BASSETT FURNITURE INDUSTRIES INC
Form 10-Q
October 09, 2008
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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 30, 2008

OR

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

For the transition period from _________ to _________

Commission File No. 0-209

BASSETT FURNITURE INDUSTRIES, INCORPORATED

(Exact name of Registrant as specified in its charter)

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

3525 Fairystone Park Highway

Bassett, Virginia 24055

(Address of principal executive offices)

(Zip Code)

(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 is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. (See the definitions of large accelerated filer , accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.)

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 August 30, 2008, 11,521,282 shares of common stock of the Registrant were outstanding.

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BASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND RETAINED EARNINGS

FOR THE PERIODS ENDED AUGUST 30, 2008 AND AUGUST 25, 2007 UNAUDITED

(In thousands except per share data)

	Quarter Ended		Nine Months Ended	
	August 30, 2008	August 25, 2007	August 30, 2008	August 25, 2007
Net sales	$ 70,159	$ 70,497	$ 226,620	$ 219,349
Cost of sales	42,105	45,847	136,421	148,442
Gross profit	28,054	24,650	90,199	70,907
Selling, general and administrative	32,247	27,123	95,509	79,005
Proxy defense costs			1,418	
Restructuring, asset impairment charges and unusual gains, net	240		(718)	5,544
Lease exit costs	640		640	1,934
Loss from operations	(5,073)	(2,473)	(6,650)	(15,576)
Other, net	(745)	785	(460)	4,477
Loss before income taxes	(5,818)	(1,688)	(7,110)	(11,099)
Income tax benefit	3,166	2,364	4,582	5,168
Net income (loss)	$ (2,652)	$ 676	$ (2,528)	$ (5,931)
Retained earnings-beginning of period	126,119	140,201	131,725	151,535
Change in Accounting Principle Adoption of FIN 48 (See Note 12)			(746)	
Cash dividends				
Regular Dividend	(2,597)	(2,362)	(7,581)	(7,088)
Special Dividend	(8,734)		(8,734)	
Retained earnings-end of period	$ 112,136	$ 138,515	$ 112,136	$ 138,515
Basic earnings (loss) per share	$ (0.23)	$ 0.06	$ (0.22)	$ (0.50)
Diluted earnings (loss) per share	$ (0.23)	$ 0.06	$ (0.22)	$ (0.50)
Dividends per share				
Regular	$ 0.225	$ 0.20	$ 0.625	$ 0.60
Special	$ 0.75	$	$ 0.75	$

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

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ITEM 1. FINANCIAL STATEMENTS

BASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

AUGUST 30, 2008 AND NOVEMBER 24, 2007

(In thousands)

	(Unaudited) August 30, 2008	November 24, 2007
Assets		
Current assets		
Cash and cash equivalents	$ 5,572	$ 3,538
Accounts receivable, net	41,036	38,612
Inventories	42,114	50,550
Deferred income taxes	7,831	6,001
Other current assets	11,998	12,421
Total current assets	108,551	111,122
Property and equipment		
Cost	155,158	153,995
Less accumulated depreciation	98,247	100,770
Property and equipment, net	56,911	53,225
Investments	45,430	76,924
Retail real estate, net	30,008	31,207
Notes receivable, net	14,853	14,128
Deferred income taxes	14,868	9,902
Other	12,057	14,195
	117,216	146,356
Total assets	$ 282,678	$ 310,703
Liabilities and Stockholders Equity		
Current liabilities		
Accounts payable	$ 18,325	$ 26,104
Accrued compensation and benefits	4,076	5,611
Customer deposits	7,455	8,894
Dividends payable	2,597	2,363
Other accrued liabilities	13,334	13,622
Total current liabilities	45,787	56,594
Long-term liabilities		

Post employment benefit obligations	14,188	14,493
Long-term revolving debt	12,000	10,000
Real estate notes payable	21,553	18,850
Distributions in excess of affiliate earnings	14,439	12,244
Other long-term liabilities	5,012	3,670
	67,192	59,257
Commitments and Contingencies		
Stockholders equity		
Common stock	57,606	59,033
Retained earnings	112,136	131,725
Additional paid-in-capital	326	2,180
Accumulated other comprehensive income (loss)	(369)	1,914
Total stockholders equity	169,699	194,852
Total liabilities and stockholders equity	$ 282,678	$ 310,703

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

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ITEM 1. FINANCIAL STATEMENTS

BASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE PERIODS ENDED AUGUST 30, 2008 AND AUGUST 25, 2007   UNAUDITED

(In thousands)

	Nine Months Ended	
	August 30, 2008	**August 25, 2007**
Operating activities:		
Net loss	$ (2,528)	$ (5,931)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	5,732	6,864
Equity in undistributed income of investments and unconsolidated affiliated companies	(2,450)	(6,358)
Provision for restructuring, asset impairment charges and unusual gains, net	(718)	5,544
Provision for corporate retail lease exit costs	640	1,934
Realized income from investments	(980)	(2,393)
Impairment of licensed retail real estate	499	
Provision for losses on trade accounts receivable	6,059	2,205
Deferred income taxes	(3,478)	(3,693)
Other, net	137	115
Changes in operating assets and liabilities		
Accounts receivable	(9,789)	(9,660)
Inventories	8,436	5,465
Other current assets	(1,411)	(3,283)
Accounts payable and accrued liabilities	(12,816)	2,487
Net cash used in operating activities	(12,667)	(6,704)
Investing activities:		
Purchases of property and equipment	(3,006)	(2,842)
Purchases of retail real estate	(630)	(40)
Proceeds from sales of property and equipment	2,205	3,111
Acquisition of Charleston stores, net	(216)	
Proceeds from sales of investments	31,829	13,134
Purchases of investments	(4,212)	(8,590)
Dividends from an affiliate	6,091	6,091
Net cash received on licensee notes	790	920
Other, net	26	(322)
Net cash provided by investing activities	32,877	11,462
Financing activities:		
Net borrowings under revolving credit facility	2,000	2,000
Repayments of long-term debt		(770)
Repayments of real estate notes payable	(590)	(500)
Issuance of common stock	123	385
Repurchases of common stock	(3,622)	(476)
Cash dividends	(16,087)	(7,088)

Net cash used in financing activities	(18,176)	(6,449)
Change in cash and cash equivalents	2,034	(1,691)
Cash and cash equivalents - beginning of period	3,538	6,051
Cash and cash equivalents - end of period	$ 5,572	$ 4,360

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

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BASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-UNAUDITED

August 30, 2008

(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 (consisting of normal recurring accruals) 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).

As part of our efforts to standardize wholesale pricing throughout the country, in July 2007 we began invoicing all of the store network and certain wholesale customers on a fully landed basis such that the invoice price includes the freight charge for delivery. This business change resulted in $3,970 and $12,663, respectively, of additional reported revenue and selling, general and administrative expenses for the quarter and nine months ended August 30, 2008 and $1,020 of such revenues and expenses for the quarter and nine months ended August 25, 2007.

Due to our fiscal calendar, our nine month period ended August 30, 2008 consisted of 40 weeks as compared to 39 weeks for the nine month period ended August 25, 2007. Our third quarter of 2008 and 2007 consisted of 13 weeks. Our 2008 fiscal year will consist of 53 weeks.

2. Interim Financial Presentation

All intercompany accounts and transactions have been eliminated in the condensed consolidated financial statements. The results of operations for the quarter and nine months ended August 30, 2008, 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 24, 2007.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-UNAUDITED

August 30, 2008

(Dollars in thousands except share and per share data)

3. 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. During the quarter and nine months ended August 25, 2007, we liquidated certain LIFO inventories which decreased cost of sales $1,017 and $2,934, respectively.

Inventories were comprised of the following:

	August 30, 2008	November 24, 2007
Finished goods	$ 26,595	$ 36,102
Work in process	241	247
Raw materials and supplies	8,075	7,887
Retail merchandise	14,562	13,723
Total inventories at FIFO	49,473	57,959
LIFO adjustment	(7,359)	(7,409)
	$ 42,114	$ 50,550

4. 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 August 30, 2008, and August 25, 2007, 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 $14,439 and $12,244 at August 30, 2008, and November 24, 2007, 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 August 30, 2008. 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:

	Quarter ended		Nine months ended	
	August 30, 2008	August 25, 2007	August 30, 2008	August 25, 2007
Income recorded	$ 1,470	$ 1,404	$ 3,896	$ 4,390
Dividends received	3,280	3,280	6,091	6,091

Summarized unaudited income statement information for IHFC for its first nine months of 2008 and 2007, respectively, is as follows:

	2008	2007
Revenue	$ 32,505	$ 33,082
Operating income	17,732	19,350
Net income	8,316	9,371

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

	Quarter ended		Nine months ended	
	August 30, 2008	August 25, 2007	August 30, 2008	August 25, 2007
Loss in other income	$ (9)	$ (203)	$ (351)	$ (323)

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August 30, 2008

(Dollars in thousands except share and per share data)

At the beginning of fiscal 2007, we also owned a 30% interest in BFD Northeast, LLC (BFDNE) and accounted for that investment using the equity method. On February 28, 2007, we entered into an agreement with BFDNE whereby we contributed our 30% interest to BFDNE in exchange for certain assets (primarily inventory and leasehold improvements) of BFDNE s two stores in Boston, Massachusetts, and the assumption of BFDNE s outstanding bank debt. As part of the transaction, we also restructured amounts BFDNE previously owed us. For the nine months ended August 25, 2007, we recorded losses of $(595) in other, net in our condensed consolidated statement of operations and retained earnings for our share of BFDNE s net losses.

5. Real Estate Notes Payable and Other Long-Term Debt

Certain of our retail real estate properties have been financed through commercial mortgages which are payable over periods of four to twenty years and have interest rates ranging from 6.73% to 9.18%. These mortgages are collateralized by the respective properties with net book values totaling approximately $32,309 and $25,767 at August 30, 2008, and November 24, 2007, respectively. The current portion of these mortgages, $2,355 and $672 as of August 30, 2008, and November 24, 2007, respectively, has been included as a current liability in other accrued liabilities in the accompanying condensed consolidated balance sheets. The long-term portion, $21,553 and $18,850 as of August 30, 2008 and November 24, 2007, respectively, is presented as real estate notes payable in the condensed consolidated balance sheets.

We amended our existing revolving credit facility in August 2008 by extending the maturity date an additional two years and amending certain covenants. The credit facility, as amended, provides for borrowings of up to $45,000 at a variable interest rate of LIBOR plus 1.75% (4.24% on August 30, 2008). The facility is secured by a pledge of certain of our marketable securities (see also Note 13) and substantially all of our receivables and inventories. Borrowings under the facility, which matures November 30, 2010, totaled $12,000 and $10,000 at August 30, 2008, and November 24, 2007, respectively. After coverage for letters of credit and certain loan guarantees, we had $22,706 available for borrowing under the facility at August 30, 2008. To the extent the value of the marketable securities falls below $16 million, our Borrowing Base, as defined, is decreased by 125% of the difference between $16 million and the actual value of those securities.

In the fourth quarter of 2007, we announced the acquisition of the operations of two stores in the Charleston, South Carolina area from a former licensee and that we had begun the process of acquiring the land and buildings for those stores. During the quarter ended March 1, 2008, we completed the acquisition of the land and buildings for $6,800. We funded the acquisition through additional real estate debt of approximately $5,000 and the use of preexisting accounts receivable from the former licensee.

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August 30, 2008

(Dollars in thousands except share and per share data)

6. Comprehensive Income

For the quarters ended August 30, 2008, and August 25, 2007, total comprehensive loss was $(3,468) and $(215), respectively. For the nine months ended August 30, 2008, and August 25, 2007, total comprehensive loss was $(4,811) and $(6,828) respectively. Changes in accumulated other comprehensive income for the quarters and nine months ended August 30, 2008 and August 25, 2007 are as follows:

	Quarter ended		Nine months ended	
	August 30, 2008	August 25, 2007	August 30, 2008	August 25, 2007
Balance at beginning of period	$ 447	$ 3,314	$ 1,914	$ 3,320
Change in unrealized holding gains, net of tax	(822)	(893)	(2,303)	(902)
Amortization of minimum pension liability	6	2	20	5
Balance at end of period	$ (369)	$ 2,423	$ (369)	$ 2,423

7. Restructuring, Asset Impairment Charges and Unusual Gains, net

The results for the nine months ended August 30, 2008 included three unusual pretax items consisting of $1,418 of legal and other expenses for the proxy contest with Costa Brava Partnership III L.P., a $1,342 gain associated with the sale of our airplane and a $624 impairment charge associated with the writeoff of leasehold improvements for a closed store of which $240 was recorded in the third quarter.

During the first quarter of 2007, we made the decision to cease operations at our wood manufacturing facility in Bassett, Virginia. The closure of the 323,000 square foot facility was completed during June of 2007 and affected approximately 280 employees or 15 percent of the Company s workforce. The Company has sourced the majority of the products previously produced at this facility from overseas suppliers, continued to produce certain custom bedroom products domestically and discontinued providing certain slower selling items. As a result of this decision, we recorded a $3,609 charge in the first quarter of 2007 to write down the value of the plant and equipment and a $960 charge in the second quarter of 2007 for severance benefits. As of August 30, 2008, we have disbursed substantially all of the severance benefits.

During the second quarter of 2007, we also reduced our leased showroom space in the International Home Furnishings Center by approximately 60% and recorded a $975 charge to writeoff the net book value of the corresponding capitalized tenant improvements.

The following table summarizes these charges as follows:

	13 Weeks Ended August 30, 2008	13 Weeks Ended August 25, 2007	40 Weeks Ended August 30, 2008	39 Weeks Ended August 25, 2007
Proxy defense costs	$	$	$ 1,418	$
Restructuring, asset impairment charges and unusual gains, net				

Gain on sale of airplane	$	$	$ (1,342)	$
Write off of leasehold improvements	240		624	975
Asset impairment charge associated with Bassett plant closure				3,609
Severance				960
	$ 240	$	$ (718)	$ 5,544

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(Dollars in thousands except share and per share data)

8. Lease Exit Costs and Licensee Real Estate Impairment

During the third quarter of 2008, we closed one of our leased corporate retail store locations and recorded a $640 pretax charge to recognize the fair value of the future lease obligations. In the first half of 2007, we recorded a $1,934 pretax charge to recognize the fair value of the future obligations associated with the leases on three closed corporate retail stores.

During 2008, a licensee closed a store, which operated under a sublease agreement with us, where we were the primary lease obligor to the landlord. Consequently, we recorded a $129 charge in other, net in our statement of operations to recognize the fair value of the future obligations associated with the lease. We also recorded a $499 impairment charge in other, net to writedown the previously capitalized tenant improvements associated with this store.

9. 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 licensee-owned stores. We had obligations of $95,577 and $96,393 at August 30, 2008 and November 24, 2007, respectively, for future minimum lease payments under non-cancelable operating leases having remaining terms in excess of one year. As part of the store program strategy, we 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 $11,936 and $12,672 at August 30, 2008, and November 24, 2007, respectively.

We have also guaranteed loans of certain of our licensees to finance initial inventory packages for those stores. The total contingent liabilities with respect to these loan guarantees as of August 30, 2008, and November 24, 2007, were $7,213 and $9,056, respectively, and range from one to ten years.

In the event of default by an independent dealer under the guaranteed lease or loan, our costs may be 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 at August 30, 2008, and November 24, 2007, were $298 and $428, respectively, and are recorded in accrued liabilities in the accompanying condensed consolidated balance sheets.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-UNAUDITED

August 30, 2008

(Dollars in thousands except share and per share data)

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 $11,801 and $12,034 as of August 30, 2008 and November 24, 2007, respectively, and is recorded as follows in the consolidated balance sheets:

	August 30, 2008	November 24, 2007
Other accrued liabilities	$ 984	$ 984
Post employment benefit obligations	10,817	11,050
Total pension liability	$ 11,801	$ 12,034

Components of net periodic pension costs are as follows:

	Quarter Ended		Nine Months Ended	
	August 30, 2008	August 25, 2007	August 30, 2008	August 25, 2007
Service cost	$ 13	$ 25	$ 41	$ 75
Interest cost	158	169	474	507
Amortization of transition obligation	11	11	32	33
Amortization of unrecognized actuarial loss		3		9
Net periodic pension cost	$ 182	$ 208	$ 547	$ 624

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 and $113 for the third quarter of 2008 and 2007 and $342 and $338 for the nine months ended August 30, 2008 and August 25, 2007, respectively. Our liability under this plan was $3,371 and $3,443 as of August 30, 2008 and November 24, 2007, respectively, and is reflected in post employment benefit obligations.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-UNAUDITED

August 30, 2008

(Dollars in thousands except share and per share data)

11. Earnings per share

The following reconciles basic and diluted earnings per share:

	Net Income (Loss)	Weighted Average Shares	Earnings (loss) per share
For the quarter ended August 30, 2008:			
Net loss	$ (2,652)	11,601,118	$ (0.23)
Add effect of dilutive securities:			
Options		*	
Diluted earnings per share	$ (2,652)	11,601,118	$ (0.23)
For the quarter ended August 25, 2007:			
Net income	$ 676	11,805,138	$ 0.06
Add effect of dilutive securities:			
Options		2,439	
Diluted earnings per share	$ 676	11,807,577	$ 0.06
For the nine months ended August 30, 2008:			
Net loss	$ (2,528)	11,725,600	$ (0.22)
Add effect of dilutive securities:			
Options		*	
Diluted loss per share	$ (2,528)	11,725,600	$ (0.22)
For the nine months ended August 25, 2007:			
Net loss	$ (5,931)	11,811,352	$ (0.50)
Add effect of dilutive securities:			
Options		*	
Diluted earnings per share	$ (5,931)	11,811,352	$ (0.50)

* Due to the net loss, the potentially dilutive securities would have been antidilutive and are therefore excluded.
Options to purchase approximately 1,273,000 and 1,342,000 shares of common stock at August 30, 2008 and August 25, 2007, respectively, were excluded from the computation as their effect is antidilutive.

12. 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 rate to record our year-to-date income tax benefit. Any change in annual projections of pretax income or loss could have a significant impact on our effective tax rate for the respective quarter.

The effective income tax rate was 54% and 140% in the third quarter of 2008 and 2007, respectively. The effective income tax rate was 64% and 47% for the nine month periods of 2008 and 2007, respectively. The effective tax rate for the third quarter has been impacted by changes in projected pretax loss as compared to projections as of the end of the second quarter combined with the effect of certain income exclusions, primarily dividends received from our investment in IHFC. The effective tax rates for 2007 were impacted by the $5,544 restructuring and asset impairment charges and the $1,934 lease exit costs which were taxed at a 39% effective rate.

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August 30, 2008

(Dollars in thousands except share and per share data)

Effective November 25, 2007, we adopted Financial Accounting Standards Board (FASB) Interpretation No. (FIN) 48, Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109, Accounting for Income Taxes , which provides a comprehensive model for the recognition, measurement, presentation, and disclosure in a company s financial statements of uncertain tax positions taken, or expected to be taken, on a tax return. Under FIN 48, if an income tax position exceeds a more likely than not (i.e. greater than 50%) probability of success upon tax audit, based solely on the technical merits of the position, the company is to recognize an income tax benefit in its financial statements. The tax benefits recognized are to be measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. If it is not more likely than not that the benefit will be sustained on its technical merits, no benefit is to be recorded. Uncertain tax positions that relate only to timing of when an item is included on a tax return are considered to have met the recognition threshold for purposes of applying FIN 48. Therefore, if it can be established that the only uncertainty is when an item is taken on a tax return, such positions have satisfied the recognition step for purposes of FIN 48 and uncertainty related to timing should be assessed as part of measurement. FIN 48 requires that a liability associated with an unrecognized tax benefit be classified as a long-term liability, except for the amount for which a cash payment is expected to be made within one year. Further, companies are required to accrue interest and related penalties, if applicable, on all tax exposures consistent with the respective jurisdictional tax laws.

The adoption of FIN 48 resulted in a non-cash transition (cumulative effect of a change in accounting principle) adjustment of $746 which was recorded as a decrease to beginning retained earnings. The transition adjustment is a result, primarily, of tax positions associated with state income tax exposures and interest on certain temporary differences. Our continuing practice is to recognize interest and penalties related to income tax matters as a component of income tax expense.

As of the adoption date of FIN 48, we had unrecognized income tax benefits totaling $1,687, of which $902 would impact our effective income tax rate if recognized. During the quarter ended August 30, 2008, we recognized $122 of previously unrecognized tax benefits due to lapsing of certain state and federal statute of limitations. We currently have $780 of unrecognized tax benefits that would impact our effective tax rate if recognized. We do not currently anticipate significant changes in such amounts over the next twelve months. As of the date of adoption, the total amount of accrued interest and penalties was $578. During the quarter ended August 30, 2008, we reversed $261 of previously accrued interest and penalties due to lapsing of certain state and federal statutes of limitations. For the nine months ended August 30, 2008, additional charges for accrued interest and penalties were not significant.

We remain subject to examination for tax years 2004 through 2006 for all of our major tax jurisdictions.

13. Fair Value Disclosures

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.)

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.

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PART I-FINANCIAL INFORMATION-CONTINUED

BASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-UNAUDITED

August 30, 2008

(Dollars in thousands except share and per share data)

The standard is effective for fiscal years beginning after November 15, 2007. Effective November 25, 2007, we adopted the provisions of SFAS 157.

We have $16,389 of marketable securities consisting of a combination of equity and fixed income securities with maturities that range from one to six years. 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 (see also Note 5).

We determine the fair value of our marketable securities based on quoted market prices. The adoption of SFAS 157 had no effect on the valuation of our marketable securities.

We also have $29,041 invested in the Bassett Industries Alternative Asset Fund LP (BIAAF) at August 30, 2008 which is recorded at fair value. We primarily determine the fair value of our investment in the BIAAF based on the net asset values as provided by the general partner. The general partner obtains these net asset values from the individual investee fund managers. Investment balances by fund are presented below.

	August 30, 2008	November 24, 2007
Styx Partners, L.P.	$ 14,448	$ 13,974
HBK Fund, L.P.	9,455	13,589
Drawbridge Special Opportunities Fund, L.P.		12,400
DB Zwirn Special Opportunities Fund, L.P.	4,789	5,735
Cash and Other	349	98
Contrarian Capital Trade Claims, L.P.		5,983
	$ 29,041	$ 51,779

We are entitled to affect partial withdrawals from our capital account at the end of any calendar quarter or calendar year subject to the withdrawal provisions and notice periods required by the underlying managers. These notice periods range from sixty-five days to six months and may be subject to lockup periods of up to one year. However, we have requested our general partner to attempt to liquidate all of our investments in the BIAAF to fund special dividends, our increased share repurchase program and capital spending for our new prototype stores. During the third quarter of 2008, we received all of our investment in the Drawbridge Special Opportunities Fund, L.P. for the stated net asset value of $12,650. During the third quarter of 2008, we also received $3,600 from the HBK Fund, L.P. Due to the level of redemption requests, we have been informed that the remainder of the 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 two to three years before our investment is fully redeemed. We expect to receive the total stated net asset value for the Zwirn investment and currently expect to receive substantially all of the proceeds from our investment in Styx Partners, L.P. early in 2009. Due to these liquidation restrictions, we have determined that a discount to the stated net asset values is necessary to reflect the fair value as proscribed by SFAS No. 157. Consequently, we recorded a fair value adjustment of $543 during the first half of 2008. However, primarily due to lower fund balances from redemptions received during the third quarter and the passage of time, we have recorded a fair value recovery of $138 in the third quarter of 2008. This adjustment has been recorded in other, net in the condensed consolidated statements of operations. Our total fair value adjustment is $405 at August 30, 2008.

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

	August 30, 2008			
	Fair Value Measurements Using			Assets at
	Level 1	Level 2	Level 3	Fair Value
Assets				
Marketable Securities	$ 16,389			$ 16,389
Investment in BIAAF			29,041	29,041
Total Assets	$ 16,389		$ 29,041	$ 45,430

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PART I-FINANCIAL INFORMATION-CONTINUED

BASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-UNAUDITED

August 30, 2008

(Dollars in thousands except share