BASSETT FURNITURE INDUSTRIES INC
Form 10-Q
September 28, 2017

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 26, 2017

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, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer	Accelerated Filer	X
Non-accelerated Filer	(Do not check if a smaller reporting company)	
	Smaller Reporting Company	
	Emerging Growth Company	

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the

Exchange Act.

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 September 15, 2017, 10,735,310 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 AUGUST 26, 2017 AND AUGUST 27, 2016 – UNAUDITED

(In thousands except per share data)

	Quarter Ended		**Nine Months Ended**	
	August 26, 2017	**August 27, 2016**	**August 26, 2017**	**August 27, 2016**
Sales revenue:				
Furniture and accessories	$100,152	$91,465	$294,144	$276,857
Logistics	14,109	13,247	40,134	41,395
Total sales revenue	114,261	104,712	334,278	318,252
Cost of furniture and accessories sold	45,320	40,091	132,199	124,496
Selling, general and administrative expenses excluding new store pre-opening costs	61,373	56,800	180,972	173,845
New store pre-opening costs	308	281	1,583	727
Income from operations	7,260	7,540	19,524	19,184
Gain on sale of investment	-	-	3,267	-
Impairment of investment in real estate	-	-	(1,084)	-
Other loss, net	(583)	(647)	(1,994)	(1,904)
Income before income taxes	6,677	6,893	19,713	17,280
Income tax expense	2,098	2,728	6,431	6,496
Net income	$4,579	$4,165	$13,282	$10,784
Retained earnings-beginning of period	135,947	125,563	129,388	120,904
Cash dividends	(1,181)	(1,093)	(3,325)	(3,053)
Retained earnings-end of period	$139,345	$128,635	$139,345	$128,635
Basic earnings per share	$0.43	$0.39	$1.25	$1.00

Diluted earnings per share	$0.43	$0.38	$1.24	$0.99
Dividends per share	$0.11	$0.10	$0.31	$0.28

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

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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 26, 2017 AND AUGUST 27, 2016 – UNAUDITED

(In thousands)

	Quarter Ended		Nine Months Ended	
	August 26, 2017	**August 27, 2016**	**August 26, 2017**	**August 27, 2016**
Net income	$4,579	$4,165	$13,282	$10,784
Other comprehensive income:				
Recognize prior service cost associated with Long Term Cash Awards (LTCA)	-	-	(932)	-
Amortization associated with LTCA	24	-	49	-
Income taxes related to LTCA	(9)	-	341	-
Amortization associated with supplemental executive retirement defined benefit plan (SERP)	94	92	281	275
Income taxes related to SERP	(36)	(35)	(107)	(105)
Other comprehensive income, net of tax	73	57	(368)	170
Total comprehensive income	$4,652	$4,222	$12,914	$10,954

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

AUGUST 26, 2017 AND NOVEMBER 26, 2016

(In thousands)

	(Unaudited) August 26, 2017	November 26, 2016
Assets		
Current assets		
Cash and cash equivalents	$ 36,497	$ 35,144
Short-term investments	23,125	23,125
Accounts receivable, net	19,514	18,358
Inventories	57,748	53,215
Other current assets	8,808	10,727
Total current assets	145,692	140,569
Property and equipment, net	101,988	104,655
Deferred income taxes	8,235	8,071
Goodwill and other intangible assets	17,431	17,360
Other	6,410	7,612
Total long-term assets	32,076	33,043
Total assets	$ 279,756	$ 278,267
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable	$ 19,047	$ 21,281
Accrued compensation and benefits	13,584	13,602
Customer deposits	20,757	25,181
Dividends payable	-	3,218
Current portion of long-term debt	3,373	3,290
Other accrued liabilities	13,554	10,441
Total current liabilities	70,315	77,013
Long-term liabilities		
Post employment benefit obligations	13,776	12,760

Notes payable	527	3,821
Other long-term liabilities	4,412	3,968
Total long-term liabilities	18,715	20,549
Stockholders' equity		
Common stock	53,677	53,615
Retained earnings	139,345	129,388
Additional paid-in capital	626	255
Accumulated other comprehensive loss	(2,922)	(2,553)
Total stockholders' equity	190,726	180,705
Total liabilities and stockholders' equity	$ 279,756	$ 278,267

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 AUGUST 26, 2017 AND AUGUST 27, 2016 – UNAUDITED

(In thousands)

	Nine Months Ended	
	August 26, 2017	**August 27, 2016**
Operating activities:		
Net income	$13,282	$10,784
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	10,060	8,866
Provision for asset impairment charge	1,084	-
Gain on sale of property and equipment	(1,278)	(165)
Gain on sale of investment	(3,267)	-
Tenant improvement allowance received from lessors	1,165	590
Deferred income taxes	195	4,360
Other, net	516	421
Changes in operating assets and liabilities:		
Accounts receivable	(1,018)	2,334
Inventories	(4,190)	6,483
Other current assets	1,919	(4,721)
Customer deposits	(4,424)	(3,867)
Accounts payable and accrued liabilities	654	(6,120)
Net cash provided by operating activities	14,698	18,965
Investing activities:		
Purchases of property and equipment	(10,817)	(18,955)
Proceeds from sales of property and equipment	4,474	632
Proceeds from sale of investment	3,592	-
Acquisition of retail licensee store	(655)	-
Other	223	-
Net cash used in investing activities	(3,183)	(18,323)
Financing activities:		
Cash dividends	(6,544)	(5,238)

Proceeds from the exercise of stock options	310	114
Other issuance of common stock	83	182
Repurchases of common stock	(83)	(3,989)
Taxes paid related to net share settlement of equity awards	(641)	(77)
Repayments of notes payable	(3,287)	(7,235)
Proceeds from equipment loans	-	7,384
Net cash used in financing activities	(10,162)	(8,859)
Change in cash and cash equivalents	1,353	(8,217)
Cash and cash equivalents - beginning of period	35,144	36,268
Cash and cash equivalents - end of period	$36,497	$28,051

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 26, 2017

(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. 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.

Revenues from logistical services are generated by our wholly-owned subsidiary, Zenith Freight Lines, LLC (“Zenith”) which we acquired in fiscal 2015. Sales of logistical services from Zenith to our wholesale and retail segments have been eliminated in consolidation, and Zenith’s operating costs and expenses are included in selling, general and administrative expenses in our 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 nine months ended August 26, 2017 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 26, 2016.

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 months ended August 26, 2017 and August 27, 2016, respectively, differ from the federal statutory rate primarily due to the effects of state income taxes and various permanent differences including the favorable impacts of excess tax benefits on stock-based compensation and the Section 199: Domestic Production Activities Deduction. During the three and nine months ended August 26, 2017 our income tax provision includes excess tax benefits on stock-based compensation in the amount of $227 and $554, respectively. During the three and nine months ended August 27, 2016, our income tax provision includes excess tax benefits on stock-based compensation in the amount of $46 and $87, respectively.

PART I-FINANCIAL INFORMATION-CONTINUED

BASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-UNAUDITED

AUGUST 26, 2017

(Dollars in thousands except share and per share data)

3. Business Combination – Licensee Store Acquisition

During the nine months ended August 26, 2017, we acquired the operations of the Bassett Home Furnishings ("BHF") store located in Columbus, Ohio for a purchase price of $655. The store had been owned and operated by a licensee that had determined that continued ownership of a BHF store was no longer consistent with its future business objectives. We believe that Columbus, Ohio represents a viable market for a BHF store.

The purchase price was allocated as follows:

Inventory	$343
Goodwill	312
Purchase price	$655

The inputs into our valuation of the acquired assets reflect our market assumptions and are not observable. Consequently, the inputs are considered to be Level 3 inputs as specified in the fair value hierarchy in ASC 820, *Fair Value Measurements and Disclosures*. See Note 4.

The pro forma impact of the acquisition and the results of operations for the Columbus store since acquisition are not material to our consolidated results of operations for the nine months ended August 26, 2017.

4. Financial Instruments and Fair Value Measurements

Financial Instruments

Our financial instruments include cash and cash equivalents, short-term investments in certificates of deposit, accounts receivable, cost method investments, accounts payable and notes payable/long-term debt. Because of their short maturities, the carrying amounts of cash and cash equivalents, short-term investments in certificates of deposit, accounts receivable, and accounts payable approximate fair value. Our cost method investments generally involve entities for which it is not practical to determine fair values.

Investments

Our short-term investments of $23,125 at both August 26, 2017 and November 26, 2016 consisted of certificates of deposit (CDs) with original terms averaging nine months, bearing interest at rates ranging from 0.10% to 1.50%. At August 26, 2017, the weighted average remaining time to maturity of the CDs was approximately six months and the weighted average yield of the CDs was approximately 1.13%. Each CD is placed with a Federally insured financial institution and all deposits are within Federal deposit insurance limits. Due to the nature of these investments and their relatively short maturities, the carrying amount of the short-term investments at August 26, 2017 and November 26, 2016 approximates their fair value.

Fair Value Measurement

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

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

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

Level 3 Inputs– Instruments with primarily unobservable value drivers.

PART I-FINANCIAL INFORMATION-CONTINUED

BASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-UNAUDITED

AUGUST 26, 2017

(Dollars in thousands except share and per share data)

We believe that the carrying amounts of our current assets and current liabilities approximate fair value due to the short-term nature of these items. The recurring estimate of the fair value of our notes payable for disclosure purposes (see Note 8) involves Level 3 inputs. Our primary non-recurring fair value estimates typically involve business acquisitions (Note 3) which involve a combination of Level 2 and Level 3 inputs.

5. Accounts Receivable

Accounts receivable consists of the following:

	August 26, 2017	November 26, 2016
Gross accounts receivable	$20,130	$ 19,157
Allowance for doubtful accounts	(616)	(799)
Accounts receivable, net	$19,514	$ 18,358

Activity in the allowance for doubtful accounts for the nine months ended August 26, 2017 was as follows:

Balance at November 26, 2016	$799
Reductions to allowance	(183)
Balance at August 26, 2017	$616

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 4.

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:

	August 26, 2017	November 26, 2016
Wholesale finished goods	$27,693	$ 24,392
Work in process	395	369
Raw materials and supplies	11,961	11,343
Retail merchandise	27,002	26,265
Total inventories on first-in, first-out method	67,051	62,369
LIFO adjustment	(8,005)	(7,804)
Reserve for excess and obsolete inventory	(1,298)	(1,350)
	$57,748	$ 53,215

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.

PART I-FINANCIAL INFORMATION-CONTINUED

BASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-UNAUDITED

AUGUST 26, 2017

(Dollars in thousands except share and per share data)

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

	Wholesale Segment	Retail Segment	Total
Balance at November 26, 2016	$ 1,061	$ 289	$ 1,350
Additions charged to expense	816	362	1,178
Write-offs	(854)	(376)	(1,230)
Balance at August 26, 2017	$ 1,023	$ 275	$ 1,298

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 2017 and do not anticipate that our methodology is likely to change in the future.

7. Goodwill and Other Intangible Assets

Goodwill and other intangible assets consisted of the following:

	August 26, 2017		
	Gross Carrying Amount	**Accumulated Amortization**	**Intangible Assets, Net**
Intangibles subject to amortization			
Customer relationships	$ 3,038	$ (523)	$ 2,515

Technology - customized applications	834		(308	) 526
Total intangible assets subject to amortization	3,872		(831	) 3,041
Intangibles not subject to amortization:				
Trade names	2,490		-	2,490
Goodwill	11,900		-	11,900
Total goodwill and other intangible assets	$18,262	$	(831	) $ 17,431

	November 26, 2016			
	Gross Carrying Amount		**Accumulated Amortization**	**Intangible Assets, Net**
Intangibles subject to amortization				
Customer relationships	$3,038	$	(371	) $ 2,667
Technology - customized applications	834		(219	) 615
Total intangible assets subject to amortization	3,872		(590	) 3,282
Intangibles not subject to amortization:				
Trade names	2,490		-	2,490
Goodwill	11,588		-	11,588
Total goodwill and other intangible assets	$17,950	$	(590	) $ 17,360

PART I-FINANCIAL INFORMATION-CONTINUED

BASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-UNAUDITED

AUGUST 26, 2017

(Dollars in thousands except share and per share data)

Changes in the carrying amounts of goodwill by reportable segment during the nine months ended August 26, 2017 were as follows:

	Wholesale	Retail	Logistics	Total
Balance as of November 26, 2016	$ 4,839	$1,820	$ 4,929	$11,588
Goodwill arising from store acquisition (Note 3)	206	106	-	312
Balance as of August 26, 2017	$ 5,045	$1,926	$ 4,929	$11,900

There were no accumulated impairment losses on goodwill as of August 26, 2017 or November 26, 2016.

Amortization expense associated with intangible assets during the three and nine months ended August 26, 2017 and August 27, 2016 was as follows:

	Quarter Ended		**Nine Months Ended**	
	August 26, 2017	**August 27, 2016**	**August 26, 2017**	**August 27, 2016**
Intangible asset amortization expense	$80	$ 80	$241	$ 241

8. Notes Payable and Bank Credit Facility

Our notes payable consist of the following:

	August 26, 2017		
	Principal Balance	Unamortized Discount	Net Carrying Amount
Zenith acquisition note payable	$3,000	$ (32)	$ 2,968
Real estate notes payable	932	-	932
Total notes payable	3,932	(32)	3,900
Less current portion	(3,405)	32	(3,373)
Total long-term notes payable	$527	$ -	$ 527

	November 26, 2016		
	Principal Balance	Unamortized Discount	Net Carrying Amount
Zenith acquisition note payable	$6,000	$ (108)	$ 5,892
Real estate notes payable	1,219	-	1,219
Total notes payable	7,219	(108)	7,111
Less current portion	(3,385)	95	(3,290)
Total long-term notes payable	$3,834	$ (13)	$ 3,821

PART I-FINANCIAL INFORMATION-CONTINUED

BASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-UNAUDITED

AUGUST 26, 2017

(Dollars in thousands except share and per share data)

The future maturities of our notes payable are as follows:

Remainder of fiscal 2017	$99
Fiscal 2018	3,412
Fiscal 2019	421
Fiscal 2020	-
Fiscal 2021	-
Fiscal 2022	-
Thereafter	-
	$3,932

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, payable in three annual installments of $3,000 due on each anniversary of the note. Interest is payable annually at the one year LIBOR rate. 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 was $19 and $76 for the three and nine months ended August 26, 2017, respectively, and $46 and $158 for the three and nine months ended August 27, 2016, respectively. The current portion of the note due within one year, including unamortized discount, was $2,968 and $2,904 at August 26, 2017 and November 26, 2016, respectively.

Real Estate Notes Payable

Certain of our retail real estate properties have been financed through commercial mortgages with outstanding principal totaling $932 and $1,219 at August 26, 2017 and November 26, 2016, respectively. The mortgages bear interest at fixed rates of 6.73%. They are collateralized by the respective properties with net book values totaling approximately $5,759 and $5,858 at August 26, 2017 and November 26, 2016, respectively. The current portion of these mortgages due within one year was $405 and $385 as of August 26, 2017 and November 26, 2016, respectively.

Fair Value

We believe that the carrying amount of our notes payable approximates fair value at both August 26, 2017 and November 26, 2016. 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 3.

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 2018, is unsecured and contains covenants requiring us to maintain certain key financial ratios. We are in compliance with all covenants under the agreement and expect to remain in compliance for the foreseeable future.

At August 26, 2017, we had $1,972 outstanding under standby letters of credit against our line, leaving availability under our credit line of $13,028. In addition, we have outstanding standby letters of credit with another bank totaling $511.

PART I-FINANCIAL INFORMATION-CONTINUED

BASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-UNAUDITED

AUGUST 26, 2017

(Dollars in thousands except share and per share data)

9. Post Employment Benefit Obligations

Management Savings Plan

On May 1, 2017, our Board of Directors, upon the recommendation of the Organization, Compensation and Nominating Committee (the “Committee”), adopted the Bassett Furniture Industries, Incorporated Management Savings Plan (the “Plan”).The Plan is an unfunded, nonqualified deferred compensation plan maintained for the benefit of certain highly compensated or management level employees.

The Plan is an account-based plan under which (i) participants may defer voluntarily the payment of current compensation to future years (“participant deferrals”) and (ii) the Company may make annual awards to participants payable in future years (“Company contributions”). The Plan permits each participant to defer up to 75% of base salary and up to 100% of any incentive compensation or other bonus, which amounts would be credited to a deferral account established for the participant. Such deferrals will be fully vested at the time of the deferral. Participant deferrals will be indexed to one or more deemed investment alternatives chosen by the participant from a range of alternatives made available under the Plan. Each participant’s account will be adjusted to reflect gains and losses based on the performance of the selected investment alternatives. A participant may receive distributions from the Plan: (1) upon separation from service, in either a lump sum or annual installment payments over up to a 15 year period, as elected by the participant, (2) upon death or disability, in a lump sum, or (3) on a date or dates specified by the participant (“scheduled distributions”) with such scheduled payments made in either a lump sum or substantially equal annual installments over a period of up to five years, as elected by the participant. Participant contributions commenced during the third quarter of fiscal 2017. Company contributions will vest in full (1) on the third anniversary of the date such amounts are credited to the participant’s account, (2) the date that the participant reaches age 63 or (3) upon death or disability. Company contributions are subject to the same rules described above regarding the crediting of gains or losses from deemed investments and the timing of distributions. The Company plans to make a contribution to the Plan effective February 1, 2018. Expense associated with the planned Company contribution was $14 and $41 for the three and nine months ended August 26, 2017.

On May 2, 2017, we made Long Term Cash Awards (“LTC Awards”) totaling $2,000 under the Plan to certain management employees in the amount of $400 each. The LTC Awards vest in full on the first anniversary of the date of the award if the participant has reached age 63 by that time, or, if later, on the date the participant reaches age 63, provided in either instance that the participant is still employed by the Company at that time. If not previously vested, the awards will also vest immediately upon the death or disability of the participant prior to the participant’s separation from service. The awards will be payable in 10 equal annual installments following the participant’s death, disability or separation from service. We are accounting for the LTC Awards as a defined benefit pension plan. Accordingly, during the second quarter of fiscal 2017 we recorded an initial projected benefit obligation of $932 representing prior service cost. Our projected benefit obligation for the LTC Awards at August 26, 2017 is $967, which is included in post employment benefit obligations in our condensed consolidated balance sheet. At August 26, 2017, accumulated other comprehensive loss includes unamortized prior service cost of $543 with respect to the LTC Awards, net of the related deferred income tax benefit of $341.

During the third quarter of fiscal 2017, we invested $391 in life insurance policies covering all participants in the Plan. At August 26, 2017, these policies have a net death benefit of $14,998 for which the Company is the sole beneficiary. These policies are intended to provide a source of funds to meet the obligations arising from the deferred compensation and LTC Awards under the Plan, and serve as an economic hedge of the financial impact of changes in the liabilities. They are held in an irrevocable trust but are subject to claims of creditors in the event of the Company’s insolvency.

Supplemental Retirement Income Plan

We have an unfunded Supplemental Retirement Income Plan (the “Supplemental Plan”) that covers one current and certain former executives. The liability for the Supplemental Plan was $11,887 and $11,863 as of August 26, 2017 and November 26, 2016, respectively.

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Aggregate Pension Liability and Aggregate Net Periodic Pension Costs

The combined pension liability for the Supplemental Plan and LTC Awards is recorded as follows in the condensed consolidated balance sheets:

	August 26, 2017	**November 26, 2016**
Accrued compensation and benefits	$776	$ 776
Post employment benefit obligations	12,079	11,087
Total pension liability	$12,855	$ 11,863

Components of net periodic pension costs are as follows:

	Quarter Ended		**Nine Months Ended**	
	August 26, 2017	**August 27, 2016**	**August 26, 2017**	**August 27, 2016**
Service cost	$49	$ 36	$136	$ 109
Interest cost	114	106	336	317
Amortization of prior service costs	24	-	49	-
Amortization of transition obligation	11	11	32	32
Amortization of loss	83	81	249	243
Net periodic pension cost	$281	$ 234	$802	$ 701

The components of net periodic pension cost other than the service cost component are included in other loss, net in our condensed consolidated statements of income.

Deferred Compensation Plan

We have an unfunded Deferred Compensation Plan that covers one current executive and certain former executives and provides for voluntary deferral of compensation. This plan has been frozen with no additional participants or deferrals permitted. Our liability under this plan was $1,909 and $1,969 as of August 26, 2017 and November 26, 2016, respectively.

Our combined liability for all deferred compensation arrangements, including Company contributions and participant deferrals under the Management Savings Plan, is recorded as follows in the condensed consolidated balance sheets:

	August 26, 2017	**November 26, 2016**
Accrued compensation and benefits	$ 296	$ 296
Post employment benefit obligations	1,697	1,673
Total deferred compensation liability	$ 1,993	$ 1,969

We recognized expense under our deferred compensation arrangements during the three and nine months ended August 26, 2017 and August 27, 2016 as follows:

	Quarter Ended		**Nine Months Ended**	
	August 26, 2017	**August 27, 2016**	**August 26, 2017**	**August 27, 2016**
Deferred compensation expense	$ 68	$ 57	$ 203	$ 171

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10. Other Gains and Losses

Gain on Sale of Investment

In 1985, we acquired a minority interest in a privately-held, start-up provider of property and casualty insurance for $325. We have accounted for this investment on the cost method and included it in other long-term assets in our condensed consolidated balance sheet. In April of 2017 we sold our interest for $3,592 in cash, resulting in a gain of $3,267 recognized for the nine months ended August 26, 2017.

Gain on Sale of Retail Store Location

Selling, general and administrative expenses for the three and nine months ended August 26, 2017 includes a gain of $1,220 resulting from the sale of our retail store location in Las Vegas, Nevada for $4,335 in cash. The store was closed in August of 2017 in preparation for its repositioning to a new location in the Las Vegas market.

Income from Antitrust Litigation Settlement

Cost of furniture and accessories sold for the three and nine months ended August 27, 2016 includes the benefit of $1,428 of income we received from the settlement of class action litigation. This benefit is included in our wholesale segment. We were a member of the certified class of consumers that were plaintiffs in the Polyurethane Foam Antitrust Litigation against various producers of flexible polyurethane foam. The litigation alleged a price-fixing conspiracy in the flexible polyurethane foam industry that caused indirect purchasers to pay higher prices for products that contain flexible polyurethane foam. In 2015 a settlement was reached with several of the producers, though other producers named in the suit filed appeals blocking distribution of the settlement. In June of 2016 the final producer appeal was dismissed and we received $1,428 in cash representing our share of the settlement, which is included in cash provided by operating activities in our statement of cash flows for the nine months ended August 28, 2016.

Impairment of Investment in Real Estate

We own a building in Chesterfield County, Virginia that was formerly leased to a licensee for the operation of a BHF store. The building is subject to a ground lease that expires in 2020, but which has additional renewal options. Since 2012, we have leased the building to another party who is, as of recently, paying less than the full amount of the lease obligation, resulting in rental income insufficient to cover our ground lease obligation. Efforts to sell our interest in the building have been unsuccessful so far. We have also concluded that absent a significant cash investment in the building the likelihood of locating another tenant for the building at a rent that would provide positive cash flow in excess of the ground lease expense is remote. In addition, we obtained an appraisal during the quarter ended May 27, 2017 which indicated that the value of the building had significantly decreased and was now minimal. Given these circumstances, we concluded in the second quarter that we are unlikely to renew the ground lease in 2020 and would therefore likely vacate the property at that time. Consequently, we recorded a non-cash impairment charge of $1,084 for the nine months ended August 26, 2017 to write off the value of the building. The carrying value of the building at November 26, 2016 of $1,108 was included in other long-term assets in our condensed consolidated balance sheet.

11. 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.

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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 August 26, 2017:

	Retail Stores	**Distribution Centers**	**Transportation Equipment**	**Total**
Remainder of fiscal 2017	$5,375	$ 1,236	$ 902	$7,513
Fiscal 2018	22,029	3,961	2,751	28,741
Fiscal 2019	21,266	2,566	2,120	25,952
Fiscal 2020	19,947	1,794	1,876	23,617
Fiscal 2021	17,213	1,546	1,169	19,928
Fiscal 2022	14,758	1,520	963	17,241
Thereafter	45,128	1,776	254	47,158
Total future minimum lease payments	$145,716	$ 14,399	$ 10,035	$170,150

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 $2,930 and $1,868 at August 26, 2017 and November 26, 2016, 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 August 26, 2017 and November 26, 2016 was not material.

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12. Earnings Per Share

The following reconciles basic and diluted earnings per share:

	Net Income	Weighted Average Shares	Net Income Per Share
For the quarter ended August 26, 2017:			
Basic earnings per share	$4,579	10,661,433	$ 0.43
Add effect of dilutive securities:			
Options and restricted shares	-	69,772	-
Diluted earnings per share	$4,579	10,731,205	$ 0.43
For the quarter ended August 27, 2016:			
Basic earnings per share	$4,165	10,739,006	$ 0.39
Add effect of dilutive securities:			
Options and restricted shares	-	139,661	(0.01)
Diluted earnings per share	$4,165	10,878,667	$ 0.38
For the nine months ended August 26, 2017:			
Basic earnings per share	$13,282	10,641,035	$ 1.25
Add effect of dilutive securities:			
Options and restricted shares	-	81,558	(0.01)
Diluted earnings per share	$13,282	10,722,593	$ 1.24
For the nine months ended Ausust 27, 2016:			

Basic earnings per share	$10,784	10,762,106	$ 1.00
Add effect of dilutive securities:			
Options and restricted shares	-	139,834	(0.01)
Diluted earnings per share	$10,784	10,901,940	$ 0.99

For the three and nine months ended August 26, 2017 and August 27, 2016, the following potentially dilutive shares were excluded from the computations as their effect was anti-dilutive:

	Quarter Ended		**Nine Months Ended**	
	August 26, 2017	**August 27, 2016**	**August 26, 2017**	**August 27, 2016**
Unvested shares	-	2,000	6,538	7,814

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13. Segment Information

We have strategically aligned our business into three reportable segments as defined in ASC 280, *Segment Reporting*, and as described below:

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

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

Logistical services. Our logistical services operating segment reflects the operations of Zenith. In addition to providing shipping, delivery and warehousing services for the Company, Zenith also provides similar services to other customers, primarily in the furniture industry. Revenue from the performance of these services to other customers is included in logistical services revenue in our condensed consolidated statement of income. Zenith's total operating costs, including those associated with providing logistical services to the Company as well as to third-party customers, are included in selling, general and administrative expenses and were $23,761 and $70,149 for the three and nine months ended August 26, 2017, and $22,317 and $69,401 for the three and nine months ended August 27, 2016, respectively.

Inter-company net sales elimination represents the elimination of wholesale sales to our Company-owned stores and the elimination of Zenith logistics revenue from our wholesale and retail segments. Inter-company income elimination includes the embedded wholesale profit in the Company-owned store inventory that has not been realized. These profits will be recorded when merchandise is delivered to the retail consumer. The inter-company income elimination also includes rent paid by our retail stores occupying Company-owned real estate, and the elimination of shipping and handling charges from Zenith for services provided to our wholesale and retail operations.

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The following table presents our segment information:

	Quarter Ended		**Nine Months Ended**	
	August 26, 2017	**August 27, 2016**	**August 26, 2017**	**August 27, 2016**
Sales Revenue				
Wholesale	$61,757	$58,303	$186,025	$177,785
Retail - Company-owned stores	67,402	61,216	196,139	184,754
Logistical services	24,925	22,991	71,885	71,480
Inter-company eliminations:				
Furniture and accessories	(29,007)	(28,054)	(88,020)	(85,682)
Logistical services	(10,816)	(9,744)	(31,751)	(30,085)
Consolidated	$114,261	$104,712	$334,278	$318,252
Income from Operations				
Wholesale	$4,466	$5,648	$15,142	$14,380
Retail - Company-owned stores	1,353	768	1,377	1,465
Logistical services	1,164	674	1,736	2,079
Inter-company elimination	277	450	1,269	1,260
Consolidated	$7,260	$7,540	$19,524	$19,184
Depreciation and Amortization				
Wholesale	$668	$538	$1,976	$1,453
Retail - Company-owned stores	1,530	1,455	4,498	4,515
Logistical services	1,156	1,262	3,586	2,898
Consolidated	$3,354	$3,255	$10,060	$8,866
Capital Expenditures				
Wholesale	$304	$2,808	$4,149	$5,799
Retail - Company-owned stores	1,155	1,080	6,069	4,060
Logistical services	186	951	599	9,096
Consolidated	$1,645	$4,839	$10,817	$18,955

Identifiable Assets	**As of August 26, 2017**	**As of November 26, 2016**
Wholesale	$ 138,323	$ 139,477
Retail - Company-owned stores	90,517	88,855
Logistical services	50,916	49,935
Consolidated	$ 279,756	$ 278,267

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14. Recent Accounting Pronouncements

In May 2014, the FASB issued Accounting Standards Update No. 2014-09 (ASU 2014-09), which creates ASC Topic 606, *Revenue from Contracts with Customers*, and supersedes the revenue recognition requirements in Topic 605, Revenue Recognition, including most industry-specific revenue recognition guidance throughout the Industry Topics of the Codification. In addition, ASU 2014-09 supersedes the cost guidance in Subtopic 605-35, Revenue Recognition—Construction-Type and Production-Type Contracts, and creates new Subtopic 340-40, Other Assets and Deferred Costs—Contracts with Customers. In summary, the core principle of Topic 606 is to recognize revenue when promised goods or services are transferred to customers in an amount that reflects the consideration that is expected to be received for those goods or services. Companies are allowed to select between two transition methods: (1) a full retrospective transition method with the application of the new guidance to each prior reporting period presented, or (2) a retrospective transition method that recognizes the cumulative effect on prior periods at the date of adoption together with additional footnote disclosures. In addition, during 2016 the FASB has issued ASU 2016-08, ASU 2016-10 and ASU 2016-12, all of which clarify certain implementation guidance within ASU 2014-09, and ASU 2016-11, which rescinds certain SEC guidance within the ASC effective upon an entity's adoption of ASU 2014-09. The amendments in ASU 2014-09 are effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period, and early application is not permitted. Therefore the amendments in ASU 2014-09 will become effective for us as of the beginning of our 2019 fiscal year. In order to evaluate the impact that the adoption of ASU 2014-09 will have on our consolidated financial statements, we have initiated a comprehensive review of the significant revenue streams across our wholesale, retail and logistical services reportable segments. The focus of this review includes, among other things, the identification of the significant contracts and other arrangements we have with our customers to identify significant performance obligations, factors affecting the determination of transaction price, such as variable consideration, and factors affecting the classification of receipts as revenue, such as principal versus agent considerations. We are also reviewing our current accounting policies, procedures and controls with respect to these contracts and arrangements to determine what changes, if any, may be required by the adoption of ASU 2014-09. We have not yet made a determination as to the impact that adoption will have on our consolidated financial statements, nor have we made any decision on the method of adoption.

In July 2015, the FASB issued Accounting Standards Update No. 2015-11, Inventory (Topic 330): *Simplifying the Measurement of Inventory*. ASU 2015-11 requires that inventory within the scope of this Update be measured at the lower of cost and net realizable value. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. The amendments in this Update do not apply to inventory that is measured using last-in, first-out (LIFO) or the retail inventory method. The amendments apply to all other inventory, which includes inventory that is measured using first-in, first-out (FIFO) or average cost. For all entities, the guidance is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2016. Early adoption is permitted. Therefore the amendments in ASU 2015-11 will become effective for us as of the beginning of our 2018 fiscal year. The adoption of this guidance is not expected to have a material impact upon our financial condition or results of operations.

In January 2016, the FASB issued Accounting Standards Update No. 2016-01, *Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*. ASU 2016-01 requires that equity investments (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) are to be measured at fair value with changes in fair value recognized in net income. However, an entity may choose to measure equity investments that do not have readily determinable fair values at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer. Furthermore, equity investments without readily determinable fair values are to be assessed for impairment using a quantitative approach. The amendments in ASU 2016-01 should be applied by means of a cumulative-effect adjustment to the balance sheet as of the beginning of the fiscal year of adoption, with other amendments related specifically to equity securities without readily determinable fair values applied prospectively. The amendments in ASU 2016-01 will become effective for us as of the beginning of our 2019 fiscal year. The adoption of this guidance is not expected to have a material impact upon our financial condition or results of operations.

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In February 2016, the FASB issued Accounting Standards Update No. 2016-02, *Leases (Topic 842)*. The guidance in ASU 2016-02 requires that a lessee recognize in the statement of financial position a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. For leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election by class of underlying asset not to recognize lease assets and lease liabilities. As with previous guidance, there continues to be a differentiation between finance leases and operating leases, however this distinction now primarily relates to differences in the manner of expense recognition over time and in the classification of lease payments in the statement of cash flows. Lease assets and liabilities arising from both finance and operating leases will be recognized in the statement of financial position. ASU 2016-02 leaves the accounting for leases by lessors largely unchanged from previous GAAP. The transitional guidance for adopting the requirements of ASU 2016-02 calls for a modified retrospective approach that includes a number of optional practical expedients that entities may elect to apply. The guidance in ASU 2016-02 will become effective for us as of the beginning of our 2020 fiscal year. We are currently evaluating the impact that the adoption of ASU 2016-02 will have on our consolidated financial statements, which we expect will have a material effect on our statement of financial position, and have not made any decision on the method of adoption with respect to the optional practical expedients.

In August 2016, the FASB issued Accounting Standards Update No. 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*. ASU 2016-15 addresses how certain cash receipts and cash payments are presented and classified in the statement of cash flows with the objective of reducing existing diversity in practice with respect to these items. Among the types of cash flows addressed are payments for costs related to debt prepayments or extinguishments, payments representing accreted interest on discounted debt, payments of contingent consideration after a business combination, proceeds from insurance claims and company-owned life insurance, and distributions from equity method investees, among others. The amendments in ASU 2016-15 are to be adopted retrospectively and will become effective for as at the beginning of our 2019 fiscal year. Early adoption, including adoption in an interim period, is permitted. The adoption of this guidance is not expected to have a material impact upon our presentation of cash flows.

In January 2017, the FASB issued Accounting Standards Update No. 2017-01, *Business Combinations (Topic 805): Clarifying the Definition of a Business*. ASU 2017-01 provides a screen to determine when an integrated set of assets and activities (collectively referred to as a "set") does not constitute a business. The screen requires that when substantially all of the fair value of the gross assets acquired (or disposed of) is concentrated in a single identifiable asset or a group of similar identifiable assets, the set is not a business. This screen reduces the number of transactions that need to be further evaluated. If the screen is not met, the amendments in ASU 2017-01 (1) require that to be considered a business, a set must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output and (2) remove the evaluation of whether a market participant could replace missing elements. The amendments in ASU 2017-01 shall apply prospectively and will become effective for as at the beginning of our 2019 fiscal year. The adoption of this guidance is not expected to have a material impact upon our financial condition or results of operations.

In January 2017, the FASB issued Accounting Standards Update No. 2017-04, *Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*. ASU 2017-04 eliminates Step 2 from the goodwill impairment test. Under Step 2, an entity had to perform procedures to determine the fair value at the impairment testing date of its assets and liabilities (including unrecognized assets and liabilities) following the procedure that would be required in determining the fair value of assets acquired and liabilities assumed in a business combination. Instead, under the amendments in ASU 2017-04, an entity should perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An entity should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. Additionally, an entity should consider income tax effects from any tax deductible goodwill on the carrying amount of the reporting unit when measuring the goodwill impairment loss, if applicable. An entity still has the option to perform the qualitative assessment for a reporting unit to determine if the quantitative impairment test is necessary. The amendments in ASU 2017-04 will become effective for us as of the beginning of our 2021 fiscal year. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The adoption of this guidance is not expected to have a material impact upon our financial condition or results of operations.

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In March 2017, the FASB issued Accounting Standards Update No. 2017-07, *Compensation – Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*. Under existing GAAP, an entity is required to present all components of net periodic pension cost and net periodic postretirement benefit cost aggregated as a net amount in the income statement, and this net amount may be capitalized as part of an asset where appropriate. The amendments in ASU 2017-07 require that an employer report the service cost component in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period, and requires the other components of net periodic pension cost and net periodic postretirement benefit cost to be presented in the income statement separately from the service cost component and outside a subtotal of income from operations, if one is presented. Additionally, only the service cost component is eligible for capitalization, when applicable. The amendments in ASU 2017-07 shall be applied retrospectively for the presentation of the service cost component and the other components of net periodic pension cost and net periodic postretirement benefit cost in the income statement and prospectively, on and after the effective date, for the capitalization of the service cost component of net periodic pension cost and net periodic postretirement benefit in assets. Early adoption is permitted, and we have elected to adopt the amendments in ASU 2017-07 effective as of the beginning of our 2017 fiscal year. The adoption of this guidance did not have a material impact upon our financial condition or results of operations.

In May 2017, the FASB issued Accounting Standards Update No. 2017-09, *Compensation – Stock Compensation (Topic 718): Scope of Modification Accounting*. ASU 2017-09 was issued to provide clarity and reduce both (1) diversity in practice and (2) cost and complexity when applying the guidance in Topic 718, *Compensation—Stock Compensation*, to a change to the terms or conditions of a share-based payment award. The amendments in this Up