

BASSETT FURNITURE INDUSTRIES INC  
Form 10-Q  
September 29, 2016

**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 August 27, 2016**

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File No. 0-209

**BASSETT FURNITURE INDUSTRIES, INCORPORATED**

(Exact name of Registrant as specified in its charter)

Virginia 54-0135270  
(State or other jurisdiction (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  No

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

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

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

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

At September 16, 2016, 10,801,148 shares of common stock of the Registrant were outstanding.



BASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIES

TABLE OF CONTENTS

ITEM	PAGE
PART I - FINANCIAL INFORMATION	
1. Condensed Consolidated Financial Statements as of August 27, 2016 (unaudited) and November 28, 2015 and for the three and nine months ended August 27, 2016 (unaudited) and August 29, 2015 (unaudited)	3
Condensed Consolidated Statements of Income and Retained Earnings	3
Condensed Consolidated Statements of Comprehensive Income	4
Condensed Consolidated Balance Sheets	5
Condensed Consolidated Statements of Cash Flows	6
Notes to Condensed Consolidated Financial Statements	7
2. Management's Discussion and Analysis of Financial Condition and Results of Operations	24
3. Quantitative and Qualitative Disclosures About Market Risk	36
4. Controls and Procedures	36
PART II - OTHER INFORMATION	
1. Legal Proceedings	38
2. Unregistered Sales of Equity Securities, Use of Proceeds and Issuer Purchases of Equity Securities	38
3. Defaults Upon Senior Securities	38
6. Exhibits	38

PART I - FINANCIAL INFORMATIONITEM 1. FINANCIAL STATEMENTSBASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIESCONDENSED CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGSFOR THE PERIODS ENDED AUGUST 27, 2016 AND AUGUST 29, 2015 – UNAUDITED

(In thousands except per share data)

	<b>Quarter Ended</b>		<b>Nine Months Ended</b>	
	<b>August 27, 2016</b>	<b>August 29, 2015</b>	<b>August 27, 2016</b>	<b>August 29, 2015</b>
Sales revenue:				
Furniture and accessories	\$91,465	\$97,107	\$276,857	\$286,122
Logistics	13,247	13,904	41,395	29,250
Total sales revenue	104,712	111,011	318,252	315,372
Cost of furniture and accessories sold	40,091	44,824	124,496	133,676
Selling, general and administrative expenses excluding new store pre-opening costs	56,800	58,303	173,845	163,203
New store pre-opening costs	281	192	727	236
Lease exit costs	-	-	-	419
Asset impairment charges	-	-	-	106
Management restructuring costs	-	-	-	449
Income from operations	7,540	7,692	19,184	17,283
Remeasurement gain on acquisition of affiliate	-	-	-	7,212
Income from Continued Dumping & Subsidy Offset Act	-	-	-	1,066
Other loss, net	(647 )	(472 )	(1,904 )	(1,692 )
Income before income taxes	6,893	7,220	17,280	23,869
Income tax expense	2,728	2,954	6,496	9,118
Net income	\$4,165	\$4,266	\$10,784	\$14,751

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

Retained earnings-beginning of period	125,563	115,149	120,904	106,339
Cash dividends	(1,093 )	(1,029 )	(3,053 )	(2,704 )
Retained earnings-end of period	\$128,635	\$118,386	\$128,635	\$118,386
Basic earnings per share	\$0.39	\$0.39	\$1.00	\$1.38
Diluted earnings per share	\$0.38	\$0.39	\$0.99	\$1.36
Dividends per share	\$0.10	\$0.09	\$0.28	\$0.25

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 AUGUST 27, 2016 AND AUGUST 29, 2015 – UNAUDITED

(In thousands)

	<b>Quarter Ended</b>		<b>Nine Months Ended</b>	
	<b>August 27, 2016</b>	<b>August 29, 2015</b>	<b>August 27, 2016</b>	<b>August 29, 2015</b>
Net income	\$4,165	\$4,266	\$10,784	\$14,751
Other comprehensive income:				
Amortization associated with supplemental executive retirement defined benefit plan (SERP)	92	60	275	177
Income taxes related to SERP	(35 )	(23 )	(105 )	(67 )
Other comprehensive income, net of tax	57	37	170	110
Total comprehensive income	\$4,222	\$4,303	\$10,954	\$14,861

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

PART I – FINANCIAL INFORMATION – CONTINUEDITEM 1. FINANCIAL STATEMENTSBASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIESCONDENSED CONSOLIDATED BALANCE SHEETSAUGUST 27, 2016 AND NOVEMBER 28, 2015

(In thousands)

	(Unaudited)	
	August 27, 2016	November 28, 2015
<b><u>Assets</u></b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 28,051	\$ 36,268
Short-term investments	23,125	23,125
Accounts receivable, net	19,302	21,197
Inventories	53,413	59,896
Other current assets	11,519	6,798
Total current assets	135,410	147,284
Property and equipment, net	105,595	96,104
Deferred income taxes	9,006	13,471
Goodwill and other intangible assets	17,440	17,682
Other	8,048	8,002
Total long-term assets	34,494	39,155
<b>Total assets</b>	<b>\$ 275,499</b>	<b>\$ 282,543</b>
<b><u>Liabilities and Stockholders' Equity</u></b>		
<b>Current liabilities</b>		
Accounts payable	\$ 19,569	\$ 20,916
Accrued compensation and benefits	11,927	14,345
Customer deposits	20,132	23,999
Dividends payable	-	2,184
Current portion of long-term debt	5,003	5,273
Other accrued liabilities	11,077	13,133
Total current liabilities	67,708	79,850
<b>Long-term liabilities</b>		
Post employment benefit obligations	12,634	12,694



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

Notes payable	9,077	8,500
Other long-term liabilities	3,915	4,133
Total long-term liabilities	25,626	25,327

**Stockholders' equity**

Common stock	54,114	54,580
Retained earnings	128,635	120,904
Additional paid-in capital	1,924	4,560
Accumulated other comprehensive loss	(2,508 )	(2,678 )
Total stockholders' equity	182,165	177,366
<b>Total liabilities and stockholders' equity</b>	<b>\$ 275,499</b>	<b>\$ 282,543</b>

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

PART I – FINANCIAL INFORMATION – CONTINUEDITEM 1. FINANCIAL STATEMENTSBASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIESCONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWSFOR THE PERIODS ENDED AUGUST 27, 2016 AND AUGUST 29, 2015 – UNAUDITED

(In thousands)

	<b>Nine Months Ended</b>	
	<b>August 27, 2016</b>	<b>August 29, 2015</b>
<b>Operating activities:</b>		
Net income	\$ 10,784	\$ 14,751
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	8,866	7,302
Equity in undistributed income of investments and unconsolidated affiliated companies	-	(220 )
Provision for restructuring and 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	590	933
Deferred income taxes	4,360	3,778
Excess tax benefits from stock-based compensation	87	2,008
Other, net	256	1,445
Changes in operating assets and liabilities:		
Accounts receivable	2,334	(751 )
Inventories	6,483	(8,165 )
Other current assets	(4,721 )	(21 )
Customer deposits	(3,867 )	(3,196 )
Accounts payable and accrued liabilities	(6,207 )	2,158
<b>Net cash provided by operating activities</b>	<b>18,965</b>	<b>13,335</b>
<b>Investing activities:</b>		
Purchases of property and equipment	(18,955)	(11,283)
Proceeds from sales of property and equipment	632	2,952
Cash paid for business acquisition, net of cash acquired	-	(7,323 )
Capital contribution to affiliate	-	(1,345 )
<b>Net cash used in investing activities</b>	<b>(18,323)</b>	<b>(16,999)</b>
<b>Financing activities:</b>		

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

Cash dividends	(5,238 )	(4,806 )
Proceeds from the exercise of stock options	114	4,018
Other issuance of common stock	182	254
Repurchases of common stock	(3,989 )	(1,374 )
Taxes paid related to net share settlement of equity awards	(77 )	(178 )
Repayments of notes payable	(7,235 )	(1,630 )
Proceeds from equipment loans	7,384	1,307
<b>Net cash used in financing activities</b>	<b>(8,859 )</b>	<b>(2,409 )</b>
<b>Change in cash and cash equivalents</b>	<b>(8,217 )</b>	<b>(6,073 )</b>
<b>Cash and cash equivalents - beginning of period</b>	<b>36,268</b>	<b>26,673</b>
<b>Cash and cash equivalents - end of period</b>	<b>\$28,051</b>	<b>\$20,600</b>

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

AUGUST 27, 2016

(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 (“FASB”) 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 below. 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.

***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 income. Our equity in the earnings of Zenith prior to the date of the acquisition is included in other loss, net, in the accompanying condensed consolidated statements of income.

#### ***Adoption of Accounting Standards Update 2016-09***

In March 2016, the FASB issued Accounting Standards Update No. 2016-09, *Compensation – Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting* (ASU 2016-09). While the effective date of ASU 2016-09 is for fiscal years beginning after December 15, 2016, earlier adoption is permitted and we adopted the amendments in ASU 2016-09 during the second quarter of fiscal 2016. This standard simplifies or clarifies several aspects of the accounting for equity-based payment awards, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. Certain of these changes are required to be applied retrospectively, while other changes are required to be applied prospectively.

The impact of early adoption resulted in the following:

We recorded \$46 and \$87 of tax benefits within income tax expense for the three and nine months ended August 27, 2016 related to the excess tax benefit on stock based compensation. Prior to adoption this amount this amount would have been recorded as additional paid-in capital. This change could create future volatility in our effective tax rate depending upon the amount of exercise or vesting activity from our stock based awards.

We elected to recognize forfeitures as they occur. There was no cumulative effect adjustment as a result of the adoption of this amendment on a modified retrospective basis.

We elected to apply the change in classification of cash flows resulting from excess tax benefits or deficiencies on a retrospective basis. Accordingly, \$2,008 of excess tax benefits previously reported as a cash flow provided by financing activities during the nine months ended August 29, 2015 has been reclassified to be included in cash flows provided by operating activities.

PART I-FINANCIAL INFORMATION-CONTINUED

BASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-UNAUDITED

AUGUST 27, 2016

(Dollars in thousands except share and per share data)

We excluded the excess tax benefits from the assumed proceeds available to repurchase shares in the computation of our diluted earnings per share for the three and nine months ended August 27, 2016. The effect of this change on our diluted earnings per share was not significant.

ASU 2016-09 also requires the presentation of employee taxes paid by the Company through the withholding of shares as a financing activity on the statement of cash flows, which is where we had previously reclassified these items.

The impact of the adoption of this standard retroactively as of November 29, 2015 (the first day of our fiscal year 2016), was not significant as there was no significant award vesting or settlement activity during the first quarter of fiscal 2016.

There were no other material impacts to our consolidated financial statements as a result of adopting this updated standard.

## **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 nine months ended August 27, 2016 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 28, 2015.

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 nine month periods ended August 27, 2016 and August 29, 2015 differ from the federal statutory rate primarily due to the effects of state income taxes and various permanent differences including the favorable impact of the Section 199 manufacturing deduction.

### **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 expired 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 8, 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 nine months ended August 29, 2015. The impact of this gain upon our basic and diluted earnings per share was 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.

PART I-FINANCIAL INFORMATION-CONTINUED

BASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-UNAUDITED

AUGUST 27, 2016

(Dollars in thousands except share and per share data)

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

The allocation of the fair value of the acquired business is as follows:

Allocation of the fair value of consideration transferred:	
Identifiable assets acquired:	
Acquired cash and cash equivalents	\$1,677
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. Approximately \$6,982 of the acquired goodwill 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 was assigned to identifiable intangible assets as follows:

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

PART I-FINANCIAL INFORMATION-CONTINUED

BASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-UNAUDITED

AUGUST 27, 2016

(Dollars in thousands except share and per share data)

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 4.

Acquisition costs related to the Zenith acquisition totaled \$0 and \$209 during the three and nine months ended August 29, 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.

The revenue and pre-tax profit of Zenith that is included in our condensed consolidated statements of income is as follows:

<b>Quarter Ended</b>	<b>Nine Months Ended</b>
--------------------------	----------------------------------