BASSETT FURNITURE INDUSTRIES INC
Form 10-Q
July 01, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended May 30, 2015

OR

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

THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ______________________________ to ________________________

Commission File No. 0-209

BASSETT FURNITURE INDUSTRIES, INCORPORATED

(Exact name of Registrant as specified in its charter)

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

3525 Fairystone Park Highway

Bassett, Virginia 24055

(Address of principal executive offices)

(Zip Code)

(276) 629-6000

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ___X___No ________

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

Large Accelerated Filer________	Accelerated Filer___X___	Non-accelerated Filer________	Smaller Reporting Company________

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes _______No ___X___

At June 19, 2015, 10,868,348 shares of common stock of the Registrant were outstanding.

BASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIES

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CONDENSED CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS

FOR THE PERIODS ENDED MAY 30, 2015 AND MAY 31, 2014 – UNAUDITED

(In thousands except per share data)

	Quarter Ended		**Six Months Ended**	
	May 30, 2015	**May 31, 2014**	**May 30, 2015**	**May 31, 2014**
Sales revenue:				
Furniture and accessories	$99,467	$85,185	$189,015	$160,832
Logistics	12,086	-	15,345	-
Total sales revenue	111,553	85,185	204,360	160,832
Cost of furniture and accessories sold	46,921	39,872	88,851	75,266
Selling, general and administrative expenses excluding new store pre-opening costs	57,425	40,901	104,900	79,481
New store pre-opening costs	44	521	44	1,108
Lease exit costs	-	-	419	-
Asset impairment charges	-	-	106	-
Management restructuring costs	449	-	449	
Income from operations	6,714	3,891	9,591	4,977
Remeasurement gain on acquisition of affiliate	-	-	7,212	-
Income from Continued Dumping & Subsidy Offset Act	1,066	-	1,066	-
Other income (loss), net	(597)	(272)	(1,220)	13
Income before income taxes	7,183	3,619	16,649	4,990
Income tax expense	2,654	1,068	6,164	1,596
Net income	$4,529	$2,551	$10,485	$3,394
Retained earnings-beginning of period	111,474	104,713	106,339	104,526
Purchase and retirement of common stock	-	(1,315)	-	(1,315)
Cash dividends	(854)	(652)	(1,675)	(1,308)
Retained earnings-end of period	$115,149	$105,297	$115,149	$105,297

Basic earnings per share	$0.42	$0.24	$0.99	$0.32
Diluted earnings per share	$0.42	$0.24	$0.98	$0.31
Dividends per share	$0.08	$0.06	$0.16	$0.12

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

PART I – FINANCIAL INFORMATION – CONTINUED

ITEM 1. FINANCIAL STATEMENTS

BASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

FOR THE PERIODS ENDED MAY 30, 2015 AND MAY 31, 2014 – UNAUDITED

(In thousands)

	Quarter Ended		**Six Months Ended**	
	May 30, 2015	**May 31, 2014**	**May 30, 2015**	**May 31, 2014**
Net income	$4,529	$2,551	$10,485	$3,394
Other comprehensive income:				
Amortization associated with supplemental executive retirement defined benefit plan (SERP)	58	41	117	83
Income taxes related to SERP	(22)	(16)	(44)	(32)
Other comprehensive income, net of tax	36	25	73	51
Total comprehensive income	$4,565	$2,576	$10,558	$3,445

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

PART I – FINANCIAL INFORMATION – CONTINUED

ITEM 1. FINANCIAL STATEMENTS

BASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

MAY 30, 2015 AND NOVEMBER 29, 2014

(In thousands)

	(Unaudited) May 30, 2015	**November 29, 2014**
Assets		
Current assets		
Cash and cash equivalents	$ 22,467	$ 26,673
Short-term investments	23,125	23,125
Accounts receivable, net	20,346	15,228
Inventories	62,978	57,272
Deferred income taxes	5,339	5,268
Other current assets	10,414	7,796
Total current assets	144,669	135,362
Property and equipment, net	95,864	74,812
Deferred income taxes	5,418	9,701
Goodwill and other intangible assets	17,842	1,730
Other	8,190	19,141
Total long-term assets	31,450	30,572
Total assets	$ 271,983	$ 240,746
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable	$ 24,776	$ 22,251
Accrued compensation and benefits	10,571	8,931
Customer deposits	22,965	22,202
Dividends payable	-	2,102
Current portion of long-term debt	4,428	316
Other accrued liabilities	11,579	10,971
Total current liabilities	74,319	66,773
Long-term liabilities		

Post employment benefit obligations	11,398	11,498
Notes payable	10,748	1,902
Other long-term liabilities	3,756	3,741
Total long-term liabilities	25,902	17,141
Stockholders' equity		
Common stock	54,355	52,467
Retained earnings	115,149	106,339
Additional paid-in capital	4,158	-
Accumulated other comprehensive loss	(1,900)	(1,974)
Total stockholders' equity	171,762	156,832
Total liabilities and stockholders' equity	$ 271,983	$ 240,746

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

PART I – FINANCIAL INFORMATION – CONTINUED

ITEM 1. FINANCIAL STATEMENTS

BASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE PERIODS ENDED MAY 30, 2015 AND MAY 31, 2014 – UNAUDITED

(In thousands)

	Six Months Ended	
	May 30, 2015	**May 31, 2014**
Operating activities:		
Net income	$10,485	$3,394
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	4,729	3,438
Equity in undistributed income of investments and unconsolidated affiliated companies	(220)	(343)
Non-cash asset impairment charges	106	-
Non-cash portion of lease exit costs	419	-
Remeasurement gain on acquisition of affiliate	(7,212)	-
Tenant improvement allowance received from lessors	330	1,270
Deferred income taxes	4,212	(160)
Other, net	1,018	421
Changes in operating assets and liabilities:		
Accounts receivable	(1,490)	1,015
Inventories	(5,706)	367
Other current assets	(2,121)	1,451
Customer deposits	763	3,122
Accounts payable and accrued liabilities	3,882	(156)
Net cash provided by operating activities	9,195	13,819
Investing activities:		
Purchases of property and equipment	(7,942)	(12,209)
Proceeds from sales of property and equipment	2,952	1,407
Cash paid for business acquisition, net of cash acquired	(7,323)	-
Capital contribution to affiliate	(1,345)	-
Proceeds from maturity of short-term investments	-	5,000
Proceeds from sale of interest in affiliate	-	2,348
Other	-	188
Net cash used in investing activities	(13,658)	(3,266)
Financing activities:		
Cash dividends	(3,777)	(3,480)

Proceeds from the exercise of stock options	2,993	-
Other issuance of common stock	171	147
Repurchases of common stock	(255)	(2,930)
Excess tax benefits from stock-based compensation	1,032	-
Repayments of notes payable	(1,214)	(141)
Proceeds from equipment loans	1,307	-
Net cash provided by (used in) financing activities	257	(6,404)
Change in cash and cash equivalents	(4,206)	4,149
Cash and cash equivalents - beginning of period	26,673	12,733
Cash and cash equivalents - end of period	$22,467	$16,882

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

PART I – FINANCIAL INFORMATION – CONTINUED

BASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-UNAUDITED

MAY 30, 2015

(Dollars in thousands except share and per share data)

1. Basis of Presentation

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

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

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

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

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

Zenith Acquisition

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

2. Interim Financial Presentation

All intercompany accounts and transactions have been eliminated in the condensed consolidated financial statements. The results of operations for the three and six months ended May 30, 2015 are not necessarily indicative of results for the full fiscal year. These interim condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and accompanying notes included in our Annual Report on Form 10-K for the year ended November 29, 2014.

We calculate an anticipated effective tax rate for the year based on our annual estimates of pretax income and use that effective tax rate to record our year-to-date income tax provision. Any change in annual projections of pretax income could have a significant impact on our effective tax rate for the respective quarter. Our effective tax rates for the three and six months ended May 30, 2015 and May 31, 2014 differ from the federal statutory rate primarily due to the effects of state income taxes and various permanent differences.

PART I – FINANCIAL INFORMATION – CONTINUED

BASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-UNAUDITED

MAY 30, 2015

(Dollars in thousands except share and per share data)

3. Business Combination – Acquisition of Zenith

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

The carrying value of our 49% interest in Zenith prior to the acquisition was $9,480 (see Note 7, unconsolidated affiliated company). In connection with the acquisition, this investment was remeasured to a fair value of $16,692 resulting in the recognition of a gain of $7,212 during the six months ended May 30, 2015. The impact of this gain upon our basic and diluted earnings per share for the six months ended May 30, 2015 is approximately $0.42 and $0.41, respectively, net of the related tax expense. The remeasured fair value of our prior interest in Zenith was estimated based on the fair value of the consideration transferred to acquire the remaining 51% of Zenith less an estimated control premium.

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

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

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

PART I – FINANCIAL INFORMATION – CONTINUED

BASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-UNAUDITED

MAY 30, 2015

(Dollars in thousands except share and per share data)

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

Identifiable assets acquired:	
Acquired cash and cash equivalents	$1,677
Accounts receivable, net	3,399
Prepaid expenses and other current assets	496
Property and equipment	18,110
Other long-term assets	646
Intangible assets	6,362
Total identifiable assets acquired	30,690
Liabilities assumed:	
Accounts payable and accrued liabilities	(4,038)
Notes payable	(4,329)
Total liabilities assumed	(8,367)
Net identifiable assets acquired	22,323
Goodwill	9,858
Total net assets acquired	$32,181

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

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

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

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

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

Acquisition costs related to the Zenith acquisition totaled $88 and $209 during the three and six months ended May 30, 2015, respectively, and are included in selling, general and administrative expenses in the condensed consolidated statements of income. The acquisition costs are primarily related to legal, accounting and valuation services.

PART I – FINANCIAL INFORMATION – CONTINUED

BASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-UNAUDITED

MAY 30, 2015

(Dollars in thousands except share and per share data)

Zenith's revenue since February 2, 2015 is included in our condensed consolidated statement of income for the three and six months ended May 30, 2015 is $12,086 and $15,345, respectively, after the elimination of intercompany transactions. Net income of Zenith since the date of acquisition for the three and six months ended May 30, 2015 is $603 and $591, respectively. The pro forma results of operations for the acquisition of Zenith have not been presented because they are not material to our consolidated results of operations.

4. Goodwill and Other Intangible Assets

At May 30, 2015 goodwill and other intangible assets consisted of the following:

	Gross Carrying Amount	**Accumulated Amortization**	**Intangible Assets, Net**
Intangibles subject to amortization:			
Customer relationships	$ 3,038	$ (68)	$ 2,970
Technology - customized applications	834	(40)	794
Total intangible assets subject to amortization	3,872	(108)	3,764
Intangibles not subject to amortization:			
Trade names	2,490	-	2,490
Goodwill	11,588	-	11,588
Total goodwill and other intangible assets	$ 17,950	$ (108)	$ 17,842

At November 29, 2014 our only intangible asset was goodwill with a carrying value of $1,730.

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

	Wholesale	Retail	Logistics	Total
Balance as of November 29, 2014	$ 1,129	$602	$ -	$1,731
Goodwill arising from acquisition of Zenith	3,711	1,218	4,929	9,858
Balance as of May 30, 2015	$ 4,840	$1,820	$ 4,929	$11,589

The goodwill recognized in connection with our acquisition of Zenith remains subject to future adjustments before the close of the measurement period in the first quarter of fiscal 2016. Refer to Note 3, Business Combinations, for additional information regarding the Zenith acquisition. There were no accumulated impairment losses on goodwill as of May 30, 2015 or November 29, 2014.

Amortization expense associated with intangible assets during the three and six months ended May 30, 2015 was $66 and $108, respectively. There was no amortization expense recognized during fiscal 2014. Estimated future amortization expense for intangible assets that exist at May 30, 2015 is as follows:

Remainder of fiscal 2015	$159
Fiscal 2016	322
Fiscal 2017	322
Fiscal 2018	322
Fiscal 2019	322
Fiscal 2020	322
Thereafter	1,995
Total	$3,764

PART I – FINANCIAL INFORMATION – CONTINUED

BASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-UNAUDITED

MAY 30, 2015

(Dollars in thousands except share and per share data)

5. Accounts Receivable

Accounts receivable consists of the following:

	May 30, 2015	November 29, 2014
Gross accounts receivable	$21,622	$ 16,477
Allowance for doubtful accounts	(1,276)	(1,249)
Accounts receivable, net	$20,346	$ 15,228

At May 30, 2015 and November 29, 2014 approximately 39% and 46%, respectively, of gross accounts receivable, and approximately 56% and 58%, respectively, of the allowance for doubtful accounts were attributable to amounts owed to us by our licensees. Our remaining receivables are primarily due from national account customers, traditional distribution channel customers, and logistical services customers.

Activity in the allowance for doubtful accounts for the six months ended May 30, 2015 was as follows:

Balance at November 29, 2014	$1,249
Acquired allowance on accounts receivable (Note 3)	209
Reductions to allowance	(182)
Balance at May 30, 2015	$1,276

We believe that the carrying value of our net accounts receivable approximates fair value. The inputs into these fair value estimates reflect our market assumptions and are not observable. Consequently, the inputs are considered to be Level 3 as specified in the fair value hierarchy in ASC Topic 820, *Fair Value Measurements and Disclosures*. See Note 12.

6. Inventories

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

Inventories were comprised of the following:

	May 30, 2015	November 29, 2014
Wholesale finished goods	$33,355	$ 31,399
Work in process	324	298
Raw materials and supplies	9,948	8,109
Retail merchandise	28,958	26,428
Total inventories on first-in, first-out method	72,585	66,234
LIFO adjustment	(8,018)	(7,550)
Reserve for excess and obsolete inventory	(1,589)	(1,412)
	$62,978	$ 57,272

PART I – FINANCIAL INFORMATION – CONTINUED

BASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-UNAUDITED

MAY 30, 2015

(Dollars in thousands except share and per share data)

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

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

	Wholesale Segment	Retail Segment	Total
Balance at November 29, 2014	$ 1,060	$ 352	$1,412
Additions charged to expense	1,116	211	1,327
Write-offs	(896)	(254)	(1,150)
Balance at May 30, 2015	$ 1,280	$ 309	$1,589

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

7. Unconsolidated Affiliated Company

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

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

	Quarter Ended		Six Months Ended	
	May 30, 2015	May 31, 2014	May 30, 2015	May 31, 2014
Earnings recognized	$-	$278	$220	$343

PART I – FINANCIAL INFORMATION – CONTINUED

BASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-UNAUDITED

MAY 30, 2015

(Dollars in thousands except share and per share data)

8. Notes Payable and Bank Credit Facility

Our notes payable consist of the following:

	May 30, 2015		
	Principal Balance	**Unamortized Discount**	**Net Carrying Amount**
Zenith acquisition note payable	$ 9,000	$ (463)	$ 8,537
Transportation equipment notes payable	3,224	-	3,224
Real estate notes payable	3,415	-	3,415
Total debt	15,639	(463)	15,176
Less current portion	(4,691)	263	(4,428)
Total long-term debt	$ 10,948	$ (200)	$ 10,748

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

The future maturities of our notes payable are as follows:

Remainder of fiscal 2015	$836
Fiscal 2016	5,688
Fiscal 2017	4,329
Fiscal 2018	3,856
Fiscal 2019	526
Fiscal 2020	404
Thereafter	-
	$15,639

Zenith Acquisition Note Payable

As part of the consideration given for our acquisition of Zenith on February 2, 2015, we issued an unsecured note payable to the former owner in the amount of $9,000. The note is payable in three annual installments $3,000 beginning February 2, 2016. Interest is payable annually at the one year LIBOR rate, which was established at 0.62% on February 2, 2015 and resets on each anniversary of the note. The note was recorded at its fair value in connection with the acquisition resulting in a debt discount that is amortized to the principal amount through the recognition of non-cash interest expense over the term of the note. Interest expense resulting from the amortization of the discount for the three and six months ended May 30, 2015 was $78 and $101, respectively. The current portion of the note due within one year, net of the current portion of the unamortized discount, is $2,737 at May 30, 2015.

PART I – FINANCIAL INFORMATION – CONTINUED

BASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-UNAUDITED

MAY 30, 2015

(Dollars in thousands except share and per share data)

Transportation Equipment Notes Payable

Certain of the transportation equipment operated in our logistical services segment is financed by notes payable in the amount of $3,224. These notes are payable in fixed monthly payments of principal and interest at fixed and variable rates ranging from 3.75% to 4.50% at May 30, 2015, with remaining terms of seventeen to forty-six months. The current portion of these notes due within one year at May 30, 2015 is $1,105. The notes are secured by tractors, trailers and local delivery trucks with a total net book value of $4,779 at May 30, 2015.

Real Estate Notes Payable

Certain of our retail real estate properties have been financed through commercial mortgages with interest rates of 6.73%. These mortgages are collateralized by the respective properties with net book values totaling approximately $6,060 and $6,127 at May 30, 2015 and November 29, 2014, respectively. The total balance outstanding under these mortgages was $2,062 and $2,218 at May 30, 2015 and November 29, 2014, respectively. The current portion of these mortgages due within one year was $327 and $316 as of May 30, 2015 and November 29, 2014, respectively.

Certain of the real estate located in Conover, NC and operated in our logistical services segment is subject to a note payable in the amount of $1,353. The note is payable in monthly installments of principal and interest at the fixed rate of 3.75% through October 2016, at which time the remaining balance on the note of approximately $1,004 will be due. The current portion of this note due within one year at May 30, 2015 is $260. The note is secured by land and buildings with a total net book value of $6,260 at May 30, 2015.

Fair Value

We believe that the carrying amount of our notes payable approximates fair value at both May 30, 2015 and November 29, 2014. In estimating the fair value, we utilize current market interest rates for similar instruments. The inputs into these fair value calculations reflect our market assumptions and are not observable. Consequently, the inputs are considered to be Level 3 as specified in the fair value hierarchy in ASC Topic 820, *Fair Value Measurements and Disclosures*. See Note 12.

Bank Credit Facility

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

At May 30, 2015, we had $216 outstanding under standby letters of credit, leaving availability under our credit line of $14,784.

9. Commitments and Contingencies

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

We lease land and buildings that are used in the operation of our Company-owned retail stores as well as in the operation of certain of our licensee-owned stores, and we lease land and buildings at various locations throughout the continental United States for warehousing and distribution hubs used in our logistical services segment. We also lease tractors, trailers and local delivery trucks used in our logistical services segment. Our real estate lease terms range from one to 15 years and generally have renewal options of between five and 15 years. Some store leases contain contingent rental provisions based upon sales volume. Our transportation equipment leases have terms ranging from two to seven years with fixed monthly rental payments plus variable charges based upon mileage. The following schedule shows future minimum lease payments under non-cancellable operating leases with terms in excess of one year as of May 30, 2015:

PART I – FINANCIAL INFORMATION – CONTINUED

BASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-UNAUDITED

MAY 30, 2015

(Dollars in thousands except share and per share data)

	Retail Stores	Distribution Centers	Transportation Equipment	Total
Remainder of fiscal 2015	$9,158	$ 1,807	$ 1,380	$12,345
Fiscal 2016	17,126	3,386	2,429	22,941
Fiscal 2017	14,731	2,940	1,709	19,380
Fiscal 2018	12,253	1,200	806	14,259
Fiscal 2019	10,359	320	755	11,434
Fiscal 2020	9,078	-	671	9,749
Thereafter	24,599	-	30	24,629
	$97,304	$ 9,653	$ 7,780	$114,737

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 $2,856 and $3,164 at May 30, 2015 and November 29, 2014, respectively.

In the event of default by an independent dealer under the guaranteed lease, we believe that the risk of loss is mitigated through a combination of options that include, but are not limited to, arranging for a replacement dealer, liquidating the collateral (primarily inventory), and pursuing payment under the personal guarantees of the independent dealer. The proceeds of the above options are expected to cover the estimated amount of our future payments under the guarantee obligations, net of recorded reserves. The fair value of lease guarantees (an estimate of the cost to the Company to perform on these guarantees) at May 30, 2015 and November 29, 2014 was not material.

10. Post Employment Benefit Obligations

We have an unfunded Supplemental Retirement Income Plan (the "Supplemental Plan") that covers one current and certain former executives. The liability for this plan was $10,341 and $10,376 as of May 30, 2015 and November 29, 2014, respectively, and is recorded as follows in the condensed consolidated balance sheets:

	May 30, 2015	November 29, 2014
Accrued compensation and benefits	$ 724	$ 724
Post employment benefit obligations	9,617	9,652
Total pension liability	$ 10,341	$ 10,376

PART I – FINANCIAL INFORMATION – CONTINUED

BASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-UNAUDITED

MAY 30, 2015

(Dollars in thousands except share and per share data)

Components of net periodic pension costs are as follows:

	Quarter Ended		Six Months Ended	
	May 30, 2015	May 31, 2014	May 30, 2015	May 31, 2014
Service cost	$26	$ 19	$52	$39
Interest cost	94	93	187	186
Amortization of transition obligation	11	11	21	22
Amortization of loss	49	31	97	61
Net periodic pension cost	$			