A

implications are addressed on a timely basis.

Although we believe these steps should improve our systems of disclosure controls, there can be no assurance at this time that these steps are or will be effective to remediate the deficiency described above.

30 of 39

**Table of Contents**

**PART I-FINANCIAL INFORMATION-CONTINUED**

**BASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIES**

**FEBRUARY 28, 2009 (RESTATED)**

**(Dollars in thousands except share and per share data)**

Our CEO and CFO have evaluated the Disclosure Controls as of the end of the period covered by this Quarterly Report on

Form 10-Q. Based upon their evaluation, our CEO and CFO concluded that the Disclosure Controls were not effective as of February 28, 2009 because a proper determination of the effectiveness of our remediation steps requires future testing by us preferably in situations involving new or changed non-routine transactions. Except for management's efforts to implement the remediation steps outlined above, there have been no changes in the Company's internal control over financial reporting during the Company's most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

**Safe-harbor, forward-looking statements:**

The discussion in items 2 and 3 above contains certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 with respect to the financial condition, results of operations and business of Bassett Furniture Industries, Incorporated and subsidiaries. Such forward-looking statements are identified by use of forward-looking words such as *anticipates*, *believes*, *plans*, *estimates*, *expects*, *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 that could cause actual results to differ materially from those contemplated by such forward-looking statements are listed in our Annual Report on Form 10-K for fiscal 2008 and include:

competitive conditions in the home furnishings industry

general economic conditions

overall retail traffic levels and consumer demand for home furnishings

ability of our customers and consumers to obtain credit

Bassett store openings

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

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

fluctuations in the cost and availability of raw materials, labor and sourced products (including fabrics from troubled suppliers)

results of marketing and advertising campaigns

information and technology advances

ability to execute new global sourcing strategies

performance of our marketable securities portfolio and our investment in BIAAF

delays or difficulties in converting some of our non-operating assets to cash

future tax legislation, or regulatory or judicial positions

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

effects of profit improvement initiatives in our domestic wood operations



**Table of Contents**

PART I-FINANCIAL INFORMATION-CONTINUED

BASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIES

FEBRUARY 28, 2009 (RESTATED)

(Dollars in thousands except share and per share data)

continued profitability of our unconsolidated affiliated companies, particularly IHFC and its ability to pay dividends

32 of 39

**Table of Contents****PART II - OTHER INFORMATION****BASSETT FURNITURE INDUSTRIES INCORPORATED AND SUBSIDIARIES****FEBRUARY 28, 2009****Item 1. Legal Proceedings**

None.

**Item 1A. Risk Factors**

In addition to the following risk factor, our Annual Report on Form 10-K for fiscal 2008 includes a listing of risk factors to be considered by investors in our securities.

**We are currently not in compliance with financial covenants under our revolving credit facility.**

Our revolving credit facility contains certain financial covenants, including one that requires a minimum level of Tangible Net Worth, as defined, as of quarterly testing dates. We were not in compliance with this covenant as of February 28, 2009. Failure to be in compliance with this or other covenants under the facility constitutes a default and entitles the lender to accelerate repayment under the facility. We are currently in negotiations with the lender to waive and/or amend the net worth covenant, however, there can be no assurance that an amendment or waiver will be received or that they will be offered on commercially reasonable terms that are not detrimental to the Company. Should our negotiations be unsuccessful and the bank require us to accelerate payment, we would explore other liquidity alternatives such as negotiating with another bank or banking group for a new facility, sale of our interest in IHFC, sale of existing investment real estate or mortgaging other investment real estate; however, there is no assurance that we would be successful in pursuing these alternatives or that they could provide sufficient liquidity on a timely basis.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

	Total Number of Shares Purchased	Avg Price Paid	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (1)	Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs (1)
November 30, 2008 - January 3, 2009		n/a		\$ 23,464
January 4 - January 31, 2009		n/a		\$ 23,464
February 1 - February 28, 2009	60,900	\$ 1.24		\$ 23,388

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

**Item 3. Defaults Upon Senior Securities**

The Company is in default of its Tangible Net Worth covenant in its \$45 million revolving credit facility. The Company is currently in discussions with its lender to obtain a waiver and/or amendment of the Tangible Net Worth covenant and expects those negotiations to be completed by the end of August of 2009.

**Item 4. Submission of Matters to a Vote of Security Holders**

None.

**Table of Contents**

**PART II - OTHER INFORMATION**

**BASSETT FURNITURE INDUSTRIES INCORPORATED AND SUBSIDIARIES**

**FEBRUARY 28, 2009**

**Item 6. Exhibits**

a. Exhibits:

Exhibit 3a Articles of Incorporation as amended are incorporated herein by reference to the Exhibit to Form 10-Q for the fiscal quarter ended February 28, 1994.

Exhibit 3b By-laws as amended are incorporated herein by reference to Exhibit 3 to Form 8-K filed on December 21, 2004.

Exhibit 10a Bassett Furniture Industries, Inc. Severance Program for Officers and Management Employees is incorporated herein by reference to Exhibit 99.1 to Form 8-K dated January 21, 2009

Exhibit 10b Employment Continuity Agreement, dated January 22, 2009 between Registrant and Robert H. Spilman, Jr., together with a schedule setting forth the material details in which the Employment Continuity Agreements between the Registrant and its executive officers differ from each other is incorporated herein by reference to Exhibit 99.2 to Form 8-K dated January 21, 2009

Exhibit 31a Chief Executive Officer's certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

Exhibit 31b Chief Financial Officer's certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

Exhibit 32a Chief Executive Officer's certification pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Exhibit 32b Chief Financial Officer's certification pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

**Table of Contents**

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned thereunto duly authorized.

BASSETT FURNITURE INDUSTRIES, INCORPORATED

/s/ Robert H. Spilman, Jr.  
Robert H. Spilman, Jr., President and Chief Executive  
Officer  
August 21, 2009

/s/ J. Michael Daniel  
J. Michael Daniel, Corporate Controller and Interim  
Chief Financial Officer  
August 21, 2009

35 of 39