



**STANLEY**  
FURNITURE

**STANLEY FURNITURE COMPANY, INC.**  
**2015 ANNUAL REPORT**



To Our Owners:

*Last year was another defining one for Stanley for two main reasons. As I explained in last year's letter, we closed our last domestic factory late in 2014 and shifted the company's operations model to one exclusively dependent upon overseas sourcing. Entering the year focused only on making our furniture overseas, we spent all of last year solidifying an operations concept we had been exploring since we first started heavily sourcing over a decade ago. After the year closed, we announced a major strategic decision to form a manufacturing alliance with a well-known, efficient and financially sound manufacturer in Vietnam. This move does not come without its own inherent risks, yet the strength of our partnership with this particular supplier, along with our own managerial experience in manufacturing, makes for what we believe is one of the most competitively advantageous moves our company has made in many years.*

*The other major development from the year is our re-entry into the nursery and youth product segment. We exited the category in 2014 with the closure of our domestic factory. We lost roughly 40% of our revenues without the category, so we are pleased to be in a position to grow revenues with our new brand, Stone & Leigh. The new brand represents not only a superior value in the marketplace, but also an easy-to-follow recipe for retail success with a Millennial generation of consumers that remains mostly elusive to traditional brick-&-mortar distribution.*

*We did not grow last year. The company's revenue remained near breakeven levels. The lack of availability of newer, more marketable product to be made in the new factory in Vietnam was the reason. The construction phase simply was not completed on time. Without new product, we could not gain traction at retail. The factory is now running and should be producing an increasing amount of the company's products efficiently as we move through the current year. We expect our customers to respond well to these new products as they are placed at retail throughout the first half of 2016.*

*Our company remains financially healthy having made a net profit for the first time in years, and we generated cash. Our board remains engaged and focused on generating shareholder value. This past year we elected an existing member, Ian Lapey, as Chairman. He replaced Mike Haley, who remains on our board. As chairman, Mike helped the company identify and initiate what we believe is the best strategically differentiated overseas operations plan for growth. Now management intends to execute our plan. Ian is a small cap investor with extensive experience analyzing the housing and furniture industry and we felt his knowledge of the markets best suits the current needs of our board. Additionally, we added Justyn Putnam, also with an investment background, resulting in six non-management members accompanying me. Experience from retail, securities investment, manufacturing and service sectors remains paired with industry expertise from inside and outside the company.*

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Initiatives for growth and profitability in the coming year focus on several of the company's core competencies:

#### EXPANDING PRODUCT LINES

- Organic growth with existing product lines remains difficult for residential case goods companies in our price segment. Flat screen technology and the popularity of laptop computers and mobile devices have changed and/or obsoleted certain home entertainment and home office product configurations. New home construction floor plans and/or social trends have moved society increasingly away from entertaining at home resulting in a formal dining room category that is struggling to vie for a portion of disposable household income. Bedroom and occasional accents are the case goods sector's most popular room segment, but low barriers to entry associated with overseas sourcing have greatly increased the number of competitors. Demand remains strong for niche upholstery, outdoor and hospitality sources. Ready-to-assemble furniture sold primarily through eCommerce and delivered FedEx continues to gain market share. Our flexibility as a design and marketing company controlling its own sourcing allows for potential future product line expansion, and we are pleased to currently have the opportunity to grow

through our re-entry into the nursery and youth category. We see the opportunity to expand into additional product lines in the future.

#### MARKETING FOR AN OMNI-CHANNEL APPROACH

- The way consumers shop for furniture has changed forever. The rise of powerful vertical retail brands using brick-&-mortar, direct mail and branded websites to fulfill a frictionless consumer purchase process has taken market share from traditional retail business models. In addition, the consumer's ever-increasing sense of comfort shopping only on the web has driven the growth of retailers doing business exclusively online. We are addressing emerging distribution channels, and we are already growing or anticipate growth in each. We are a company with a strong heritage as a dependable source of well-designed, quality furniture with compelling visual creative assets. Our brand has potential in an online age, but the evolution of distribution in our industry remains a work in process as parity across multiple channels is an absolute necessity for sustained growth.


#### SOURCING

- We believe we have a different perspective on manufacturing in Asia: the perspective only a manufacturer with our heritage can have. We have determined that there is a better sourcing strategy for a company our size with product in our price segment. Having operated production facilities for decades ourselves, we understand and can manage with our partner vendors overseas such facets as capacity utilization, supply chain, product quality and costs. Meanwhile, we understand the needs of the retail marketplace. Rarely in our industry does such vertically-integrated knowledge exist with one team of people, which is what makes our alliance with Starwood Manufacturing Corporation in Vietnam so unique. Once again, we have a dedicated factory at our management team's disposal. We intend to lower lead times to improve customer service; improve quality control; and closely supervise manufacturing to lower costs and, in turn, lower the retail price of our product broadening distribution opportunities. When wholesale customers no longer pay a middle man, retail customers find more value in our product.

Our company remains debt free, ending the year with \$29.5 million in cash, restricted cash and cash surrender value from corporate-owned life insurance policies. We expect to continue to maintain a healthy balance sheet, grow revenues, expand margins by leveraging overhead costs and demonstrate positive net income in the coming year without major capital expenditures.

We appreciate your confidence in us and thank you for your continued support.

Sincerely,



Glenn Prillaman  
President & Chief Executive Officer

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
**FORM 10-K**

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934  
For the fiscal year ended December 31, 2015  
Commission file number 0-14938

**STANLEY FURNITURE COMPANY, INC.**  
(Exact name of Registrant as specified in its Charter)

Delaware

54-1272589

(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification No.)

200 North Hamilton Street, No. 200, High Point, North Carolina, 27260

(Address of principal executive offices, Zip Code)

Registrant's telephone number, including area code: (336) 884-7700  
Securities registered pursuant to Section 12(b) of the Act:

Title of each class  
Common Stock, par value \$.02 per share

Name of each exchange on which registered  
Nasdaq Stock Market

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act: Yes ( ) No (x)

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act: Yes ( ) No (x)

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 (or for such shorter period that the Registrant was required to file such reports), 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 website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.504 of this chapter) 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (Section 229.405 of this chapter) is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ( )

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, (check one):

Large accelerated filer ( ) Accelerated filer ( ) Non-accelerated filer ( ) Smaller reporting company (x)  
(Do not check if a 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)

Aggregate market value of the voting and non-voting common equity held by non-affiliates of the Registrant based on the closing price on June 26, 2015: \$40 million.

Indicate the number of shares outstanding of each of the Registrant's classes of common stock as of February 19, 2016:

Common Stock, par value \$.02 per share  
(Class of Common Stock)

15,105,145  
Number of Shares

Documents incorporated by reference: Portions of the Registrant's Proxy Statement for our Annual Meeting of Stockholders scheduled for May 19, 2016 are incorporated by reference into Part III.

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## PART I

### Item 1. Business

#### **General**

Established in 1924, we are a leading design, marketing and overseas sourcing resource in the middle-to-upscale segment of the wood residential furniture market. We offer a diversified product line supported by an overseas sourcing model. We market our brands through a network of brick-and-mortar furniture retailers, online retailers and interior designers worldwide. We also market and sell directly to the consumer through a localized approach to e-commerce order fulfillment through our brick-and-mortar customers. We were incorporated in Delaware in 1984.

#### **Products**

Our products are marketed as fashionable wood residential home furnishings which differentiate from other products in the market through styling execution as well as wide selections for the entire home including dining, bedroom, living room, home office, home entertainment, accent items and nursery and youth furniture. Our target consumer ranges from an affluent, discerning consumer utilizing the talents of an interior designer, to a more practical consumer driven to purchase by convenience, immediate gratification from stock availability or a particular retail event. Regardless, we target a consumer who values the interior aesthetics of the home.

We believe that our products represent good value and that the quality and design of our furniture combined with our broad selection and dependable service differentiates our products in the marketplace.

We provide products in a variety of wood species and finishes. Our products are designed to appeal to a broad range of consumer tastes in the middle-to-upscale segment and cover all major style categories.

We continually design and develop new styles to replace those we discontinue and to expand our product lines into markets where opportunity for growth exists. Our in-house product development process, which normally takes approximately one year but can be shorter or longer based upon the complexity of the concept, begins with identifying customer preferences and marketplace trends and conceptualizing product ideas. Company designers produce a variety of sketches from which prototype furniture pieces are built for review prior to full-scale engineering and production. We consult with our marketing and operations personnel, core suppliers, independent sales representatives and selected customers throughout this process and introduce our new product designs primarily at international furniture markets in High Point, North Carolina and Las Vegas, Nevada, which are each held two times per year for a total of four markets.

During the second quarter of 2014, we announced the end of domestic production of our Young America nursery and youth furniture brand since revenues remained below levels needed to reach profitability as a domestic manufacturer within a reasonable amount of time. Marketed as a product offering with salient features such as a wide variety of semi-custom color choices, broad item selection and the cache of a product Made in USA, the Young America brand could not be duplicated through an overseas sourcing model. The sale and closure of the supporting manufacturing facility in the second half of 2014 represented the end of our domestic manufacturing of nursery and youth furniture.

In January 2015, we announced our plans to re-enter the nursery and youth furniture market with a mid-year product launch sourced overseas. Our Stone & Leigh brand of nursery and youth was introduced at the High Point Market in April 2015.

#### **Marketing/Brands**

We believe that the diversity of our product offerings enables us to anticipate and address changing consumer preferences and provide retailers a complete wood furniture resource in the middle-to-upscale segment. Our products are marketed under the Stanley Furniture brand, but also under sub-brands including Coastal Living® and Stone & Leigh. We market our brand through a series of efforts targeted both to the wholesale trade and directly to the consumer. Coastal Living® is a registered trademark of Time Inc. Lifestyle Group and is used under license.

## **Distribution**

We have developed a broad domestic and international customer base. We sell our furniture mainly through independent sales representatives to a variety of wholesale customers such as owner-operated furniture stores, interior design & architecture professionals, decorators, smaller specialty retailers, regional furniture chains, buying clubs and e-commerce retailers. We also market and sell directly to the consumer through a localized approach to e-commerce order fulfillment through our brick-and-mortar customer. We believe this broad network reduces exposure to fluctuations in regional economic conditions, places our brand in as many venues as possible where the consumer may shop and allows us to capitalize on emerging channels of distribution. We offer tailored marketing programs to address each specific distribution channel. Our independent sales representatives along with our customer care managers sell and support our products.

In 2015, we sold product to approximately 1,400 customers and recorded approximately 10% of our sales from international customers. No single customer accounted for more than 10% of our sales in 2015 and no part of the business is dependent upon a single customer, the loss of which would have a material effect on our business. The loss of several major customers could have a material impact on our business.

## **Overseas Sourcing**

Our product is currently sourced from independently owned factories in Southeast Asia, primarily in Vietnam. We operate a support organization to manage partner-vendor relationships. In early 2016, we established a strategic manufacturing alliance with one such source in Vietnam outside of Ho Chi Minh City: Starwood Manufacturing VN Corporation. This strategic alliance allows for the utilization of a stand-alone, dedicated manufacturing facility in which we have the ability to engineer our designs specifically for the efficiency of this factory, schedule and supervise production to satisfy our specific customers' demands and provide quality assurance. We maintain exclusive rights to utilize the stand-alone facility for as long as we meet certain volume goals for the facility's capacity utilization. While we are not obligated to utilize the capacity of the facility should certain market-driven and/or competitive factors not make this factory our best choice, our intentions are to transition substantially all of our products to this facility.

We are subject to the usual risks inherent in importing products manufactured abroad, including, but not limited to, supply disruptions and delays, port related issues that lead to delays, currency exchange rate fluctuations, economic and political developments and instability, as well as the laws, policies and actions of foreign governments and the United States affecting trade, including tariffs.

A sudden disruption in our supply chain from Starwood or any of our key vendors could significantly compromise our ability to fill customers' orders and service gaps and short-term increases in cost would likely result. However, we believe that we could source most impacted products from other overseas suppliers. We believe maintaining more control over the various aspects of the manufacturing and sourcing process mitigates risk, and therefore believe that our strategic manufacturing alliance give our company a potential competitive operational advantage versus certain competitors.

We enter into standard purchase arrangements with certain overseas suppliers, including Starwood, for finished goods inventory. The terms of these arrangements are customary for our industry and do not contain any long-term purchase obligations. We generally negotiate firm pricing with our foreign suppliers in U.S. Dollars for a term of one year. We accept exposure to exchange rate movement after this period and do not use any derivative instruments to manage or hedge currency risk. We generally expect to recover any substantial price increases from these suppliers in the price we charge for these goods.

## **Logistics**

We warehouse our products primarily in domestic warehouses with some warehousing abroad. We consider our facilities to be generally modern, well equipped and well maintained. We use a small group of furniture specific transportation providers for delivery. While most of our products are delivered to retailers from our warehouses, we also ship directly to customers from Asia and provide white-glove delivery services directly to the end consumer from our domestic warehouses.

Products are ordered from overseas suppliers based upon both actual and forecasted demand. Because long lead times are generally associated with overseas operations, we strive to maintain inventory levels that will service most of our wholesale customers' orders within a maximum of 30 days from receipt of their order. Our backlog of unshipped orders was \$6.2 million at December 31, 2015 and \$6.6 million at December 31, 2014.

## **Competition**

The furniture industry is highly competitive, fragmented, and includes a large number of competitors. The barriers to entry are very low, and there is little feasible intellectual property protection in our industry to prevent competitors from imitating furniture designs of another manufacturer. Very few of our competitors manufacture wood residential furniture in the United States.

We compete with a host of varying business models within the industry including, but not limited to, former manufacturers who have adopted a strictly pass-through model from overseas vendor to wholesale customers; national lifestyle retailers who sell directly to the retail consumer through an omni-channel distribution and marketing model (use of physical channels and digital channels to offer a seamless and unified customer experience); and overseas vendors who sell directly to wholesale customers. Some competitors have greater financial resources and often offer extensively advertised, highly promoted product.

Competitive factors in the middle-to-upscale segment of the industry include design, quality, service, selection and price. We believe the flexibility and control we maintain over our operations model, the continued diversification of our distribution, our long-standing customer relationships, our customer responsiveness, our consistent support of high-quality and diverse product lines, the heritage of our brand and our experienced management team are all competitive advantages.

## **Associates**

At December 31, 2015, we employed approximately 71 associates domestically and 29 associates overseas, all of which are full-time employees. We consider our relationship with our associates to be good. None of our associates are represented by a labor union.

## **Trademarks**

Our trade names represent many years of continued business, and we believe these names are well recognized and associated with excellent quality and styling in the furniture industry. We own a number of trademarks and design patents, none of which are considered to be material.

## **Governmental Regulations**

We are subject to federal, state and local laws and regulations in the areas of safety, health and environmental protection. Compliance with these laws and regulations has not in the past had any material effect on our earnings, capital expenditures or competitive position. However, the impact of such compliance in the future cannot be predicted. We believe that we are in material compliance with applicable federal, state and local safety, health and environmental regulations.

## **Forward-Looking Statements**

Certain statements made in this report are not based on historical facts, but are forward-looking statements. These statements can be identified by the use of forward-looking terminology such as “believes,” “estimates,” “expects,” “may,” “will,” “should,” “could”, or “anticipates,” or the negative thereof or other variations thereon or comparable terminology, or by discussions of strategy. These statements reflect our reasonable judgment with respect to future events and are subject to risks and uncertainties that could cause actual results to differ materially from those in the forward-looking statements. Such risks and uncertainties include disruptions in foreign sourcing including those arising from supply or distribution disruptions or those arising from changes in political, economic and social conditions, as well as laws and regulations, in countries from which we source products, international trade policies of the United States and countries from which we source products, the inability to raise prices in response to inflation and increasing costs, lower sales due to worsening of current economic conditions, the cyclical nature of the furniture industry, business failures or loss of large customers, failure to anticipate or respond to changes in consumer tastes, fashions and perceived values in a timely manner, competition in the furniture industry, insolvency of the insurance company that holds our corporate-owned life insurance policies, environmental, health, and safety compliance costs, and failure or interruption of our information technology infrastructure. Any forward-looking statement speaks only as of the date of this filing and we undertake no obligation to update or revise any forward-looking statements, whether as a result of new developments or otherwise.



## Available Information

Our principal Internet address is [www.stanleyfurniture.com](http://www.stanleyfurniture.com). We make available free of charge on this web site our annual, quarterly and current reports, and amendments to those reports, as soon as reasonably practicable after we electronically file such material with, or furnish it to, the Securities and Exchange Commission.

In addition, you may request a copy of these filings (excluding exhibits) at no cost by writing, telephoning, faxing or e-mailing us at the following address, telephone number, fax number or e-mail address:

Stanley Furniture Company, Inc.  
200 North Hamilton Street, No. 200  
High Point, North Carolina 27260  
Attention: Ms. Anita W. Wimmer  
Telephone: 336-884-7698, Fax: 336-884-7760  
Or e-mail your request to: [Investor@Stanleyfurniture.com](mailto:Investor@Stanleyfurniture.com)

### Item 1A. Risk Factors

***Our results of operations and financial condition can be adversely affected by numerous risks. You should carefully consider the risk factors detailed below in conjunction with the other information contained in this document. Should any of these risks actually materialize, our business, financial condition and future prospects could be negatively impacted.***

***As a result of our reliance on foreign sourcing for our products:***

- **Our ability to service customers could be adversely affected and result in lower sales, earnings and liquidity.**

Our supply of goods could be interrupted for a variety of reasons. Physical damage from a natural disaster, fire or other cause to any one of our sourcing partners' factories could interrupt production for an extended period of time. We may reject goods that do not meet our specifications causing delays to the receipt of goods and/or requiring us to identify and utilize alternative sourcing arrangements at a higher cost, or possibly forcing us to discontinue the product. Also, delivery of goods from our foreign sourcing partners may be delayed for reasons not typically encountered with domestic manufacturing or sourcing, such as shipment delays caused by customs or labor issues.

- **Our ability to properly forecast customer demand while operating within the inherent extended lead times of an overseas sourcing model could result in lower sales, earnings and liquidity.**

Extended lead times may adversely affect our ability to respond to sudden changes in demand, resulting in the purchase of excess inventory in the face of declining demand, or lost sales due to insufficient inventory in the face of increasing demand, either of which could have an adverse effect on our sales, earnings and liquidity.

- **Changes in political, economic and social conditions, as well as laws and regulations, in the countries from which we source products could adversely affect us.**

Foreign sourcing is subject to political and social instability in countries where our sourcing partners are located. This could make it more difficult for us to service our customers. Also, significant fluctuations of foreign exchange rates against the value of the U.S. dollar could increase our costs, decrease earnings and/or negatively affect the business of our suppliers overseas.

- **International trade policies of the United States and countries from which we source products could adversely affect us.**

Imposition of trade sanctions relating to imports, taxes, import duties and other charges on imports could limit our ability to source product from the impacted countries and increase our costs, thus decreasing our earnings.

- **Changes in the value of the U.S. Dollar compared to the currencies for the countries from which we obtain our products or other influential foreign currencies, could adversely affect our sales, earnings and liquidity.**

For imported products, we generally negotiate firm pricing with our foreign suppliers in U.S. Dollars, typically for periods of at least one year. We accept the exposure to exchange rate movements beyond these negotiated periods. We do not use derivative financial instruments to manage this risk but could choose to do so in the future. Since we transact our imported product purchases in U.S. Dollars, a relative decline in the value of the U.S. Dollar could increase the price we must pay for imported products beyond the negotiated periods. In addition, valuation changes in other leading foreign countries could adversely affect the business of our sourcing partners and therefore, adversely affect us. These price changes could decrease our sales, earnings and liquidity during affected periods.

***We are currently transitioning the manufacturing of substantially all our products to a single contract manufacturer and the loss of this contract manufacturer, or its inability to satisfy our quality or other requirements, could severely disrupt the production and supply of our products resulting in lower sales, earnings and liquidity.***

We are in the process of transitioning the manufacturing of substantially all our products to a single contract manufacturer located outside Ho Chi Minh City in Vietnam in connection with our strategic manufacturing alliance with Starwood Manufacturing VN Corporation. Any financial, operational or other difficulties involving this manufacturer could adversely affect us. The loss of our relationship with our manufacturer, or its inability to conduct its manufacturing services for us as anticipated in terms of cost, quality, and timeliness, could adversely affect our ability to fill customer orders. In addition, it could be costly and require a long period of time to move products to another manufacturer. If any of these were to occur, the supply of our products could be severely disrupted resulting in lower sales, earnings and liquidity.

***We may not be able to maintain or to raise prices in response to inflation and/or increasing costs.***

Future market and competitive pressures may prohibit us from successfully raising prices to offset increased costs of finished goods, freight and other inflationary items. This could lower our earnings.

***We may not be able to sustain sales, earnings and liquidity levels due to economic downturns.***

The furniture industry historically has been cyclical in nature and has fluctuated with economic cycles. During economic downturns, the furniture industry tends to experience longer periods of recession and greater declines than the general economy. We believe that the industry is significantly influenced by economic conditions generally and particularly by housing activity, consumer confidence, the level of personal discretionary spending, demographics and credit availability. As a result, a worsening of current conditions could lower our sales and earnings and impact our liquidity.

***Business failures, or the loss, of large customers could result in a decrease in our future sales and earnings.***

Although we have no single customer representing 10% or more of our total annual sales, the possibility of business failures, or the loss of large customers could result in a decrease of our future sales and earnings. Lost sales may be difficult to replace and any amounts owed to us may become uncollectible.

***Failure to anticipate or respond to changes in customer tastes, fashions and perceived values in a timely manner could result in a decrease in our sales and earnings.***

Residential furniture is a fashion business based upon products styled for a changing marketplace and is sometimes subject to changing consumer trends and tastes. If we are unable to predict or respond to changes in these trends and tastes in a timely manner, we may lose sales and have to sell excess inventory at reduced prices. This could lower our sales and earnings.

***We may not be able to sustain current sales and earnings due to the actions and strength of our competitors.***

The furniture industry is very competitive and fragmented. We compete with a host of varying business models within the industry including but not limited to former manufacturers who have adopted a strictly pass-through model from overseas vendor to wholesale customers: national lifestyle retailers who sell directly to the retail consumer through an omni-channel distribution and marketing model; overseas vendors who sell directly to wholesale customers. Some competitors have greater financial resources and often offer extensively advertised, highly promoted products. As a result, we are continually subject to the risk of losing market share, which may lower our sales and earnings.

***Our liquidity could be negatively impacted by the potential instability of Genworth Life Insurance Company.***

We currently have available \$22.3 million of net cash surrender value in corporate-owned life insurance policies with Genworth Life Insurance Company. If the financial stability of Genworth Life Insurance Company was to deteriorate to a point that insolvency was likely, our access to these funds may be limited or eliminated. Although management monitors the financial stability of Genworth Life Insurance Company on a regular basis, insolvency could occur and, as a result, impact our liquidity. Genworth Life Insurance Company is a subsidiary of Genworth Financial, Inc., which recently reported a Fourth Quarter and Full Year 2015 operating loss in its U.S. Life Insurance segment. The company also announced that it was suspending traditional life and fixed annuity sales. After this announcement, Genworth Life Insurance Company's ratings from the following rating agencies were downgraded to those set forth below:

- A.M. Best: B++ (Good)
- Standard & Poor's: BB (Marginal)
- Moody's: Ba1 (Questionable)

***Our business and operations would be adversely impacted in the event of a failure or interruption of our information technology infrastructure.***

The proper functioning of our information technology infrastructure is critical to the efficient operation and management of our business. If our information technology systems fail or are interrupted, our operations may be adversely affected and operating results could be harmed. Our information technology systems, and those of third parties providing service to us, may also be vulnerable to damage or disruption caused by circumstances beyond our control. These include catastrophic events, power anomalies or outages, natural disasters, computer system or network failures, viruses or malware, physical or electronic break-ins, unauthorized access and cyber-attacks. Any material disruption, malfunction or similar challenges with our information technology infrastructure, or disruptions or challenges relating to the transition to new processes, systems or providers, could have a material adverse effect on the operation of our business and our results of operations.

***We depend on key personnel and could be affected by the loss of their services.***

The success of our business depends upon the services of certain senior executives. The loss of any such person or other key personnel could have a material adverse effect on our business and results of operations.

***Future cost of compliance with environmental, safety and health regulations could reduce our earnings.***

We are subject to federal, state and local laws and regulations in the areas of safety, health and environmental protection. The timing and ultimate magnitude of costs for compliance with environmental, health and safety regulations are difficult to predict and could reduce our earnings.

**Item 1B. Unresolved Staff Comments**

None.

**Item 2. Properties**

Set forth below is certain information with respect to our principal properties. We believe that all these properties are well maintained and in good condition. A majority of our distribution facilities are equipped with automatic sprinkler systems and modern fire protection equipment, which we believe are adequate. All facilities set forth below are active and operational.

<u>Location</u>	<u>Primary Use</u>	<u>Approximate Facility Size (Square Feet)</u>	<u>Owned or Leased</u>
Martinsville, VA	Distribution	300,000	Leased
High Point, NC	Showroom/Office	56,000	Leased
Las Vegas, NV	Showroom	11,500	Leased
Vietnam	Distribution	74,500 <sup>(1)</sup>	Leased
Lexington, NC	Distribution	2,700 <sup>(1)</sup>	Leased

(1) Estimated space as of December 31, 2015. Leased footage is a function of amount of product held with no minimum space commitments.

**Item 3. Legal Proceedings**

In the normal course of business, we are involved in claims and lawsuits none of which currently, in our opinion, will have a material adverse effect on our consolidated financial statements.

**Item 4. Mine Safety Disclosures**

Not Applicable.

**Executive Officers of the Registrant**

Our executive officers who are elected annually and their ages as of January 1, 2016 are as follows:

<u>Name</u>	<u>Age</u>	<u>Position</u>
Glenn Prillaman .....	44	President and Chief Executive Officer
Anita W. Wimmer .....	52	Vice President - Finance/Corporate Controller

**Glenn Prillaman** has been President and Chief Executive Officer since February 2010. Mr. Prillaman was President and Chief Operating Officer from August 2009 until February 2010. He was our Executive Vice President – Marketing and Sales from September 2008 until August 2009. He held the position of Senior Vice President – Marketing and Sales from September 2006 until September 2008 and was our Senior Vice President – Marketing/Sales – Young America® from August 2003 to September 2006. Mr. Prillaman held various management positions in product development from June 1999 to August 2003. Prior to this Mr. Prillaman represented the company as a sales agent from 1993 to 1996.

**Anita W. Wimmer** has been principal financial and accounting officer and Secretary since August 2014 and has also served as Vice President – Finance/Corporate Controller since April 2014 and Assistant Secretary from April 1999 until August 2014. She served as Vice President – Corporate Controller from April 2012 until April 2014 and as Vice President – Controller and Treasurer from April 2005 until April 2012. Prior to this, Mrs. Wimmer held various financial positions since her employment with Stanley in March 1993.

## PART II

### Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

#### Market Prices

Our common stock is quoted on the Nasdaq Stock Market ("Nasdaq") under the symbol **STLY**. The table below sets forth the high and low sales prices per share, for the periods indicated, as reported by Nasdaq.

	2015		2014	
	High	Low	High	Low
<b>First Quarter</b> .....	<b>\$3.64</b>	<b>\$2.71</b>	\$3.92	\$2.70
<b>Second Quarter</b> .....	<b>3.39</b>	<b>2.62</b>	3.09	2.51
<b>Third Quarter</b> .....	<b>3.31</b>	<b>2.75</b>	3.00	2.27
<b>Fourth Quarter</b> .....	<b>3.04</b>	<b>2.60</b>	3.23	2.52

As of February 10, 2016, we have approximately 1,675 beneficial stockholders.

#### Issuer Purchases of Equity Securities

The following table summarizes the repurchases of our equity securities during the 12-month period ended December 31, 2015:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs <sup>(1)</sup>	Approximate Dollar Value of Shares that May Yet be Purchased under the Plans or Programs <sup>(1)</sup>
September 27 to October 31, 2015	-		-	3,981,271
November 1 to November 28, 2015	-		-	3,981,271
November 29 to December 31, 2015	4,622 <sup>(2)</sup>	2.81	-	3,981,271
Three months ended December 31, 2015	4,622 <sup>(2)</sup>		-	

<sup>(1)</sup> In July 2012, the Board of Directors authorized the purchase of up to \$5.0 million of our common stock. We have approximately \$4.0 million remaining under this authorization, but have not repurchased any common stock under this authorization since 2013. The board of directors has authorized the resumption of repurchases. These repurchases may be made from time to time in the open market, in privately negotiated transactions, or otherwise, at prices the company deems appropriate.

<sup>(2)</sup> Shares tendered by recipients of restricted stock awards to satisfy tax withholding obligations on vested restricted stock.

#### Equity Compensation Plan Information

The following table summarizes our equity compensation plans as of December 31, 2015:

	Number of shares to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of shares remaining available for future issuance under equity compensation plans
Equity compensation plans approved by stockholders	1,166,192	\$5.93	1,713,346

**Item 6. Selected Financial Data**

	<b>Years Ended December 31,</b>				
	<b>2015</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>
	(in thousands, except per share data)				
<b>Income Statement Data:</b>					
Net sales .....	<b>\$ 57,364</b>	\$ 60,623	\$ 58,559	\$ 61,260	\$ 58,366
Cost of sales (1) .....	<b>43,679</b>	48,610	45,959	47,474	44,960
Gross profit .....	<b>13,685</b>	12,013	12,600	13,786	13,406
Selling, general and administrative expenses (2).....	<b>12,661</b>	14,882	16,277	15,552	15,447
Operating income (loss).....	<b>1,024</b>	(2,869)	(3,677)	(1,766)	(2,041)
Income from Continued Dumping and Subsidy Offset Act, net.....	<b>5,308</b>	-	-	39,349	3,973
Other income (expense), net.....	<b>42</b>	(2,174)	67	79	112
Interest expense, net.....	<b>947</b>	2,884	2,669	2,320	2,330
Income (loss) from continuing operations before income taxes.....	<b>5,427</b>	(7,927)	(6,279)	35,342	(286)
Income tax expense (benefit).....	<b>76</b>	(39)	(157)	645	1
Net income (loss) from continuing operations.....	<b>\$ 5,351</b>	\$ (7,888)	\$ (6,122)	\$ 34,697	\$ (287)
<b>Basic Earnings (loss) Per Share:</b>					
Net income (loss) from continuing operations.....	<b>\$ .37</b>	\$ (.56)	\$ (.43)	\$ 2.42	\$ (.02)
Weighted average shares .....	<b>14,273</b>	14,197	14,147	14,328	14,345
<b>Diluted Earnings (loss) Per Share:</b>					
Net income (loss) from continuing operations.....	<b>\$ .37</b>	\$ (.56)	\$ (.43)	\$ 2.40	\$ (.02)
Weighted average shares .....	<b>14,542</b>	14,197	14,147	14,484	14,345
<b>Balance Sheet and Other Data:</b>					
Cash, restricted cash and short-term investments .....	<b>\$ 7,160</b>	\$ 6,774	\$ 18,955	\$ 37,667	\$ 17,287
Inventories .....	<b>\$ 20,934</b>	\$ 24,216	\$ 23,901	\$ 26,207	\$ 23,592
Total assets (3).....	<b>\$ 63,146</b>	\$ 59,641	\$ 94,786	\$109,754	\$ 80,089
Stockholders' equity .....	<b>\$ 47,652</b>	\$ 40,979	\$ 70,990	\$ 82,405	\$ 53,088

- (1) Included in cost of sales in 2014 and in 2012 are restructuring and related charges of \$354 and \$474, respectively, for lease commitments on warehousing space in the Stanleystown facility no longer being utilized. Included in cost of sales in 2011 are restructuring and related charges of \$416 for the conversion of the Stanleystown manufacturing facility to a warehouse and distribution center, the sale of the Martinsville, Virginia facility and other restructuring related cost.
- (2) Included in selling, general and administrative expenses in 2013 is \$770 of restructuring and related charges for the consolidation of corporate offices.
- (3) Adopting Financial Accounting Standards Board ASU 2015-17 related to the balance sheet classification of all deferred tax assets and liabilities as long-term resulted in a prior period reclassification resulting in reductions in total assets of \$66, \$699, \$962 and \$519, for the periods ended December 31, 2014, 2013, 2012 and 2011, respectively. Because we maintain a full valuation allowance on our deferred tax assets, the reclassification of all items to long-term results in our having no deferred tax amounts on our balance sheet.

## **Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operation**

### **Overview**

We have taken a number of strategic steps over the last several years to reposition our company. We have closed domestic manufacturing facilities and moved to an overseas sourcing model. We discontinued an un-profitable product line, and we are in the process of launching a new one. We have established a strategic overseas manufacturing alliance with a reputable cost efficient producer in Vietnam, Starwood Manufacturing VN Corporation. We implemented a new enterprise operating system, opened new trade showrooms and consolidated corporate offices. In addition, we have taken strategic steps to align our cost structure in response to lower sales volume related to these changes. We believe each of these initiatives was necessary, and each is now contributing to progress in our company's operating results as we showed our first profitable year since 2008, excluding proceeds received from the Continued Dumping and Subsidy Offset Act (CDSOA) and restructuring charges.

In 2014, we decided to discontinue our domestically manufactured nursery and youth line, Young America. Revenues for this product line remained below the level needed to reach profitability as a domestic manufacturer, therefore we concluded during the second quarter of 2014 that the timeframe needed to assure sustainable profitability was longer than we felt was economically justified. The loss from discontinued operations for 2014 was \$22.0 million and consisted mostly of asset impairment charges, costs of finalizing operations and severance and other termination costs. Final discontinued operations expenses of \$11,000 were incurred in 2015.

In early 2016, we established a strategic manufacturing alliance with a reputable, low cost producer in Vietnam, Starwood Manufacturing VN Corporation. The strategic alliance is designed to reduce our overall sourcing costs, maintain our high product quality standards and improve stock availability as lead times are reduced. This strategic alliance allows for the utilization of a stand-alone, dedicated manufacturing facility in which we have the ability to engineer our designs specifically for the efficiency of this factory, schedule and supervise production to satisfy our specific customers' demands and provide quality assurance. We maintain exclusive rights to utilize the stand-alone facility for as long as we meet certain volume goals for the facility's capacity utilization, yet we are not obligated to utilize the capacity of the facility should certain market-driven and/or competitive factors result in another alternative being preferable.

In January 2015, we announced our re-entry into the nursery and youth product category with the launch of a new brand, Stone & Leigh. New designs were introduced to the trade at the High Point Market in April 2015. Our new strategic manufacturing alliance, our experience developing and marketing nursery and youth product, our relationships with wholesale customers within the nursery and youth furniture segment and the minimal investment required for the launch should allow us to re-enter this part of the market successfully. This product line began shipping in late 2015 and should be a source of growth in 2016.

In addition to the consumer marketing efforts to launch our new Stone & Leigh youth and nursery furniture brand, we are beginning new consumer advertising and wholesale customer support plans to increase revenue and more effectively reach target consumers of the Stanley adult product lines. These efforts, along with more valuable product supplied through our strategic manufacturing alliance overseas should produce growth for the adult furniture product lines under the Stanley and Coastal Living® brands.

## Results of Operations

The following table sets forth the percentage relationship to net sales of certain items included in the Consolidated Statements of Operations:

	For the Years Ended	
	December 31,	
	2015	2014
Net sales .....	<b>100.0%</b>	100.0%
Cost of sales .....	<b>76.1</b>	80.2
Gross profit .....	<b>23.9</b>	19.8
Selling, general and administrative expenses .....	<b>22.1</b>	24.5
Operating income (loss) .....	<b>1.8</b>	(4.7)
CDSOA income, net .....	<b>9.2</b>	-
Other income (expense), net .....	<b>.1</b>	(3.6)
Interest expense, net .....	<b>1.7</b>	4.8
Income (loss) from continuing operations before income taxes .....	<b>9.4</b>	(13.1)
Income tax expense (benefit) .....	<b>.1</b>	(.1)
Income (loss) from continuing operations .....	<b>9.3</b>	(13.0)
Loss from discontinued operations .....	<b>-</b>	(36.3)
Net income (loss) .....	<b>9.3%</b>	(49.3)%

### 2015 Compared to 2014

Net sales decreased \$3.3 million, or 5.4%, in 2015 compared to 2014, primarily due to lower unit volume, partially offset by higher average selling prices resulting from less discounting and a modest price increase that went into effect in June of 2015. Lower unit volume was primarily a result of delays in overseas manufacturing of new introductions as we began a strategic manufacturing alliance overseas in a newly constructed facility.

Gross profit as a percentage of net sales increased to 23.9% in 2015 from 19.8% in 2014. The improved gross profit margin in 2015 was driven by lower operation support costs and lower sales discounts, partially offset by the impact of lower sales volumes. Prior year gross profit included \$354,000, or 0.6% of net sales, in restructuring charges for future lease commitments on a warehouse facility that was no longer utilized.

Selling, general and administrative expenses for 2015 were \$12.7 million, or 22.1% of net sales, compared to \$14.9 million, or 24.5% of net sales, in 2014. The lower percentage and lower expense were the result of reducing our expenditures as we aligned our cost structure to support lower volume levels and a new operational support model overseas. These reductions were not in place until the second half of 2014. In addition, lower sales contributed to lower commissions.

As a result of the above, our operating income was \$1.0 million, or 1.8% of net sales, in 2015 compared to an operating loss of \$2.9 million, or (4.7%) of net sales, in 2014.

During the current year we received \$5.3 million in funds under the CDSOA.

The charge in other income and expense in the prior year included \$2.5 million representing the impairment of prepaid legal services funded by settlements collected by the American Furniture Manufacturers Committee of Legal Trade (CLT) from 2010 through 2014 in connection with wooden bedroom furniture imported from China. Partially offsetting this charge was the reversal of tariff accruals on imported bedroom furniture that U.S. Customs liquidated in the prior year without assessing any additional liability.

Interest expense is composed of interest on loans against the cash surrender value of corporate-owned life insurance policies from a legacy deferred compensation plan. The decrease in interest expense in 2015 compared to 2014 was the result of paying down \$13.7 million in outstanding loans in November 2014 and an additional \$5.5 million in 2015. Subsequent to year end, we used \$2.5 million to pay down loans and accrued interest to lower our outstanding loan balance to \$3.1 million and reduce interest expense to approximately \$410,000 annually.



Our 2015 effective tax rate expense was 1.4% and was primarily generated from the federal alternative minimum tax. The alternative minimum tax limits our ability to offset all of our income with net operating loss carryforwards. The effective tax rate in 2014 was essentially zero since we established a valuation allowance for our deferred taxes. The benefit in the prior year period was primarily from the release of reserves due to the lapse of statute of limitations.

During 2014, we ceased production of our Young America product line and closed our manufacturing operation in Robbinsville, North Carolina. As a result, we recognized a loss from discontinued operations of \$11,000 and \$22.0 million in 2015 and 2014, respectively. These losses consisted mostly of asset impairment charges, costs of finalizing operations and severance and other termination costs. No further expenses related to the discontinued operations are expected.

## **Financial Condition, Liquidity and Capital Resources**

Sources of liquidity include cash on hand, cash generated from operations and cash surrender value of corporate owned life insurance policies. While we believe that our business strategy will be successful, we cannot predict with certainty the ultimate impact on our revenues, operating costs and cash flows from operations. We expect cash on hand to be adequate for ongoing operational and capital expenditures for the foreseeable future. At December 31, 2015 we had \$6.5 million in cash, \$663,000 in restricted cash and \$22.3 million available in cash surrender value on corporate-owned life insurance policies.

Working capital, excluding cash on hand, restricted cash and net assets of discontinued operations, decreased slightly during 2015 to \$21.2 million from \$21.4 million at December 31, 2014. The slight decrease was primarily the result of a decrease in inventory balances as we attempt to properly align our inventory levels with demand. Mostly offsetting this decrease in inventory was an increase in receivables and a decrease in payables and other accruals. Higher accounts receivable balances resulted from an increase in shipping volume at the end of the period as we began shipping new introductions delayed by the implementation of our new strategic manufacturing alliance. The lower accounts payable balance is driven by lower in-transit inventory from our vendors compared to prior year end and other accruals declined predominantly from the reduction in deferred revenue and restructuring accruals.

Cash provided by operations was \$4.6 million in 2015 and cash used by operations was \$11.2 million in 2014. The cash provided by operations in 2015 was from the receipt of \$5.3 million in proceeds from the CDSOA, partially offset by \$988,000 of interest paid on loans against corporate-owned life insurance policies. The cash used by operations in 2014 was the result of operating losses, decrease in other accruals and accounts payable and the additional accrued interest paid at the time we paid down \$13.7 million of life insurance policy loans.

Net cash provided by investing activities was \$516,000 in 2015 compared to \$10.5 million in 2014. In both 2015 and 2014, restricted cash decreased due to a reduction in outstanding letters of credit required by our insurance company for potential workers compensation claims. During 2014, cash was provided from the maturity of \$10.0 million of short-term investments. No major expenditures are planned for in the coming year.

Net cash used by financing activities was \$5.5 million in 2015 compared to \$11.0 million in 2014. In 2015 and 2014, we paid down \$5.5 million and \$13.7 million, respectively in certain corporate-owned life insurance policies used to fund our obligations under our legacy deferred compensation plan. We decided to use excess cash to pay down these loans to lower our interest expense, while continuing to maintain liquidity with unrestricted access to the cash surrender value of these corporate-owned life insurance policies. In 2014, proceeds from these insurance policy loans provided cash of \$2.7 million. In addition, \$13,000 was used for tax withholdings on vesting of restricted awards in 2015.

Several factors influenced our decision to begin paying down the policy loans against corporate-owned life insurance policies, including:

1. The increase of our net operating loss carryforwards in 2014, mostly due to the discontinuation of our Young America product line, impaired our ability to realize the tax benefits of the program until we exhaust these loss carryforwards;
2. With the elimination of approximately 40% of our revenues in 2014, the appreciation of the cash surrender values with borrowings against them was becoming a disproportionate amount of operating income.
3. The 4% growth rate on the non-borrowed cash surrender value of these insurance policies compared to rates currently available for alternative investments.

As of December 31, 2015, we had \$5.6 million in policy loans and accrued interest.

We will continue to review the overall impact of the deferred compensation plan and the corporate-owned life insurance policies on the financial statements along with risks related to the plan and the insurance policies. The gross cash surrender value of these corporate-owned life insurance policies at December 31, 2015 was \$27.8 million. The overall stability and solvency of Genworth Life Insurance Company is reviewed regularly by the Board of Directors and management.

Subsequent to year end, we made the decision to liquidate two of the outstanding corporate-owned life insurance policies with cash surrender value of \$2.6 million. We used \$2.5 million of the proceeds to pay down outstanding loans and accrued interest, leaving our outstanding loan balance at \$3.1 million. If we decided to pay down this remaining balance our operating income would include approximately \$500,000 annually in income from the growth in cash surrender value, net of related expenses, and interest expense would decrease to zero.

### **Continued Dumping and Subsidy Offset Act (“CDSOA”)**

The CDSOA provides for distribution of monies collected by U.S. Customs and Border Protection (“Customs”) for imports covered by antidumping duty orders entering the United States through September 30, 2007 to eligible domestic producers that supported a successful antidumping petition (“Supporting Producers”) for wooden bedroom furniture imported from China. Antidumping duties for merchandise entering the U.S. after September 30, 2007 have remained with the U.S. Treasury.

Certain manufacturers who did not support the antidumping petition (“Non-Supporting Producers”) filed actions in the United States Court of International Trade, challenging the CDSOA’s “support requirement” and seeking to share in the distributions. As a result, Customs held back a portion of those distributions (the “Holdback”) pending resolution of the Non-Supporting Producers’ claims. The Court of International Trade dismissed all of the actions of the Non-Supporting Producers, who appealed to the United States Court of Appeals for the Federal Circuit. Customs advised that it expected to distribute the Holdback to the Supporting Producers after March 9, 2012. The Non-Supporting Producers sought injunctions first from the Court of International Trade and, when those efforts were unsuccessful, from the Federal Circuit directing Customs to retain the Holdback until the Non-Supporting Producers’ appeals were resolved.

On March 5, 2012, the Federal Circuit denied the motions for injunction, “without prejudicing the ultimate disposition of these cases.” As a result, we received a CDSOA distribution of \$39.9 million in April 2012. On August 19, 2013, the Federal Circuit issued a decision affirming the dismissal of the claims of two of the four Non-Supporting Producers. On January 3, 2014, the Federal Circuit denied those Non-Supporting Producers’ petitions for rehearing en banc. On May 2, 2014, these Non-Supporting Producers filed a petition for writ of certiorari, seeking review by the United States Supreme Court. On October 6, 2014, the Supreme Court denied two of three of the Non-Supporting Producers’ petitions for certiorari review, and on December 15, 2014, the Supreme Court denied the third petition for review. Accordingly, Customs should not seek or be entitled to obtain a return of our CDSOA distribution received in April 2012.

In November 2012, December 2013, and November 2014 Customs disclosed that it withheld \$3.0 million, \$6.4 million, and \$5.7 million respectively in each of those years, in funds related to the antidumping duty order on wooden bedroom furniture from China that was otherwise available for distribution until the amounts at issue in the pending litigation had been resolved. In March 2015, following the conclusion of all appeals, Customs began distributing the withheld funds to the Supporting Producers. Our allocated share of the distributed 2012, 2013, and 2014 withheld funds totaled \$4.8 million, which we received during late March and early April 2015.

In November 2014, Customs also announced that 2014 and 2015 CDSOA distributions were subject to sequestration under the Budget Control Act at the rate of 7.2 percent and 7.3 percent, respectively. On March 17, 2015, however, the government concluded that the amounts sequestered during Fiscal Year 2014 and Fiscal Year 2015 would become available in the subsequent fiscal year. Our share of the 2014 sequestered funds, totaling \$147,000, was received in April 2015 and no funds were sequestered in 2015.

In November 2015, Customs distributed \$1.2 million in collected duties that were available for distribution in 2015. Our portion of this distribution was \$412,000, representing 33.6% of the balance available for distribution. According to Customs, as of October 1, 2015, approximately \$2.6 million in duties had been secured by cash deposits and bonds on unliquidated entries of wooden bedroom furniture that are subject to the CDSOA, and this amount is potentially available for distribution under the CDSOA to eligible domestic manufacturers in connection with the case involving bedroom furniture imported from China. The amount ultimately distributed will be impacted by appeals from the annual administrative review process and importers' actions concerning the amount of duties owed with respect to specific entries, which can retroactively increase or decrease the actual duties owed on entries secured by cash deposits and bonds. Assuming our percentage allocation in future years is the same as it was for the 2015 distribution (approximately 33.6% of the funds distributed) and the \$2.6 million collected by the government as of October 1, 2015 does not change as a result of the annual administrative review process or otherwise, we could receive approximately \$860,000 in CDSOA funds.

Due to the uncertainty of the administrative processes, we cannot provide assurances as to future amounts of additional CDSOA funds that ultimately will be received, if any, and we cannot predict when we may receive any additional CDSOA funds.

### **New Accounting Pronouncements**

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)* ("ASU 2014-09"). The amendments in ASU 2014-09 affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards. This ASU will supersede the revenue recognition requirements in *Topic 605, Revenue Recognition*, and most industry-specific guidance, and creates a *Topic 606, Revenue from Contracts with Customers*. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In August 2015, the FASB issued ASU 2015-14, *Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date* ("ASU 2015-14"), which defers the effective date of ASU 2014-09 for all entities by one year. ASU 2014-09 is now effective for financial statements issued for annual reporting periods beginning after December 15, 2017. The Company is currently evaluating the impact of the pending adoption of ASU 2014-09 on its consolidated financial statements and has not yet determined the method by which the Company will adopt the standard.

In July 2015, the FASB issued ASU 2015-11, *Inventory (Topic 330): Simplifying the Measurement of Inventory* ("ASU 2015-11"). The amendments in ASU 2015-11 require an entity to measure in scope inventory at the lower of cost and net realizable value. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonable predictable costs of completion, disposal, and transportation. Subsequent measurement is unchanged for inventory measured using last-in, first-out ("LIFO") or the retail inventory method. The amendments do not apply to 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. The amendment is effective for public entities for fiscal years beginning after December 15, 2016 and should be applied prospectively, however early adoption is permitted. The Company does not anticipate ASU 2015-11 to have a material impact to the consolidated financial statements.

In November 2015, the FASB issued Accounting Standards Update No. 2015-17 (ASU 2015-17), *Balance Sheet Classification of Deferred Taxes*, which requires that all deferred tax liabilities and assets of the same tax jurisdiction or a tax filing group, as well as any related valuation allowance, be offset and presented as a single noncurrent amount in a classified balance sheet. Under ASU 2015-17, an entity should not offset deferred tax liabilities and assets attributable to different tax-paying components of the entity or to different tax jurisdictions, consistent with the guidance under existing U.S. GAAP. The ASU is effective for public business entities for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2016. Early adoption is permitted as of the beginning of any interim or annual reporting period. Guidance may be applied either prospectively, for all deferred tax assets and liabilities, or retrospectively (i.e., by reclassifying the comparative balance sheet). We have decided to early adopt this standard and apply retrospective treatment of the standard. Because we carry a full valuation allowance against our deferred tax assets, we feel the classification of all deferred tax assets and liabilities as noncurrent provides a more informative disclosure and better reflects our having a full allowance against our net deferred tax assets. The retrospective reclassification results in a reduction in current assets, total assets and long-term liabilities of \$66,000 for the period ended December 31, 2014.

## Critical Accounting Policies

We have chosen accounting policies that are necessary to accurately and fairly report our operational and financial position. Below are the critical accounting policies that involve the most significant judgments and estimates used in the preparation of our consolidated financial statements.

**Revenue Recognition** - Sales are recognized when title and risk of loss pass to the customer, which typically occurs at the time of shipment. In some cases however, title does not pass until the shipment is delivered to the customer. Revenue includes amounts billed to customers for shipping. Provisions are made at the time revenue is recognized for estimated product returns and for incentives that may be offered to customers.

**Allowance for doubtful accounts** – We maintain an allowance for doubtful accounts for estimated losses resulting from the failure of our customers to make required payments. We perform ongoing credit evaluations of our customers and monitor their payment patterns. Should the financial condition of our customers deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required which would reduce our earnings.

**Inventory valuation** – Inventory is valued at the lower of cost or market. Cost for all inventories is determined using the first-in, first-out (FIFO) method. We evaluate our inventory to determine excess or slow moving items based on current order activity and projections of future demand. For those items identified, we estimate our market value based on current trends. Those items having a market value less than cost are written down to their market value. If we fail to forecast demand accurately, we could be required to write off additional non-saleable inventory, which would also reduce our earnings.

**Deferred taxes** -- We recognize deferred tax assets and liabilities based on the estimated future tax effects of differences between the financial statements and the tax basis of assets and liabilities given the enacted tax laws. We evaluate the need for a deferred tax asset valuation allowance by assessing whether it is more likely than not that the company will realize its deferred tax assets in the future. The assessment of whether or not a valuation allowance is required often requires significant judgment, including the forecast of future taxable income. Adjustments to the deferred tax valuation allowance are made to earnings in the period when such assessment is made.

In preparation of our consolidated financial statements, we exercise judgment in estimating the potential exposure to unresolved tax matters and apply a more likely than not criteria approach for recording tax benefits related to uncertain tax positions. While actual results could vary, we believe we have adequate tax accruals with respect to the ultimate outcome of such unresolved tax matters.

**Long-lived assets** – Property, plant and equipment is reviewed for possible impairment when events indicate that the carrying amount of an asset may not be recoverable. Assumptions and estimates used in the evaluation of impairment may affect the carrying value of long-lived assets, which could result in impairment charges in future periods that would lower our earnings. Our depreciation policy reflects judgments on the estimated remaining useful lives of assets.

**Accruals for self-insurance reserves** – Accruals for self-insurance reserves (including workers' compensation and employee medical) are determined based on a number of assumptions and factors, including historical payment trends and claims history, actuarial assumptions and current and estimated future economic conditions. These estimated liabilities are not discounted. If actual trends differ from these estimates, the financial results could be impacted. Historical trends have not differed materially from these estimates.

**Actuarially valued benefit accruals and expenses** – We maintain three actuarially valued benefit plans. These are our deferred compensation plan, our supplemental employee retirement plan and our postretirement health care benefits program. The liability for these programs and the majority of their annual expense are developed from actuarial valuations. Inherent in these valuations are key assumptions, including discount rates and mortality projections, which are usually updated on an annual basis near the beginning of each year. We are required to consider current market conditions, including changes in interest rates in making these assumptions. Changes in projected liability and expense may occur in the future due to changes in these assumptions. The key assumptions used in developing the projected liabilities and expenses associated with the plans are outlined in Note 6 of the consolidated financial statements.

**Stock-Based Compensation** - We record share-based payment awards at fair value on the grant date of the awards, based on the estimated number of awards that are expected to vest, over the vesting period. The fair value of stock options was determined using the Black-Scholes option-pricing model. The fair value of the restricted stock awards was based on the closing price of the Company's common stock on the date of the grant. For awards with performance conditions, we recognize compensation cost over the expected period to achieve the performance conditions, provided achievement of the performance conditions are deemed probable.

### **Off-Balance Sheet Arrangements**

We do not have transactions or relationships with "special purpose" entities, and we do not have any off-balance sheet financing other than normal operating leases primarily for warehousing, showroom and office space, and certain technology equipment.

### **Item 7A. Quantitative and Qualitative Disclosures about Market Risk**

Not required to be provided by a smaller reporting company.

### **Item 8. Financial Statements and Supplementary Data**

The consolidated financial statements and schedule listed in items 15(a) (1) and (a) (2) hereof are incorporated herein by reference and are filed as part of this report.

### **Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure**

None.

### **Item 9A. Controls and Procedures**

#### **Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures**

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of our disclosure controls and procedures, as such term is defined under Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended (the Exchange Act). Based on this evaluation, our principal executive officer and our principal financial officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this annual report.

#### **Management's Report on Internal Control over Financial Reporting**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in *Internal Control-Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation under the framework in *Internal Control – Integrated Framework*, our management concluded that our internal control over financial reporting was effective as of December 31, 2015.

The effectiveness of our internal control over financial reporting as of December 31, 2015 has been audited by BDO USA, LLP, our independent registered public accounting firm, as stated in their report, which is included on page F-2 of this Annual Report on Form 10-K.

#### **Changes in Internal Control over Financial Reporting**

There were no changes in our internal control over financial reporting that occurred during the fourth quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

### **Item 9B. Other Information**

None.

## PART III

### **Item 10. Directors, Executive Officers and Corporate Governance**

Information related to our directors is set forth under the caption “Election of Directors” of our proxy statement (the “2016 Proxy Statement”) for our annual meeting of shareholders scheduled for May 19, 2016. Such information is incorporated herein by reference.

Information relating to compliance with section 16(a) of the Exchange Act is set forth under the caption “Section 16(a) Beneficial Ownership Reporting Compliance” of our 2016 Proxy Statement and is incorporated herein by reference.

Information relating to the Audit Committee and Board of Directors’ determinations concerning whether a member of the Audit Committee of the Board is a “financial expert” as that term is defined under Item 407(d) (5) of Regulation S-K is set forth under the caption “Board and Board Committee Information” of our 2016 Proxy Statement and is incorporated herein by reference.

Information concerning our executive officers is included in Part I of this report under the caption “Executive Officers of the Registrant.”

We have adopted a code of ethics that applies to our associates, including the principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions. Our code of ethics is posted on our website at [www.stanleyfurniture.com](http://www.stanleyfurniture.com). Amendments to and waivers from our code of ethics will be posted to our website when permitted by applicable SEC and NASDAQ rules and regulations.

### **Item 11. Executive Compensation**

Information relating to our executive compensation is set forth under the caption “Executive Compensation” of our 2016 Proxy Statement. Such information is incorporated herein by reference.

### **Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters**

Our information relating to this item is set forth under the caption “Security Ownership of Certain Beneficial Owners and Management” of our 2016 Proxy Statement. Such information is incorporated herein by reference.

Information concerning our equity compensation plan is included in Part II of this report under the caption “Equity Compensation Plan Information.”

### **Item 13. Certain Relationships and Related Transactions, and Director Independence**

Our information relating to this item is set forth under the captions “Corporate Governance – Review of Transactions with Related Persons” and “Corporate Governance - Board and Board Committee Information” of our 2016 Proxy Statement. Such information is incorporated herein by reference.

### **Item 14. Principal Accounting Fees and Services**

Our information relating to this item is set forth under the caption “Independent Public Auditors” of our 2016 Proxy Statement. Such information is incorporated herein by reference.

## PART IV

### Item 15. Exhibits, Financial Statement Schedules

(a) Documents filed as a part of this Report:

- (1) The following consolidated financial statements are included in this report on Form 10-K:  
Report of Independent Registered Public Accounting Firm  
Consolidated Balance Sheets as of December 31, 2015 and 2014  
Consolidated Statements of Operations for each of the two years in the period ended December 31, 2015  
Consolidated Statements of Comprehensive Income (Loss) for each of the two years ended in the period ended December 31, 2015  
Consolidated Statements of Changes in Stockholders' Equity for each of the two years in the period ended December 31, 2015.  
Consolidated Statements of Cash Flows for each of the two years in the period ended December 31, 2015  
Notes to Consolidated Financial Statements
- (2) Financial Statement Schedule:  
Schedule II – Valuation and Qualifying Accounts for each of the two years in the period ended December 31, 2015.

(b) Exhibits:

- 3.1 The Restated Certificate of Incorporation of the Registrant (incorporated by reference to Exhibit 3.1 to the Registrant's Form 10-Q (Commission File No. 0-14938) for the quarter ended July 2, 2005).
- 3.2 By-laws of the Registrant as amended (incorporated by reference to Exhibit 3.1 to the Registrant's Form 8-K (Commission File No. 0-14938) filed December 11, 2015).
- 4.1 The Certificate of Incorporation and By-laws of the Registrant as currently in effect (incorporated by reference to Exhibits 3.1 and 3.2 hereto).
- 10.1 Supplemental Retirement Plan of Stanley Furniture Company, Inc., as restated effective January 1, 1993 (incorporated by reference to Exhibit 10.8 to the Registrant's Form 10-K (Commission File No. 0-14938) for the year ended December 31, 1993).(1)
- 10.2 First Amendment to Supplemental Retirement Plan of Stanley Furniture Company, Inc., effective December 31, 1995, adopted December 15, 1995 (incorporated by reference to Exhibit 10.7 to the Registrant's Form 10-K (Commission File No. 0-14938) for the year ended December 31, 1995).(1)
- 10.3 Stanley Interiors Corporation Deferred Compensation Capital Enhancement Plan, effective January 1, 1986, as amended and restated effective August 1, 1987 (incorporated by reference to Exhibit 10.1 to the Registrant's Form 8-K (Commission File No. 0-14938), filed December 10, 2014).(1)
- 10.4 2000 Incentive Compensation Plan (incorporated by reference to Exhibit A to the Registrant's Proxy Statement (Commission File No. 0-14938) for the special meeting of stockholders held on August 24, 2000).(1)
- 10.5 Second Amendment to Supplemental Retirement Plan of Stanley Furniture Company, Inc. effective January 1, 2002 (incorporated by reference to Exhibit 10.33 to the Registrant's Form 10-K (Commission File No. 0-14938) for the year ended December 31, 2002).(1)
- 10.6 Form of Stock Option Award under 2000 Incentive Plan (ISO) (incorporated by reference to Exhibit 10.23 to the Registrant's Form 10-K (Commission File No. 0-14938) for the year ended December 31, 2004).(1)

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(1) Management contract or compensatory plan

- 10.7 Form of Stock Option Award under 2000 Incentive Plan (ISO/NSO) (incorporated by reference to Exhibit 10.24 to the Registrant's Form 10-K (Commission File No. 0-14938) for the year ended December 31, 2004).(1)
- 10.8 Form of Stock Option Award under 2000 Incentive Plan (Directors) (incorporated by reference to Exhibit 10.25 to the Registrant's Form 10-K (Commission File No. 0-14938) for the year ended December 31, 2004).(1)
- 10.9 Form of Indemnification Agreement between the Registrant and each of its Directors (incorporated by reference to Exhibit 10.1 to the Registrant's Form 8-K (Commission File No. 0-14938) filed on September 25, 2008).
- 10.10 Change in Control Protection Agreement, originally dated December 11, 2009, by and between Stanley Furniture Company, Inc. and Glenn Prillaman and amended and restated effective December 11, 2015 (incorporated by reference to Exhibit 10.1 to the Registrant's Form 8-K (commission File No. 0-14938) filed on December 11, 2015). (1)
- 10.11 Change in Control Protection Agreement, dated December 11, 2015, by and between Stanley Furniture Company, Inc. and Anita Wimmer (incorporated by reference to Exhibit 10.2 to the Registrant's Form 8-K (commission File No. 0-14938) filed on December 11, 2015). (1)
- 10.12 2008 Incentive Compensation Plan (incorporated by reference to Exhibit A to the Registrant's Proxy Statement (Commission File No. 0-14938) for the annual meeting of stockholders held on April 15, 2008).(1)
- 10.13 Form of Stock Option Award under 2008 Incentive Plan (Officers) (incorporated by reference to Exhibit 10.21 to the Registrant's Form 10-K (Commission File No. 0-14938) for the year ended December 31, 2008).(1)
- 10.14 Form of Stock Option Award under 2008 Incentive Plan (Directors) (incorporated by reference to Exhibit 10.22 to the Registrant's Form 10-K (Commission File No. 0-14938) for the year ended December 31, 2008).(1)
- 10.15 Form of Restricted Stock Grant under 2008 Incentive Plan (Officers) (incorporated by reference to Exhibit 10.16 to the Registrant's Form 10-K (Commission File No. 0-14938) for the year ended December 31, 2012).(1)
- 10.16 Form of Restricted Stock Award under 2008 Incentive Plan (Directors) (incorporated by reference to Exhibit 10.17 to the Registrant's Form 10-K (Commission File No. 0-14938) for the year ended December 31, 2012). (1)
- 10.17 2012 Incentive Compensation Plan (incorporated by reference to Exhibit A to the Registrant's Proxy Statement (Commission File No. 0-14938) for the annual meeting of stockholders held on April 18, 2012). (1)
- 10.18 Form of Stock Option Award under 2012 Incentive Plan (Officers) (incorporated by reference to Exhibit 10.19 to the Registrant's Form 10-K (Commission File No. 0-14938) for the year ended December 31, 2012). (1)
- 10.19 Form of Restricted Stock Award under 2012 Incentive Plan (Officers) (time vesting) (incorporated by reference to Exhibit 10.20 to the Registrant's Form 10-K (Commission File No. 0-14938) for the year ended December 31, 2012). (1)

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(1) Management contract or compensatory plan



- 10.20 Separation Agreement and General Release, dated August 7, 2014, between the Registrant and Micah S. Goldstein (incorporated by reference to Exhibit 10.1 to Registrant's Form 8-K (Commission File No. 0-14938) filed August 8, 2014). (1)
- 10.21 Form of Restricted Stock Award under 2012 Incentive Plan (Directors) (incorporated by reference to Exhibit 10.21 to Registrant's Form 10-K (Commission File No. 0-14938) for year ended December 31, 2014). (1)
- 10.22 Form of Restricted Stock Award under 2012 Incentive Plan (Officers) (time and performance vesting) (incorporated by reference to Exhibit 10.22 to Registrant's Form 10-K (Commission File No. 0-14938) for year ended December 31, 2014).(1)
- 10.23 Form of Restricted Stock Award under 2012 Incentive Plan (Officers) (performance vesting) (incorporated by reference to Exhibit 10.23 to Registrant's Form 10-K (Commission File No. 0-14938) for year ended December 31, 2014).(1)
- 10.24 Agreement dated February 12, 2015 by and among Stanley Furniture Company, Inc. and the entities and natural persons listed on Exhibit A thereto (incorporated by reference to Exhibit 99.1 to Registrant's Form 8-K (Commission File No. 0-14938) filed February 12, 2015).
- 10.25 Agreement dated January 7, 2016 by and among Stanley Furniture Company, Inc. and the entities and natural persons listed on Exhibit A thereto (incorporated by reference to Exhibit 10.1 to Registrant's Form 8-K (Commission File No. 0-14938) filed January 8, 2016).
- 21 List of Subsidiaries. (2)
- 23.1 Consent of BDO USA, LLP. (2)
- 31.1 Certification by Glenn Prillaman, our Chief Executive Officer, pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as amended. (2)
- 31.2 Certification by Anita W. Wimmer, our Principal Financial Officer, pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as amended. (2)
- 32.1 Certification by Glenn Prillaman, our Chief Executive Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.(3)
- 32.2 Certification by Anita W. Wimmer, our Principal Financial Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.(3)
- 101 The following financial statements from the Company's Annual Report on Form 10-K for the year ended December 31, 2015, formatted in Extensible Business Reporting Language ("XBRL"): (i) consolidated balance sheets, (ii) consolidated statements of operations, (iii) condensed consolidated statements of comprehensive income (loss), (iv) condensed consolidated statements of cash flows, (v) the notes to the consolidated financial statements, and (vi) document and entity information. (2)

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(1) Management contract or compensatory plan

(2) Filed Herewith

(3) Furnished Herewith

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

STANLEY FURNITURE COMPANY, INC.

February 23, 2016

By: /s/Glenn Prillaman  
Glenn Prillaman  
President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/John D. Lapey</u> (John D. "Ian" Lapey)	Chairman and Director	February 23, 2016
<u>/s/Glenn Prillaman</u> (Glenn Prillaman)	President and Chief Executive Officer (Principal Executive Officer) and Director	February 23, 2016
<u>/s/Anita W. Wimmer</u> (Anita W. Wimmer)	Vice-President – Finance/Corporate Controller (Principal Financial and Accounting Officer)	February 23, 2016
<u>/s/Michael P. Haley</u> (Michael P. Haley)	Director	February 23, 2016
<u>/s/D. Paul Dascoli</u> (D. Paul Dascoli)	Director	February 23, 2016
<u>/s/T. Scott McIlhenny, Jr.</u> (T. Scott McIlhenny, Jr.)	Director	February 23, 2016
<u>/s/Jeffrey S. Gilliam</u> (Jeffrey S. Gilliam)	Director	February 23, 2016
<u>/s/Justyn R. Putnam</u> (Justyn R. Putnam)	Director	February 23, 2016

STANLEY FURNITURE COMPANY, INC.  
ANNUAL REPORT ON FORM 10-K  
FOR THE YEAR ENDED DECEMBER 31, 2015  
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## Report of Independent Registered Public Accounting Firm

Board of Directors and Stockholders  
Stanley Furniture Company, Inc.  
High Point, North Carolina

We have audited the accompanying consolidated balance sheets of Stanley Furniture Company, Inc. as of December 31, 2015 and 2014 and the related consolidated statements of operations and comprehensive income (loss), stockholders' equity, and cash flows for each of the two years in the period ended December 31, 2015. In connection with our audit of the financial statements, we have also audited the financial statement schedule for the years ended December 31, 2015 and 2014 listed in the accompanying index. These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Stanley Furniture, Inc. at December 31, 2015 and 2014, and the results of its operations and its cash flows for each of the two years in the period ended December 31, 2015, in conformity with accounting principles generally accepted in the United States of America.

Also, in our opinion, the financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth herein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Stanley Furniture Company, Inc.'s internal control over financial reporting as of December 31, 2015 and 2014, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated February 23, 2016 expressed an unqualified opinion thereon.

/s/ BDO USA, LLP  
Raleigh, North Carolina

February 23, 2016

## Report of Independent Registered Public Accounting Firm

Board of Directors and Stockholders  
Stanley Furniture Company, Inc.  
High Point, North Carolina

We have audited Stanley Furniture Company, Inc.'s internal control over financial reporting as of December 31, 2015, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Stanley Furniture Company, Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the Item 9A, Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Stanley Furniture Company, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2015, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Stanley Furniture Company, Inc. as of December 31, 2015 and 2014, and the related consolidated statements of operations and comprehensive income (loss), stockholders' equity, and cash flows for each of the two years in the period ended December 31, 2015 and our report dated February 23, 2016 expressed an unqualified opinion thereon.

/s/ BDO USA, LLP  
Raleigh, North Carolina

February 23, 2016

**STANLEY FURNITURE COMPANY, INC.**  
**CONSOLIDATED BALANCE SHEETS**  
(in thousands, except share data)

	<b>December 31,</b>	
	<b>2015</b>	<b>2014</b>
<b>ASSETS</b>		
Current assets:		
Cash .....	\$ 6,497	\$ 5,584
Restricted cash .....	663	1,190
Accounts receivable, less allowances of \$404 and \$375 .....	6,925	5,853
Inventory .....	20,934	24,216
Assets of discontinued operations .....	-	1,373
Prepaid expenses and other current assets .....	959	890
Total current assets .....	<b>35,978</b>	39,106
Property, plant and equipment, net .....	1,787	1,990
Cash surrender value of life insurance policies, net .....	22,253	15,129
Other assets .....	3,128	3,416
Total assets .....	<b>\$ 63,146</b>	\$ 59,641
<b>LIABILITIES</b>		
Current liabilities:		
Accounts payable .....	\$ 5,883	\$ 6,425
Liabilities of discontinued operations .....	13	93
Accrued salaries, wages and benefits .....	1,367	1,738
Other accrued expenses .....	321	1,437
Total current liabilities .....	<b>7,584</b>	9,693
Deferred compensation .....	4,301	4,964
Supplemental retirement plan .....	1,797	1,971
Other long-term liabilities .....	1,812	2,034
Total liabilities .....	<b>15,494</b>	18,662
Commitments and Contingencies (Footnote 10)		
<b>STOCKHOLDERS' EQUITY</b>		
Common stock, \$0.02 par value, 25,000,000 shares authorized, 14,906,831 and 14,780,326 shares issued and outstanding at December 31, 2015 and 2014, respectively .....	283	283
Capital in excess of par value .....	17,521	16,710
Retained earnings .....	32,023	26,683
Accumulated other comprehensive loss .....	(2,175)	(2,697)
Total stockholders' equity .....	<b>47,652</b>	40,979
Total liabilities and stockholders' equity .....	<b>\$ 63,146</b>	\$ 59,641

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

**STANLEY FURNITURE COMPANY, INC.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
(in thousands, except per share data)

	<b>For the Years Ended</b>	
	<b>December 31,</b>	
	<u>2015</u>	<u>2014</u>
Net sales.....	<b>\$ 57,364</b>	\$ 60,623
Cost of sales.....	<b>43,679</b>	48,610
Gross profit .....	<b>13,685</b>	12,013
Selling, general and administrative expenses.....	<b>12,661</b>	14,882
Operating income (loss).....	<b>1,024</b>	(2,869)
Income from Continued Dumping and Subsidy Offset Act, net .....	<b>5,308</b>	-
Other income (expense), net.....	<b>42</b>	(2,174)
Interest expense, net.....	<b>947</b>	2,884
Income (loss) from continuing operations before income taxes.....	<b>5,427</b>	(7,927)
Income tax expense (benefit).....	<b>76</b>	(39)
Net income (loss) from continuing operations .....	<b>5,351</b>	(7,888)
Net (loss) from discontinued operations .....	<b>(11)</b>	(22,004)
Net income (loss).....	<b>\$ 5,340</b>	\$ (29,892)
Basic income (loss) per share:		
Income (loss) from continuing operations .....	<b>\$ .37</b>	\$ (.56)
(Loss) from discontinued operations .....	<b>-</b>	(1.55)
Net income (loss).....	<b>\$ .37</b>	\$ (2.11)
Diluted income (loss) per share:		
Income (loss) from continuing operations .....	<b>\$ .37</b>	\$ (.56)
(Loss) from discontinued operations .....	<b>-</b>	(1.55)
Net income (loss).....	<b>\$ .37</b>	\$ (2.11)
Weighted average shares outstanding:		
Basic .....	<b>14,273</b>	14,197
Diluted.....	<b>14,542</b>	14,197

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

**STANLEY FURNITURE COMPANY, INC.**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**  
(in thousands)

	<b>For the Years Ended December 31,</b>	
	<b>2015</b>	<b>2014</b>
Net income (loss) .....	<b>\$ 5,340</b>	<b>\$ (29,892)</b>
Other comprehensive income (loss):		
Amortization of prior service credit.....	92	154
Actuarial (gain) loss.....	(497)	1,013
Amortization of actuarial loss .....	(117)	(70)
Adjustments to net periodic postretirement (benefit) loss ..	(522)	1,097
Comprehensive income (loss).....	<b>\$ 5,862</b>	<b>\$ (30,989)</b>

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



**STANLEY FURNITURE COMPANY, INC.**  
**CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**  
For each of the two years in the period ended December 31, 2015  
(in thousands)

	<u>Common Stock</u>		<u>Capital in Excess of Par Value</u>	<u>Retained Earnings</u>	<u>Accumulated Other Comprehensive (Loss) Income</u>	<u>Total</u>
	<u>Shares</u>	<u>Amount</u>				
Balance at December 31, 2013 .....	14,520	\$ 283	\$ 15,732	\$ 56,575	\$ (1,600)	\$ 70,990
Net loss .....	-	-	-	(29,892)	-	(29,892)
Other comprehensive loss .....	-	-	-	-	(1,097)	(1,097)
Restricted stock grants .....	400	-	-	-	-	-
Restricted stock forfeited .....	(140)	-	-	-	-	-
Stock-based compensation .....	-	-	978	-	-	978
<b>Balance at December 31, 2014 .....</b>	<b>14,780</b>	<b>283</b>	<b>16,710</b>	<b>26,683</b>	<b>(2,697)</b>	<b>40,979</b>
<b>Net income .....</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>5,340</b>	<b>-</b>	<b>5,340</b>
<b>Other comprehensive income .....</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>522</b>	<b>522</b>
<b>Restricted stock grants .....</b>	<b>229</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Restricted stock forfeited .....</b>	<b>(98)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Stock purchase and retirement for tax withholdings on vesting of restricted awards</b>	<b>(4)</b>	<b>-</b>	<b>(13)</b>	<b>-</b>	<b>-</b>	<b>(13)</b>
<b>Stock-based compensation .....</b>	<b>-</b>	<b>-</b>	<b>824</b>	<b>-</b>	<b>-</b>	<b>824</b>
<b>Balance at December 31, 2015 .....</b>	<b><u>14,907</u></b>	<b><u>\$ 283</u></b>	<b><u>\$ 17,521</u></b>	<b><u>\$ 32,023</u></b>	<b><u>\$ (2,175)</u></b>	<b><u>\$ 47,652</u></b>

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

**STANLEY FURNITURE COMPANY, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(in thousands)

	For the Years Ended December 31,	
	2015	2014
Cash flows from operating activities:		
Cash received from customers.....	\$ 56,271	\$ 60,102
Cash paid to suppliers and employees.....	(55,898)	(67,139)
Cash from Continued Dumping and Subsidy Offset Act, net.....	5,308	-
Interest paid, net.....	(987)	(4,179)
Income tax payments.....	(105)	-
Net cash provided (used) by operating activities.....	4,589	(11,216)
Cash flows from investing activities:		
Sale of short-term investments.....	-	10,000
Decrease in restricted cash.....	527	547
Proceeds from sale of assets.....	4	-
Purchase of other assets.....	(15)	(44)
Net cash provided by investing activities.....	516	10,503
Cash flows from financing activities:		
Stock purchase and retirement for tax withholdings on vesting of restricted awards.....	(13)	-
Payments on insurance policy loans.....	(5,461)	(13,708)
Proceeds from insurance policy loans.....	-	2,701
Net cash used by financing activities.....	(5,474)	(11,007)
Cash flows from discontinued operations:		
Cash provided by operating activities.....	1,282	4,744
Cash provided by investing activities.....	-	5,342
Net cash provided by discontinued operations.....	1,282	10,086
Net increase (decrease) in cash.....	913	(1,634)
Cash at beginning of year.....	5,584	7,218
Cash at end of year.....	\$ 6,497	\$ 5,584

Reconciliation of net income (loss) to net cash used by operating activities:

Net income (loss)	\$ 5,340	\$ (29,892)
Loss from discontinued operations.....	11	22,004
Depreciation.....	185	188
Amortization.....	285	344
Stock-based compensation.....	824	978
Other, net.....	14	-
Changes in assets and liabilities:		
Accounts receivable.....	(1,072)	(488)
Inventories.....	3,282	(315)
Prepaid expenses and other assets.....	(1,747)	(1,044)
Accounts payable.....	(542)	(634)
Accrued salaries, wages and benefits.....	177	(2,273)
Other accrued expenses.....	(1,109)	33
Other long-term liabilities.....	(1,059)	(117)
Net cash provided (used) by operating activities.....	\$ 4,589	\$ (11,216)

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

**STANLEY FURNITURE COMPANY, INC.**  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**1. Summary of Significant Accounting Policies**

Organization and Basis of Presentation

The consolidated financial statements include Stanley Furniture Company, Inc. and our wholly owned subsidiaries. All significant inter-company accounts and transactions have been eliminated. We are a leading design, marketing and sourcing resource in the middle-to-upscale segment of the wood furniture residential market.

For financial reporting purposes, we operate in one reportable segment where substantially all revenues are from the sale of residential wood furniture products.

Cash

We consider all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Short-term Investments

Investments with maturities of greater than three months and less than one year at the time of purchase are considered short-term investments. Our investments were in certificates of deposits, which we held until maturity. We reported the investments at cost with earnings recognized through interest income.

Accounts Receivable

Substantially all of our accounts receivable are due from retailers and dealers that sell residential home furnishings, which consist of a large number of entities with a broad geographic dispersion. We continually perform credit evaluations of our customers and generally do not require collateral. Once we have determined the receivable is uncollectible, it is charged against the allowance for doubtful accounts. In the event a receivable is determined to be potentially uncollectible, we engage collection agencies to attempt to collect amounts owed to us after all internal collection attempts have ended.

Revenue Recognition

Sales are recognized when title and risk of loss pass to the customer, which typically occurs at the time of shipment. In some cases however, title does not pass until the shipment is delivered to the customer. Revenue includes amounts billed to customers for shipping. Provisions are made at the time revenue is recognized for estimated product returns and for incentives that may be offered to customers.

Inventories

Inventories are valued at the lower of cost or market. Cost for all inventories is determined using the first-in, first-out (FIFO) method.

Property, Plant and Equipment

Depreciation of property, plant and equipment is computed using the straight-line method based upon the estimated useful lives. Depreciation expense is charged to cost of sales or selling, general and administrative expenses based on the nature of the asset. Gains and losses related to dispositions and retirements are included in income. Maintenance and repairs are charged to income as incurred; renewals and betterments are capitalized. Assets are reviewed for possible impairment when events indicate that the carrying amount of an asset may not be recoverable. Assumptions and estimates used in the evaluation of impairment may affect the carrying value of property, plant and equipment, which could result in impairment charges in future periods. Our depreciation policy reflects judgments on the estimated useful lives of assets.

Capitalized Software Cost

We amortize purchased computer software costs using the straight-line method over the estimated economic lives of the related products. Unamortized cost at December 31, 2015 and 2014 was approximately \$2.7 million and \$2.9 million, respectively, and is included in other assets.

**STANLEY FURNITURE COMPANY, INC.**  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

**1. Summary of Significant Accounting Policies (continued)**

Cash Surrender Value of Life Insurance Policies

At December 31, 2015, we owned 27 life insurance policies as a funding arrangement for our deferred compensation plan discussed in Note 6. These corporate-owned policies had a net cash surrender value of \$22.3 million. We had \$5.5 million in loans and accrued interest outstanding against the cash surrender value. The growth in cash surrender value of these corporate-owned policies, net of related premiums and plan administrative costs, is included in operating income. Interest on the insurance policy loans is recorded as interest expense below operating income.

Actuarially valued benefit accruals and expenses

We maintain three actuarially valued benefit plans. These are our deferred compensation plan, our supplemental employee retirement plan and our postretirement health care benefits program. The liability for these programs and the majority of their annual expense are developed from actuarial valuations. Inherent in these valuations are key assumptions, including discount rates and mortality projections, which are usually updated on an annual basis near the beginning of each year. We are required to consider current market conditions, including changes in interest rates in making these assumptions. Changes in projected liability and expense may occur in the future due to changes in these assumptions. The key assumptions used in developing the projected liabilities and expenses associated with the plans are outlined in Note 6 of the consolidated financial statements.

Income Taxes

Deferred income taxes are determined based on the difference between the consolidated financial statement and income tax bases of assets and liabilities using enacted tax rates in effect in the years in which the differences are expected to reverse. Deferred tax expense represents the change in the deferred tax asset/liability balance. Income tax credits are reported as a reduction of income tax expense in the year in which the credits are generated. A valuation allowance is recorded when it is more likely than not that a deferred tax asset will not be realized. Interest and penalties on uncertain tax positions are recorded as income tax expense.

Fair Value of Financial Instruments

Accounting for fair value measurements requires disclosure of the level within the fair value hierarchy in which fair value measurements in their entirety fall, segregating fair value measurements using quoted prices in active markets for identical assets or liabilities (Level 1), significant other observable inputs (Level 2), and significant unobservable inputs (Level 3). The fair value of receivables and payables approximate the carrying amount because of the short maturity of these instruments.

Earnings per Common Share

Basic earnings per share is computed based on the weighted average number of common shares outstanding. Diluted earnings per share includes any dilutive effect of outstanding stock options and restricted stock calculated using the treasury stock method.

Stock-Based Compensation

We record share-based payment awards at fair value on the grant date of the awards, based on the estimated number of awards that are expected to vest, over the vesting period. The fair value of stock options was determined using the Black-Scholes option-pricing model. The fair value of the restricted stock awards was based on the closing price of the Company's common stock on the date of the grant. For awards with performance conditions, we recognize compensation cost over the expected period to achieve the performance conditions, provided achievement of the performance conditions are deemed probable.

Use of Estimates

The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Changes in such estimates may affect amounts reported in future periods.

**STANLEY FURNITURE COMPANY, INC.**  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

1. **Summary of Significant Accounting Policies (continued)**

Reclassifications

Certain amounts in the 2014 consolidated financial statements have been reclassified to conform to the 2015 presentation. These reclassifications do not have an impact tot consolidated statements of operations, consolidated statement of comprehensive income, or consolidated statement of changes in stockholders' equity.

New Accounting Pronouncements

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)* ("ASU 2014-09"). The amendments in ASU 2014-09 affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards. This ASU will supersede the revenue recognition requirements in *Topic 605, Revenue Recognition*, and most industry-specific guidance, and creates a *Topic 606, Revenue from Contracts with Customers*. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In August 2015, the FASB issued ASU 2015-14, *Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date* ("ASU 2015-14"), which defers the effective date of ASU 2014-09 for all entities by one year. ASU 2014-09 is now effective for financial statements issued for annual reporting periods beginning after December 15, 2017. The Company is currently evaluating the impact of the pending adoption of ASU 2014-09 on its consolidated financial statements and has not yet determined the method by which the Company will adopt the standard.

In July 2015, the FASB issued ASU 2015-11, *Inventory (Topic 330): Simplifying the Measurement of Inventory* ("ASU 2015-11"). The amendments in ASU 2015-11 require an entity to measure in scope inventory at the lower of cost and net realizable value. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonable predictable costs of completion, disposal, and transportation. Subsequent measurement is unchanged for inventory measured using last-in, first-out ("LIFO") or the retail inventory method. The amendments do not apply to 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. The amendment is effective for public entities for fiscal years beginning after December 15, 2016 and should be applied prospectively, however early adoption is permitted. The Company does not anticipate ASU 2015-11 to have a material impact to the consolidated financial statements.

In November 2015, the FASB issued Accounting Standards Update No. 2015-17 (ASU 2015-17), *Balance Sheet Classification of Deferred Taxes*, which requires that all deferred tax liabilities and assets of the same tax jurisdiction or a tax filing group, as well as any related valuation allowance, be offset and presented as a single noncurrent amount in a classified balance sheet. Under ASU 2015-17, an entity should not offset deferred tax liabilities and assets attributable to different tax-paying components of the entity or to different tax jurisdictions, consistent with the guidance under existing U.S. GAAP. The ASU is effective for public business entities for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2016. Early adoption is permitted as of the beginning of any interim or annual reporting period. Guidance may be applied either prospectively, for all deferred tax assets and liabilities, or retrospectively (i.e., by reclassifying the comparative balance sheet). We have decided to early adopt this standard and apply retrospective treatment of the standard. Because we carry a full valuation allowance against our deferred tax assets, we feel the classification of all deferred tax assets and liabilities as noncurrent provides a more informative disclosure and better reflects our having a full allowance against our net deferred tax assets. The retrospective reclassification results in a reduction in current assets, total assets and long-term liabilities of \$66,000 for the period ended December 31, 2014.

**STANLEY FURNITURE COMPANY, INC.**  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

**2. Property, Plant and Equipment**

	Depreciable lives (in years)	(in thousands)	
		<b>2015</b>	2014
Machinery and equipment.....	5 to 12	<b>\$ 2,675</b>	\$ 3,883
Leasehold improvements .....	15	<b>1,833</b>	1,833
Property, plant and equipment, at cost .....		<b>4,508</b>	5,716
Less accumulated depreciation .....		<b>2,721</b>	3,726
Property, plant and equipment, net.....		<b>\$ 1,787</b>	\$ 1,990

**3. Income Taxes**

The provision for income tax expense (benefit) consists of (in thousands):

	2015	2014
Current:		
Federal .....	<b>\$ 52</b>	\$ -
State .....	<b>24</b>	(39)
Total current.....	<b>76</b>	(39)
Deferred:		
Federal .....	-	-
State .....	-	-
Total deferred.....	-	-
Income tax expense (benefit).....	<b>\$ 76</b>	\$ (39)

A reconciliation of the difference between the federal statutory income tax rate and the effective income tax rate follows:

	2015	2014
Federal statutory rate.....	<b>35.0%</b>	(35.0)%
State tax, net of federal benefit.....	<b>.6</b>	(2.4)
State tax credits and adjustments.....	<b>(1.9)</b>	.1
Increase in cash surrender value of life insurance policies .....	<b>(9.0)</b>	(2.7)
Valuation allowance (decrease) increase .....	<b>(23.6)</b>	39.9
Other, net .....	<b>.3</b>	-
Effective income tax rate.....	<b>1.4%</b>	(.1)%

In accordance with our decision to early adopt and apply retrospectively Accounting Standards Update No. 2015-17 (ASU 2015-17), *Balance Sheet Classification of Deferred Taxes*, which requires that all deferred tax liabilities and assets of the same tax jurisdiction or a tax filing group, as well as any related valuation allowance, be offset and presented as a single noncurrent amount in a classified balance sheet, we have reclassified all of our deferred tax assets and liabilities to noncurrent. The impact on the prior year was to reduce current net deferred tax assets and long-term net deferred tax liabilities by \$66,000.

**STANLEY FURNITURE COMPANY, INC.**  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

**3. Income Taxes (continued)**

The income tax effects of temporary differences that comprise deferred tax assets and liabilities at December 31 follow (in thousands):

	2015	2014
Noncurrent deferred tax assets (liabilities):		
Accounts receivable .....	\$ 150	\$ 294
Other accrued expenses .....	248	425
Property, plant and equipment.....	(1,255)	(1,187)
Employee benefits.....	4,252	5,649
Contribution carryforward .....	278	279
AMT credit .....	676	631
Net operating loss .....	14,845	15,633
Gross non-current deferred tax assets (liabilities) .....	19,194	21,724
Less valuation allowance .....	(19,194)	(21,724)
Net noncurrent deferred tax assets (liabilities) .....	\$ -	\$ -

We have U.S. federal net operating loss carryforwards of approximately \$40.1 million which are available to reduce future taxable income. The federal net operating loss will begin expiring in 2031. We have combined state net operating loss carryforwards of \$27.1 million that will expire at various times beginning in 2026.

During 2015, we recorded an \$854,000 adjustment to correct an error in the prior year value of the employee benefits deferred tax asset to appropriately reflect the amount recorded associated with the future benefits of stock option compensation deductions. Since we have a full valuation allowance, this adjustment had no impact on the consolidated statement of operations and is considered immaterial.

During 2015, we recorded a non-cash credit to our valuation allowance of \$2.5 million against our December 31, 2015 deferred tax assets. The primary assets which are covered by this valuation allowance are employee benefits and net operating losses in excess of the amounts which can be carried back to prior periods. The valuation allowance was calculated in accordance with the provisions of ASC 740, *Income Taxes*, which requires an assessment of both positive and negative evidence when measuring the need for a valuation allowance. Our results over the most recent three-year period were heavily affected by our business restructuring activities. Our cumulative loss, excluding income from the Continued Dumping and Subsidy Offset Act, in the most recent three-year period, in our view, represented sufficient negative evidence to require a valuation allowance. We intend to maintain a valuation allowance until sufficient positive evidence exists to support its reversal, resulting in no deferred tax asset balance being recognized. Should we determine that we will not be able to realize all or part of our deferred tax asset in the future, an adjustment to the deferred tax asset will be charged to income in the period such determination is made.

The unrecognized tax benefits activity for the year ended December 31 follows (in thousands):

	2015	2014
Unrecognized tax benefits balance at January 1 .....	\$ 309	\$ 351
Lapse of statute of limitations .....	(2)	(42)
Unrecognized tax benefits balance at December 31 ....	\$ 307	\$ 309

As of December 31, 2015 and 2014, we had approximately \$76,000 and \$52,000 of accrued interest related to uncertain tax positions, respectively.

Total amount of unrecognized tax benefits that would affect our effective tax rate if recognized is \$200,000 at December 31, 2015 and \$201,000 at December 31, 2014. The 2011, 2012, 2013 and 2014 tax years remain open to examination by major taxing jurisdictions.

**STANLEY FURNITURE COMPANY, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**4. Stockholders' Equity**

In addition to common stock, authorized capital includes 1,000,000 shares of "blank check" preferred stock. None was outstanding during the three years ended December 31, 2015. The Board of Directors is authorized to issue such stock in series and to fix the designation, powers, preferences, rights, limitations and restrictions with respect to any series of such shares. Such "blank check" preferred stock may rank prior to common stock as to dividend rights, liquidation preferences or both, may have full or limited voting rights and may be convertible into shares of common stock.

Basic and diluted earnings per share are calculated using the following share data (in thousands):

	<u>2015</u>	<u>2014</u>
Weighted average shares outstanding		
for basic calculation.....	<b>14,273</b>	14,197
Dilutive effect of stock options .....	<b>269</b>	-
Weighted average shares outstanding		
for diluted calculation.....	<b><u>14,542</u></b>	<b><u>14,197</u></b>

In 2014, the dilutive effect of stock options and restricted shares was not recognized since we had a net loss. Approximately 1.2 million shares in 2015 and 1.4 million shares in 2014 were issuable upon the exercise of stock options, which were not included in the diluted per share calculation because they were anti-dilutive. In 2015 and 2014, approximately 51,000 and 544,000 shares of restricted stock, respectively, were not included because they were anti-dilutive.

During 2015, we repurchased 4,622 shares of our common stock for approximately \$13,000, which were tendered by recipients of restricted stock awards to satisfy tax withholding obligations on vested restricted stock.

In July 2012, the Board of Directors authorized the purchase of up to \$5.0 million of our common stock. These repurchases may be made from time to time in the open market, in privately negotiated transactions, or otherwise, at prices the Company deems appropriate. In 2015 and 2014, no repurchases of our common stock were made pursuant to this authorization. As of December 31, 2015 we have \$4.0 million remaining on this authorization.

**5. Stock Based Compensation**

The Stanley Furniture Company, Inc. 2012 Incentive Compensation Plan (Incentive Compensation Plan) provides for the granting of performance grants, performance shares, stock options, restricted stock, restricted stock units, and stock appreciation rights to employees and certain service providers. Under this plan, the aggregate number of common shares that may be issued through awards of any form is 1.6 million. In addition, shares authorized under the 2008 Incentive Compensation Plan are also available for issuance under the Incentive Compensation Plan if they are unissued or subsequently expire, are forfeited or terminate unexercised.

Stock Options

The options are issued at market value on the date of grant and have a term of 10 years from the grant date. In general, employee grants vest ratably over a four to five year period and Director grants vest after one year. The fair value of each option is amortized into compensation expense on a straight-line basis between the grant date for the option and each vesting date. We have estimated the fair value of all stock option awards as of the date of the grant by applying the Black-Scholes pricing valuation model.

The application of this valuation model involves assumptions that are judgmental and sensitive in the determination of compensation expense. No options were granted in 2015 or 2014.



**STANLEY FURNITURE COMPANY, INC.**  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

5. **Stock Based Compensation (continued)**

Stock option activity for the two years ended December 31, 2015, follows:

	Number of shares	Weighted- Average Exercise Price	Weighted- Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in thousands)
Outstanding at December 31, 2013.....	1,944,108	\$ 6.06	6.7	
Forfeited.....	(465,786)	4.76		
Expired .....	<u>(106,968)</u>	12.88		
Outstanding at December 31, 2014.....	1,371,354	\$ 5.97	5.7	
<b>Forfeited</b> .....	<b>(184,798)</b>	<b>4.31</b>		
<b>Expired</b> .....	<b><u>(20,364)</u></b>	<b>23.41</b>		
<b>Outstanding at December 31, 2015.....</b>	<b><u>1,166,192</u></b>	<b>\$ 5.93</b>	<b>4.7</b>	<b>\$ -</b>
<b>Exercisable at December 31, 2015 .....</b>	<b><u>1,125,988</u></b>	<b>\$ 5.98</b>	<b>4.6</b>	<b>\$ -</b>

As of December 31, 2015, there was \$65,000 of total unrecognized compensation cost related to non-vested stock option awards, which is expected to be recognized over a weighted-average remaining vesting period of 1.0 years.

There were no stock options exercised in 2015 and 2014.

Restricted Stock

The restricted stock awards are accounted for as “non-vested equity shares” until the awards vest or are forfeited. In general, restricted stock awards for employees are time vested or performance vested and for non-employee directors vest at the end of their current term on the Board. The fair value of each share of restricted stock is the market price of our stock on the grant date. The fair value of each time vested award is amortized into compensation expense on a straight-line basis between the award date and the vesting date. Performance based awards are amortized into compensation expense based on the probability of meeting the performance criteria. In 2015 and 2014, 140,442 and 68,608 of restricted stock awards vested and were released, respectively.

**STANLEY FURNITURE COMPANY, INC.**  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

**5. Stock Based Compensation (continued)**

The following table summarizes information about restricted stock awards for the two years ended December 31, 2015:

	Number of shares	Weighted- Average Grant Date Fair Value
Outstanding at December 31, 2013.....	352,613	\$ 3.85
Forfeited .....	(140,448)	\$ 3.89
Vested .....	(68,608)	\$ 3.80
Granted .....	<u>400,691</u>	<u>\$ 3.71</u>
Outstanding at December 31, 2014.....	544,248	\$ 3.74
<b>Forfeited</b> .....	<b>(97,549)</b>	<b>\$ 3.45</b>
<b>Vested</b> .....	<b>(140,442)</b>	<b>\$ 3.29</b>
<b>Granted</b> .....	<b><u>228,676</u></b>	<b><u>\$ 2.86</u></b>
<b>Outstanding at December 31, 2015.....</b>	<b><u>534,933</u></b>	<b><u>\$ 3.53</u></b>

As of December 31, 2015, there was \$667,000 of total unrecognized compensation cost related to non-vested restricted stock awards, which is expected to be recognized over a weighted-average remaining vesting period of 2.3 years.

**6. Employee Benefits Plans**

Defined Contribution Plan

We maintain a defined contribution plan covering substantially all of our employees and make discretionary matching and profit sharing contributions. The total plan cost, including employer contributions, was \$34,000 in 2015 and \$273,000 in 2014. Employer contributions were suspended to the plan beginning in 2015.

Deferred Compensation Plan

Effective January 1986, we established an unfunded, nonqualified deferred compensation plan for select key executives (the "Plan"). The Plan allowed participants to defer a portion of their compensation and, upon retirement, receive an annual payment for life with a minimum of 15 payments. The Plan was frozen to new participants in 1991 and there are no active employees in the plan. The Plan is accounted for in accordance with ASC 715, Pension Plans, which results in an accrued liability based on future benefit payments owed to each participant under the Plan, utilizing mortality assumptions and a high quality corporate bond discount rate.

Corporate-owned life insurance policies were purchased as a potential funding source for this Plan. The Company has the ability to borrow against these policies or cash them in at any time. The balance sheet reflects a cash surrender value asset of \$22.3 million (net of \$5.5 million in loans and accrued interest) at December 31, 2015 and \$15.1 million (net of \$11.1 million in loans and accrued interest) at December 31, 2014. Interest is paid on the borrowings at a rate of 13.13%, offset by a fixed rate of return of 12.63% on the borrowed portion of the cash surrender value of these policies, resulting in a net borrowing cost of 0.50%. The fixed return on the non-borrowed cash surrender value of these policies is 4%. Policy loan payments of \$13.7 million and \$5.5 million were made in 2014 and 2015, respectively.

**STANLEY FURNITURE COMPANY, INC.**  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

**6. Employee Benefits Plans (continued)**

The growth in the cash surrender value of these policies, net of related premiums and plan administrative costs, is included in operating income. Interest charges for policy loans are included in interest expenses below operating income. The growth in cash surrender value of these policies is not taxable unless the policies are cashed in, while the interest paid is deductible for tax purposes. While our \$40.1 million in federal net operating loss (“NOL”) carryforwards make the tax benefits of these instruments less valuable today, these tax benefits would be beneficial in the future once the NOL’s were fully utilized.

The impact of the deferred compensation plan and corporate owned life insurance policies impact on net income is as follows (in thousands):

	<u>2015</u>	<u>2014</u>
Growth in cash surrender value of corporate-owned life insurance policies .....	<b>\$1,701</b>	\$2,836
Deferred compensation plan expenses .....	<b>506</b>	459
Operating income impact .....	<b>1,195</b>	2,377
Interest expense on loans against corporate-owned life insurance policies .....	<b>948</b>	2,881
Net income impact .....	<b>\$ 247</b>	\$ (504)

Subsequent to year end, we made the decision to liquidate two of the outstanding life insurance policies with cash surrender value of \$2.6 million. We used \$2.5 million of the proceeds to pay down outstanding loans and accrued interest, lowering our outstanding loan levels to \$3.1 million and lowering interest expense to approximately \$410,000 annually.

The annualized benefit in operating income and in net income if all policy loans and accrued interest were paid off would be approximately \$500,000.

The financial status of the deferred compensation plan based on actuarially valued benefits at December 31 follows (in thousands):

	<u>2015</u>	<u>2014</u>
Change in benefit obligation:		
Beginning benefit obligation .....	<b>\$5,412</b>	\$ 4,952
Interest cost.....	<b>182</b>	189
Actuarial loss (gain).....	<b>(395)</b>	721
Benefits paid .....	<b>(450)</b>	(450)
Ending benefit obligation.....	<b>\$ 4,749</b>	\$ 5,412
Change in plan assets:		
Beginning fair value of plan assets .....	-	-
Employer contributions .....	<b>450</b>	450
Benefits paid .....	<b>(450)</b>	(450)
Ending fair value of plan assets .....	-	-
Funded status.....	<b>\$ (4,749)</b>	\$ (5,412)

**STANLEY FURNITURE COMPANY, INC.**  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

**6. Employee Benefits Plans (continued)**

Amount recognized in the consolidated balance sheet (in thousands):

	<u>2015</u>	<u>2014</u>
Current liabilities .....	\$ (448)	\$ (448)
Noncurrent liabilities .....	(4,301)	(4,964)
Total .....	<u>\$ (4,749)</u>	<u>\$ (5,412)</u>

Amount recognized in accumulated other comprehensive income (loss) (in thousands):

	<u>2015</u>	<u>2014</u>
Net loss .....	<u>\$ 1,614</u>	<u>\$ 2,102</u>

Components of net periodic benefit cost and other amounts recognized in other comprehensive income (loss) (in thousands):

	<u>2015</u>	<u>2014</u>
Net periodic benefit cost:		
Interest cost .....	\$ 182	\$ 189
Amortization of net loss .....	93	61
Net periodic benefit cost .....	<u>\$ 275</u>	<u>\$ 250</u>
Other changes in plan assets and benefit obligations recognized in other comprehensive income (loss):		
Net loss (gain) .....	\$(395)	\$ 721
Amortization of net loss .....	(93)	(61)
Total recognized in other comprehensive income (loss)	<u>(488)</u>	<u>660</u>
Total recognized in net periodic benefit cost and other comprehensive income (loss) .....	<u>\$ (213)</u>	<u>\$ 910</u>

Approximately \$72,000 in accumulated other comprehensive income (loss) is expected to be recognized as components of net periodic benefit cost during 2016.

The assumptions used to determine the plan's financial status and postretirement benefit cost:

	<u>2015</u>	<u>2014</u>
Discount rate for funded status .....	3.55%	3.50%
Discount rate for benefit cost .....	3.50%	4.00%

Estimated future benefit payments are as follows (in thousands):

2016 .....	\$448
2017 .....	440
2018 .....	392
2019 .....	380
2020 .....	370
2021 - 2025 .....	1,608
Estimated contributions for 2016	\$448

**STANLEY FURNITURE COMPANY, INC.**  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

**6. Employee Benefits Plans (continued)**

Supplemental retirement plan and other postretirement benefits

Benefits under the supplemental retirement ceased to accrue after 1995. Our postretirement health care benefits were terminated for current employees effective January 1, 2010. Prior to this termination, we provided health care benefits to eligible retired employees between the ages of 55 and 65 and provide life insurance benefits to eligible retired employees from age 55 until death.

The financial status of the plans at December 31 follows (in thousands):

	<b>Supplemental Retirement Plan</b>		<b>Other Postretirement Benefits</b>	
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
Change in benefit obligation:				
Beginning benefit obligation .....	\$ 2,129	\$ 1,937	\$ 932	\$1,066
Interest cost .....	72	74	26	34
Plan participants' contributions .....			50	57
Actuarial (gain) loss .....	(93)	291	(9)	1
Benefits paid .....	(156)	(173)	(172)	(226)
Ending benefit obligation .....	<u>\$ 1,952</u>	<u>\$ 2,129</u>	<u>\$ 827</u>	<u>\$ 932</u>
Change in plan assets:				
Beginning fair value of plan assets ...	-	-	-	-
Employer contributions .....	156	173	122	169
Plan participants' contributions .....			50	57
Benefits paid .....	(156)	(173)	(172)	(226)
Ending fair value of plan assets .....	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Funded status .....	<u>\$ (1,952)</u>	<u>\$ (2,129)</u>	<u>\$ (827)</u>	<u>\$ (932)</u>

Amount recognized in the consolidated balance sheet (in thousands):

	<b>Supplemental Retirement Plan</b>		<b>Other Postretirement Benefits</b>	
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
Current liabilities .....	\$ (155)	\$ (158)	\$ (92)	\$ (98)
Noncurrent liabilities .....	(1,797)	(1,971)	(735)	(834)
Total .....	<u>\$ (1,952)</u>	<u>\$ (2,129)</u>	<u>\$ (827)</u>	<u>\$ (932)</u>

Amount recognized in accumulated other comprehensive income (loss) (in thousands):

	<b>Supplemental Retirement Plan</b>		<b>Other Postretirement Benefits</b>	
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
Net loss (gain) .....	\$ 704	\$ 832	\$ (149)	\$ (152)
Prior service cost (credit) .....	-	-	-	(92)
Total .....	<u>\$ 704</u>	<u>\$ 832</u>	<u>\$ (149)</u>	<u>\$ (244)</u>

**STANLEY FURNITURE COMPANY, INC.**  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

**6. Employee Benefits Plans (continued)**

Components of net periodic benefit cost and other amounts recognized in other comprehensive income (loss) (in thousands):

	<b>Supplemental Retirement Plan</b>		<b>Other Postretirement Benefits</b>	
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
Net periodic benefit cost:				
Interest cost.....	\$ 72	\$ 74	\$ 26	\$ 34
Amortization of net loss (gain).....	36	24	(13)	(14)
Amortization of prior service cost.....	-	-	(92)	(154)
Net periodic benefit cost (income).....	<u>\$ 108</u>	<u>\$ 98</u>	<u>\$ (79)</u>	<u>\$ (134)</u>
Other changes in plan assets and benefit obligations recognized in other comprehensive income (loss):				
Net loss (gain).....	\$ (93)	\$ 291	\$ (9)	\$ 1
Amortization of net (loss) gain.....	(36)	(24)	13	14
Amortization of prior service cost.....	-	-	92	154
Total recognized in other comprehensive income (loss).....	<u>\$(129)</u>	<u>\$ 267</u>	<u>\$ 96</u>	<u>\$169</u>
Total recognized in net periodic benefit cost and other comprehensive income (loss).....	<u>\$ (21)</u>	<u>\$ 365</u>	<u>\$ 17</u>	<u>\$ 35</u>

The amounts in accumulated other comprehensive (loss) income that are expected to be recognized as components of net periodic benefit cost during 2016 are as follows (in thousands):

	<b>Supplemental Retirement Plan</b>	<b>Other Postretirement Benefits</b>
Net loss (gain) .....	<u>\$ 32</u>	<u>\$ (9)</u>

The assumptions used to determine the plan's financial status and postretirement benefit cost:

	<b>Supplemental Retirement Plan</b>		<b>Other Postretirement Benefits</b>	
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
Discount rate for funded status .....	3.65%	3.50%	3.20%	3.10%
Discount rate for benefit cost.....	3.50%	4.00%	3.10%	3.50%
Health care cost assumed trend rate for next year .....			6.50%	7.00%
Rate that the cost trend rate gradually declines to .....			5.50%	5.50%
Year that the rate reaches the rate it is assumed to remain at.....			2018	2018

**STANLEY FURNITURE COMPANY, INC.**  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

**6. Employee Benefits Plans (continued)**

An increase or decrease in the assumed health care cost trend rate of one percentage point in each future year would affect the accumulated postretirement benefit obligation at December 31, 2015 by approximately \$140 and the annual postretirement benefit cost by approximately \$4.

Estimated future benefit payments are as follows (in thousands):

	<u>Supplemental Retirement Plan</u>	<u>Other Postretirement Benefits</u>
Estimated net future benefit payments:		
2016.....	\$ 155	\$ 92
2017.....	152	91
2018.....	149	83
2019.....	146	80
2020.....	143	76
2021 - 2025 .....	661	307
Estimated contributions for 2016	\$ 155	\$ 92

The accrued liabilities relating to these plans are included in accrued salaries, wages and benefits and in long-term liabilities.

**7. Restructuring and Related Charges**

As of December 31, 2015, our lease for warehouse space in Stanleystown, Virginia expired. Over the last few years we have continually evaluated our overall warehousing and distribution requirements and began reducing our utilization of this facility in 2012 and exited it in 2014. As a result, we took a charge to cost of goods sold for the remaining future lease obligations of \$354,000 in 2014 when we completely exited the facility.

During 2013, we recorded \$770,000 in restructuring charges in selling, general and administrative expenses for severance and relocation costs associated with the strategic decision to consolidate our corporate office and High Point showroom into a single multi-purpose facility in High Point, North Carolina.

Restructuring accrual activity for the years ended December 31, 2015 and 2014 follows (in thousands):

	<u>Severance and other termination costs</u>	<u>Lease Obligations</u>	<u>Total</u>
Accrual January 1, 2014.....	\$ 169	\$ 488	\$ 657
Charges (credits) to expense .....	(54)	354	300
Cash Payments .....	(115)	(362)	(477)
Accrual December 31, 2014.....	-	480	480
<b>Cash payments .....</b>	<b>-</b>	<b>(480)</b>	<b>(480)</b>
<b>Accrual December 31, 2015.....</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

**STANLEY FURNITURE COMPANY, INC.**  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

**8. Discontinued Operations**

During the second quarter of 2014, we concluded that revenue on our Young America product line remained below the level needed to reach profitability and that the time frame needed to assure sustainable profitability was longer than we felt was economically justified. Therefore, we made the decision to cease manufacturing operations at our Robbinsville, North Carolina facility and sell the related assets of this facility. Manufacturing operations were ceased in the third quarter of 2014 and as a result this product line was reflected as a discontinued operation pursuant to the provisions of Accounting Standards Update No. 2014-08, *Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity* (ASU 2014-08) for all periods presented.

Loss from discontinued operations, net of taxes, comprised the following (in thousands):

	<u>2015</u>	<u>2014</u>
Net sales.....	<b>\$ 553</b>	\$19,193
Cost of sales.....	<b>772</b>	37,805
Selling, general and administrative expenses.....	<b>(144)</b>	3,392
Other income.....	<b>64</b>	-
Loss from discontinued operations before income taxes....	<b>(11)</b>	(22,004)
Income tax (benefit) expense.....	-	-
Loss from discontinued operations, net of taxes.....	<b><u>\$ (11)</u></b>	<b><u>\$(22,004)</u></b>

Loss from discontinued operations includes accelerated depreciation and amortization, write-down of inventories and other assets, severance and other termination costs, operating losses related to final manufacturing production and loss on sale of assets. During the fourth quarter of 2014, we completed the sale of all property, plant and equipment for \$5.5 million, and in 2015, we completed the sale and distribution of the remaining discontinued product.

Net (liabilities) assets for discontinued operations are as follows (in thousands):

	<u>December 31, 2015</u>	<u>December 31, 2014</u>
Accounts receivable, net.....	<b>\$ -</b>	\$ 695
Inventory.....	-	678
Total assets.....	-	1,373
Accounts payable and other liabilities.....	<b>13</b>	93
Net (liabilities) assets.....	<b><u>\$ (13)</u></b>	<b><u>\$ 1,280</u></b>

**9. Income for Continued Dumping and Subsidy Offset Act (CDSOA)**

The CDSOA provides for distribution of monies collected by U.S. Customs and Border Protection (Customs) for imports covered by antidumping duty orders entering the United States through September 30, 2007 to qualified domestic producers. Distribution for 2012, 2013 and 2014 were withheld by Customs until pending litigation had been exhausted. On October 6, 2014, the Supreme Court denied two of three of the Non-Supporting Producers' petitions for certiorari review, and on December 15, 2014, the Supreme Court denied the third petition for review. Accordingly, in March 2015, Customs began distributing funds withheld from distribution and our allocated share of these funds totaled \$4.9 million. In addition, we received \$412,000 in December 2015 in normal distribution of funds collected on antidumping duty orders entering the United States prior to September 2007.



**STANLEY FURNITURE COMPANY, INC.**  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

**10. Commitments and Contingencies**

Our leased facilities include warehouse and distribution space, showroom and office space and certain technology equipment. These leases have varying terms up to ten years. Rental expenses charged to operations were \$2.9 million and \$2.7 million in 2015 and 2014, respectively.

At December 31, 2015, the future minimum lease payments for our current operating leases were as follows (in thousands):

	Total
2016 .....	\$ 1,196
2017 .....	783
2018 .....	835
2019 .....	863
2020 .....	740
Thereafter .....	1,143
Total minimum lease payments .....	\$5,560

We currently have letters of credit to cover estimated exposures, most notably with workman’s compensation claims. This agreement requires us to maintain a compensating balance with the issuer for the amounts outstanding. We currently have letters of credit outstanding in the amount of \$663,000. The compensating balance amount is reflected as restricted cash on the consolidated balance sheet.

In the normal course of business, we are involved in claims and lawsuits, none of which currently, in management’s opinion, will have a material adverse effect on our Consolidated Financial Statements.

**STANLEY FURNITURE COMPANY, INC.**  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

11. **Quarterly Results of Operations (Unaudited)**

(in thousands, except per share data)

<b>2015 Quarters:</b>	<b>First</b>	<b>Second</b>	<b>Third</b>	<b>Fourth</b>
<b>Net Sales</b> .....	<b>\$14,672</b>	<b>\$15,133</b>	<b>\$13,760</b>	<b>\$13,799</b>
<b>Gross profit</b> .....	<b>2,983</b>	<b>3,839</b>	<b>3,410</b>	<b>3,453</b>
<b>Net income from continuing operations</b> .....	<b>2,773<sup>(1)</sup></b>	<b>1,268<sup>(1)</sup></b>	<b>391</b>	<b>919<sup>(1)</sup></b>
<b>Net (loss) income from discontinued operations</b> .....	<b>(118)</b>	<b>35</b>	<b>74</b>	<b>(2)</b>
<b>Net income</b> .....	<b>\$ 2,655<sup>(1)</sup></b>	<b>\$ 1,303<sup>(1)</sup></b>	<b>\$ 465</b>	<b>\$ 917<sup>(1)</sup></b>
<b>Basic earnings per share <sup>(2)</sup>:</b>				
<b>Net income from continuing operations</b> .....	<b>\$ .20</b>	<b>\$ .09</b>	<b>\$ .03</b>	<b>\$ .06</b>
<b>Net loss from discontinued operations</b> .....	<b>(.01)</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net Income</b> .....	<b>\$ .19</b>	<b>\$ .09</b>	<b>\$ .03</b>	<b>\$ .06</b>
<b>Diluted earnings per share <sup>(2)</sup>:</b>				
<b>Net income from continuing operations</b> .....	<b>\$ .19</b>	<b>\$ .09</b>	<b>\$ .03</b>	<b>\$ .06</b>
<b>Net (loss) income from discontinued operations</b> .....	<b>(.01)</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net income</b> .....	<b>\$ .18</b>	<b>\$ .09</b>	<b>\$ .03</b>	<b>\$ .06</b>
 <b>2014 Quarters:</b>	<b>First</b>	<b>Second</b>	<b>Third</b>	<b>Fourth</b>
<b>Net Sales</b> .....	<b>\$14,642</b>	<b>\$ 16,033</b>	<b>\$13,928</b>	<b>\$ 16,020</b>
<b>Gross profit</b> .....	<b>2,938</b>	<b>2,725</b>	<b>2,624</b>	<b>3,726</b>
<b>Net loss from continuing operations</b> .....	<b>(1,725)</b>	<b>(2,197)<sup>(3)</sup></b>	<b>(1,438)</b>	<b>(2,528)</b>
<b>Net loss from discontinued operations</b> .....	<b>(2,901)</b>	<b>(17,303)</b>	<b>(1,118)</b>	<b>(682)</b>
<b>Net loss</b> .....	<b>\$ (4,626)</b>	<b>\$ (19,500)<sup>(3)</sup></b>	<b>\$ (2,556)</b>	<b>\$ (3,210)</b>
<b>Basic loss per share <sup>(2)</sup>:</b>				
<b>Net loss from continuing operations</b> .....	<b>\$ (.12)</b>	<b>\$ (.16)</b>	<b>\$ (.10)</b>	<b>\$ (.18)</b>
<b>Net loss from discontinued operations</b> .....	<b>(.21)</b>	<b>(1.22)</b>	<b>(.08)</b>	<b>(.05)</b>
<b>Net loss</b> .....	<b>\$ (.33)</b>	<b>\$ (1.38)</b>	<b>\$ (.18)</b>	<b>\$ (.23)</b>
<b>Diluted loss per share <sup>(2)</sup>:</b>				
<b>Net loss income from continuing operations</b> .....	<b>\$ (.12)</b>	<b>\$ (.16)</b>	<b>\$ (.10)</b>	<b>\$ (.18)</b>
<b>Loss from discontinued operations</b> .....	<b>(.21)</b>	<b>(1.22)</b>	<b>(.08)</b>	<b>(.05)</b>
<b>Net loss</b> .....	<b>\$ (.33)</b>	<b>\$ (1.38)</b>	<b>\$ (.18)</b>	<b>\$ (.23)</b>

(1) Includes proceeds received from the Continued Dumping and Subsidy Offset Act, net of taxes, of \$3.8 million in the first quarter, \$1.1 million in the second quarter and \$407,000 in the fourth quarter of 2015.

(2) The sum of individual quarterly net income per share may not agree to the total for the year due to each period's computation being based on the weighted average number of common shares outstanding during each period.

(3) Includes a charge of \$354,000 for the future lease obligation for a leased facility no longer utilized.

STANLEY FURNITURE COMPANY, INC.  
SCHEDULE II – VALUATION AND QUALIFYING ACCOUNTS  
For each of the Two Years in the Period Ended December 31, 2015  
(in thousands)

Column A	Column B	Column C	Column D	Column E
Descriptions	Balance at Beginning of Period	Charged (Credited) to Costs & Expenses	Deductions	Balance at End of Period
<b>2015</b>				
<b>Doubtful receivables .....</b>	<b>\$ 189</b>	<b>\$ 93</b>	<b>\$ 15(a)</b>	<b>\$ 267</b>
<b>Discounts, returns, and allowances .....</b>	<b>186</b>	<b>(49)(b)</b>	<b>-</b>	<b>137</b>
	<u><b>\$ 375</b></u>	<u><b>\$ 44</b></u>	<u><b>\$ 15</b></u>	<u><b>\$ 404</b></u>
<b>Valuation allowance for deferred tax assets .....</b>	<u><b>\$21,724</b></u>	<u><b>\$ -</b></u>	<u><b>\$ 2,530</b></u>	<u><b>\$19,194</b></u>
<b>2014</b>				
Doubtful receivables .....	\$ 112	\$ 171	\$ 94(a)	\$ 189
Discounts, returns, and allowances .....	158	28(b)	-	186
	<u>\$ 270</u>	<u>\$ 199</u>	<u>\$ 94</u>	<u>\$ 375</u>
Valuation allowance for deferred tax assets.....	<u>\$10,727</u>	<u>\$ 10,997</u>	<u>\$ -</u>	<u>\$21,724</u>

(a) Uncollectible receivables written-off, net of recoveries.

(b) Represents net increase (decrease) in the reserve.

**Subsidiaries**

The following is a list of subsidiaries of Stanley Furniture Company, Inc. as of December 31, 2015:

<b>Name of Subsidiary</b>	<b>Jurisdiction of Organization</b>
Stanley Furniture Company 2.0, LLC	Virginia

**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

Stanley Furniture Company, Inc.  
High Point, North Carolina

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (Nos.333-45402, 333-150369, and 333-182777) of Stanley Furniture Company, Inc. of our reports dated February 23, 2016 relating to the financial statements, financial statement schedule and the effectiveness of Stanley Furniture Company, Inc.'s internal control over financial reporting, which appear in this Form 10-K.

/s/BDO USA, LLP  
Raleigh, North Carolina  
February 23, 2016

I, Glenn Prillaman, certify that:

1. I have reviewed this annual report on Form 10-K of Stanley Furniture Company, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 23, 2016

/s/Glenn Prillaman  
Glenn Prillaman  
Chief Executive Officer

I, Anita W. Wimmer, certify that:

1. I have reviewed this annual report on Form 10-K of Stanley Furniture Company, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 23, 2016

/s/ Anita W. Wimmer  
Anita W. Wimmer  
Principal Financial and Accounting  
Officer

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Stanley Furniture Company, Inc. (the "Company") Annual Report on Form 10-K for the period ended December 31, 2015 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Glenn Prillaman, Chief Executive Officer of the Company, certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

- (1). The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2). The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 23, 2016

/s/Glenn Prillaman  
Glenn Prillaman  
Chief Executive Officer



**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Stanley Furniture Company, Inc. (the "Company") Annual Report on Form 10-K for the period ended December 31, 2015 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Anita W. Wimmer, Principal Financial Officer of the Company, certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

- (1). The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2). The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 23, 2016

/s/ Anita W. Wimmer  
Anita W. Wimmer  
Principal Financial and Accounting  
Officer

## Directors, Officers and Stockholder Information

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### Directors and Officers

John Ian Lapey \*  
Chairman  
President, Long Cap Investment Management, LLC

D. Paul Dascoli \*  
Director  
Executive VP & CFO, Serta Simmons Bedding, LLC

Jeffery S. Gilliam \*  
Director  
Managing Member, Willow Oak Advisory Group, LLC

Michael Haley \*  
Director  
Retired, Formerly Managing Director, Fenway Resources

T. Scott McIlhenny, Jr. \*  
Director  
Retired, Formally Principal, Northstar Travel Media, LLC

Justyn Putnam\*  
Director  
Managing Member, Talanta Investment Group, LLC

Glenn Prillaman  
President and Chief Executive Officer  
Director

Anita W. Wimmer  
Vice President – Finance/Corporate Controller

\*Member of the Audit Committee, Compensation and Benefits Committee,  
and Corporate Governance and Nominating Committee.

### Stockholder Information

**Legal Counsel**  
McGuireWoods LLP  
Richmond, VA 23219

**Transfer Agent**  
Continental Stock Transfer & Trust Co.  
17 Battery Place, 8<sup>th</sup> Floor  
New York, NY 10004  
Tel: 212-509-4000  
Fax: 212-509-5150  
continentalstock.com

**Independent Accountants**  
BDO USA, LLP  
Raleigh, NC 27607

**Stock Listing**  
NASDAQ Stock Market - GS  
Symbol - **STLY**

**Corporate Headquarters**  
Stanley Furniture Company, Inc.  
200 North Hamilton Street, No.200  
High Point, NC 27260  
Tel: 336-884-7700  
Email: [investor@stanleyfurniture.com](mailto:investor@stanleyfurniture.com)

**Web site**  
[stanleyfurniture.com](http://stanleyfurniture.com)

**Annual Meeting**  
May 19, 2016, 11:00 a.m.  
200 North Hamilton Street, No. 200  
High Point, NC 27260

**Form 10-K, Other Investor Information**  
For a free copy of the Annual Report on Form 10-K as filed with the Securities and Exchange Commission or other information about Stanley Furniture Company, please visit our Web site or e-mail:  
[investor@stanleyfurniture.com](mailto:investor@stanleyfurniture.com)



**STANLEY**  
FURNITURE

200 N. HAMILTON ST. NO. 200, HIGH POINT, NC 27260