

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549**

Form 10-Q

(Mark One)

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

For the quarterly period ended July 2, 2016

or

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

For the transition period from to .

Commission file number: 0-14938

STANLEY FURNITURE COMPANY, INC.
(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

54-1272589

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

200 North Hamilton Street, No. 200, High Point, North Carolina, 27260
(Address of principal executive offices, Zip Code)

(336-884-7700)

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (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 (232.405 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 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)

As of July 22, 2016, 14,732,199 shares of common stock of Stanley Furniture Company, Inc., par value \$.02 per share, were outstanding.

PART I. FINANCIAL INFORMATION

ITEM 1. Financial Statements

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

	July 2, 2016 (unaudited)	December 31, 2015
ASSETS		
Current assets:		
Cash.....	\$ 26,692	\$ 6,497
Restricted cash	663	663
Accounts receivable, less allowances of \$417 and \$404, on each respective date.....	5,607	6,925
Inventory	21,202	20,934
Prepaid expenses and other current assets	646	959
Total current assets.....	<u>54,810</u>	<u>35,978</u>
Property, plant and equipment, net	1,698	1,787
Cash surrender value of life insurance policies, net.....	-	22,253
Other assets	3,012	3,128
Total assets.....	<u>\$ 59,520</u>	<u>\$ 63,146</u>
LIABILITIES		
Current liabilities:		
Accounts payable.....	\$ 5,852	\$ 5,883
Accrued salaries, wages and benefits	1,357	1,367
Other accrued expenses.....	977	334
Total current liabilities	<u>8,186</u>	<u>7,584</u>
Deferred compensation	3,928	4,301
Supplemental retirement plan	1,754	1,797
Other long-term liabilities.....	1,739	1,812
Total liabilities	<u>15,607</u>	<u>15,494</u>
STOCKHOLDERS' EQUITY		
Common stock, \$0.02 par value, 25,000,000 shares authorized, 14,732,199 and 14,906,831 shares issued and outstanding on each respective date	275	283
Capital in excess of par value	16,620	17,521
Retained earnings	29,146	32,023
Accumulated other comprehensive loss	(2,128)	(2,175)
Total stockholders' equity	<u>43,913</u>	<u>47,652</u>
Total liabilities and stockholders' equity.....	<u>\$ 59,520</u>	<u>\$ 63,146</u>

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)
(unaudited)

	Three Months Ended		Six Months Ended	
	<u>July 2, 2016</u>	June 27, 2015	<u>July 2, 2016</u>	June 27, 2015
Net sales.....	\$ 12,053	\$ 15,133	\$ 23,736	\$ 29,805
Cost of sales.....	9,991	11,294	19,133	22,983
Gross profit.....	2,062	3,839	4,603	6,822
Selling, general, and administrative expenses.....	3,508	3,452	6,819	7,098
Operating (loss) income	(1,446)	387	(2,216)	(276)
Income from Continued Dumping and Subsidy Offset Act, net.....	-	1,076	-	4,896
Other income, net.....	6	29	11	40
Interest expense, net.....	-	210	109	540
(Loss) income from continuing operations before taxes.....	(1,440)	1,282	(2,314)	4,120
Income tax (benefit) expense.....	(48)	14	563	79
Net (loss) income from continuing operations.	(1,392)	1,268	(2,877)	4,041
Net income (loss) from discontinued operations.....	-	35	-	(83)
Net (loss) income	\$ (1,392)	\$ 1,303	\$ (2,877)	\$ 3,958
Basic (loss) income per share:				
(Loss) income from continuing operations	\$ (.10)	\$.09	\$ (.20)	\$.29
Income (loss) from discontinued operations....	-	-	-	(.01)
Net (loss) income	\$ (.10)	\$.09	\$ (.20)	\$.28
Diluted (loss) income per share:				
(Loss) income from continuing operations	\$ (.10)	\$.09	\$ (.20)	\$.28
Income (loss) from discontinued operations....	-	-	-	(.01)
Net (loss) income	\$ (.10)	\$.09	\$ (.20)	\$.27
Weighted average shares outstanding:				
Basic.....	14,083	14,260	14,164	14,250
Diluted.....	14,083	14,497	14,164	14,461

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

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

	Three Months Ended		Six Months Ended	
	July 2, 2016	June 27, 2015	July 2, 2016	June 27, 2015
Net (loss) income.....	\$ (1,392)	\$ 1,303	\$ (2,877)	\$ 3,958
Other comprehensive (loss) income:				
Amortization of prior service cost.....	-	23	-	46
Amortization of actuarial loss.....	(24)	(28)	(47)	(58)
Adjustments to net periodic benefit cost	(24)	(5)	(47)	(12)
Comprehensive (loss) income.....	\$ (1,368)	\$ 1,308	\$ (2,830)	\$ 3,970

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

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

	Six Months Ended	
	July 2, 2016	June 27, 2015
Cash flows from operating activities:		
Cash received from customers.....	\$ 25,087	\$ 28,042
Cash paid to suppliers and employees	(26,028)	(30,309)
Cash from Continued Dumping and Subsidy Offset Act	-	4,896
Interest paid, net.....	(199)	(670)
Income taxes paid	(262)	(90)
Net cash (used) provided by operating activities	(1,402)	1,869
Cash flows from investing activities:		
Proceeds from surrender of corporate-owned life insurance policies.....	28,139	-
Decrease in restricted cash.....	-	527
Purchase of other assets.....	(14)	-
Net cash provided by investing activities	28,125	527
Cash flows from financing activities:		
Payments on insurance policy loans	(5,495)	(4,279)
Repurchase and retirement of common stock	(1,012)	-
Stock purchase and retirement for tax withholdings on vesting restricted awards	(14)	-
Net cash used by financing activities	(6,521)	(4,279)
Cash flows from discontinued operations:		
Cash (used) provided by operating activities	(7)	1,129
Net cash (used) provided by discontinued operations	(7)	1,129
Net increase (decrease) in cash.....	20,195	(754)
Cash at beginning of period	6,497	5,584
Cash at end of period.....	\$ 26,692	\$ 4,830
Reconciliation of net loss to net cash (used) provided by operating activities:		
Net (loss) income.....	\$ (2,877)	\$ 3,958
Loss from discontinued operations.....	-	83
Depreciation and amortization.....	234	234
Stock-based compensation	117	406
Changes in assets and liabilities:		
Accounts receivable	1,318	(1,481)
Inventories	(268)	1,551
Prepaid expenses and other assets	(93)	(1,153)
Accounts payable	(31)	(259)
Accrued salaries, wages and benefits.....	77	(48)
Other accrued expenses	649	(964)
Other long-term liabilities.....	(528)	(458)
Net cash (used) provided by operating activities	\$ (1,402)	\$ 1,869

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

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

1. Preparation of Interim Unaudited Consolidated Financial Statements

The consolidated financial statements have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission (“SEC”). In our opinion, these statements include all adjustments necessary for a fair presentation of the results of all interim periods reported herein. All such adjustments are of a normal recurring nature. Certain information and footnote disclosures prepared in accordance with generally accepted accounting principles in the United States have been either condensed or omitted pursuant to SEC rules and regulations. However, we believe that the disclosures made are adequate for a fair presentation of results of operations and financial position. Operating results for the interim periods reported herein may not be indicative of the results expected for the year. We suggest that these consolidated financial statements be read in conjunction with the consolidated financial statements and accompanying notes included in our latest Annual Report on Form 10-K.

Results of the discontinued operations are excluded from the accompanying notes to the consolidated financial statements for all periods presented, unless otherwise noted.

Certain amounts in the 2015 consolidated financial statements have been reclassified to conform to the 2016 presentation. These reclassifications do not have an impact on the consolidated statements of operations or the consolidated statement of comprehensive (loss) income.

2. Property, Plant and Equipment

	(in thousands)	
	July 2, 2016	December 31, 2015
Machinery and equipment	\$ 2,675	\$ 2,675
Leasehold improvements	1,833	1,833
Property, plant and equipment, at cost.....	4,508	4,508
Less accumulated depreciation.....	2,810	2,721
Property, plant and equipment, net	\$ 1,698	\$ 1,787

3. Income taxes

During the first six months of 2016, we utilized \$21.7 million of our \$40.1 million net operating loss carry-forwards against taxable income resulting primarily from our surrender of corporate-owned life insurance policies. The premiums paid and the growth in surrender value of these policies were excludable from taxable income over the life of these policies when held until death of the covered lives, but this growth, net of premiums paid, became taxable when we surrendered the policies. The aggregate impact of the surrender of these policies in the first six months of this year was \$24.0 million in taxable income. The income tax expense associated with the surrender of the corporate-owned life insurance policies was recognized in full during the first quarter as that is when the surrender was complete. Therefore, the income tax benefit recognized during the current three month period was the result of normal operating losses incurred during the period. These will ultimately offset the income recognized in the first three months, which will lower the impact of the federal alternative minimum tax and state income taxes. The income tax expense recognized during the current six month period was the result of federal alternative minimum tax and, to a lesser extent, the impact of surrendering these policies have on state income taxes. During the first six months of 2016, we reduced our valuation allowance against deferred tax assets from \$19.2 million to \$11.7 million at July 2, 2016, as a result of the use of a portion of our net operating loss carry-forwards.

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

3. Income taxes (continued)

We maintain a valuation allowance against deferred tax assets that currently exceed our deferred tax liabilities. The primary assets covered by this valuation allowance are net operating loss carry-forwards. 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 under the provisions of ASC 740, *Income Taxes*. 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.

Our effective tax rates for the current three and six month periods were 3.3% and negative 24.3%, respectively, driven by the impact of the alternative minimum tax and state related taxes on the surrender of corporate owned life insurance policies. The effective tax rates in the prior year three and six month periods were 1.1% and 2.0%, respectively, also driven by the impact of the alternative minimum tax limiting the ability to offset the income received from the Continued Dumping and Subsidy Offset Act during those periods. The major reconciling items between our effective income tax rate and the federal statutory rate are the change in our valuation allowance and the cash surrender value on life insurance policies.

4. Employee Benefit Plans

Components of other postretirement benefit cost (in thousands):

	Three Months Ended		Six Months Ended	
	July 2, 2016	June 27, 2015	July 2, 2016	June 27, 2015
Interest cost.....	\$ 63	\$ 70	\$ 127	\$ 140
Amortization of prior service benefit.....	-	(23)	-	(46)
Amortization of actuarial loss.....	24	28	47	58
Net periodic postretirement benefit cost	<u>\$ 87</u>	<u>\$ 75</u>	<u>\$ 174</u>	<u>\$ 152</u>

5. Stockholders' Equity

Basic earnings per common share are based upon the weighted average shares outstanding. Outstanding stock options and restricted stock are treated as potential common stock for purposes of computing diluted earnings per share. Basic and diluted earnings per share are calculated using the following share data (in thousands):

	Three Months Ended		Six Months Ended	
	July 2, 2016	June 27, 2015	July 2, 2016	June 27, 2015
Weighted average shares outstanding for basic calculation.....	14,083	14,260	14,164	14,250
Add: Effect of dilutive stock awards	-	237	-	211
Weighted average shares outstanding, adjusted for diluted calculation.....	<u>14,083</u>	<u>14,497</u>	<u>14,164</u>	<u>14,461</u>

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

5. Stockholders' Equity (continued)

In the three and six month periods ended July 2, 2016, the dilutive effect of stock options is not recognized since we had a net loss. Approximately 1.2 million shares in the three and six month periods of 2016 were issuable upon the exercise of stock options. These were not included in the diluted per share calculation because they were anti-dilutive. Also, 638,000 shares in 2016 of restricted stock were not included because they were anti-dilutive. In the three and six month periods ended June 27, 2015, approximately 1.4 million stock options were excluded from the diluted per share calculation as they would be anti-dilutive.

A reconciliation of the activity in stockholders' equity accounts for the quarter ended July 2, 2016 is as follows (in thousands):

	Common Stock	Capital in Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Loss
Balance at December 31, 2015.....	\$ 283	\$17,521	\$32,023	\$ (2,175)
Net loss.....	-	-	(2,877)	-
Purchase and retirement of common stock.....	(8)	(1,004)	-	-
Stock purchase and retirement for tax withholdings on vesting of restricted awards ..	-	(14)	-	-
Stock-based compensation.....	-	117	-	-
Adjustment to net periodic benefit cost	-	-	-	47
Balance at July 2, 2016.....	<u>\$ 275</u>	<u>\$16,620</u>	<u>\$29,146</u>	<u>\$ (2,128)</u>

6. Income from Continued Dumping and Subsidy Offset Act (CDSOA)

We did not receive any CDSOA distributions in the 2016 three and six month periods. In the prior year three and six month periods, we recorded income of \$1.1 million and \$4.9 million, respectively, from CDSOA distributions previously withheld by U.S. Customs and Border Protection pending resolution of non-supporting producers' claims seeking to share in these distributions.

7. 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.

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

7. Discontinued Operations (continued)

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

	Three Months Ended		Six Months Ended	
	July 2, 2016	June 27, 2015	July 2, 2016	June 27, 2015
Net sales	\$ -	\$ 331	\$ -	\$ 538
Cost of sales	-	326	-	719
Selling, general and administrative expenses, net ..	-	(30)	-	(98)
Income (loss) from discontinued operations				
before income taxes.....	-	35	-	(83)
Income taxes.....	-	-	-	-
Income (loss) from discontinued operations				
after income taxes.....	\$ -	\$ 35	\$ -	\$ (83)

Loss from discontinued operations included write-down of inventories and other assets, severance and other termination costs and operating losses related to final manufacturing production.

8. Corporate-owned Life Insurance Policies

In January 2016, we made the decision to liquidate two of our twenty-seven 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 on corporate-owned life insurance policies, lowering our outstanding loan levels to \$3.1 million. In March 2016, we made the decision to liquidate the remaining twenty-five life insurance policies with cash surrender value of \$25.6 million. We received \$22.4 million in proceeds on March 28, 2016, comprised of the cash surrender value net of \$3.2 million in remaining outstanding loans and accrued interest. The decision to liquidate was made after continued review of the financial stability of Genworth Life Insurance Company, the issuer of the policies.

ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Results of Operations

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

	Three Months Ended		Six Months Ended	
	July 2, 2016	June 27, 2015	July 2, 2016	June 27, 2015
Net sales.....	100.0%	100.0%	100.0%	100.0%
Cost of sales.....	82.9	74.6	80.6	77.1
Gross profit.....	17.1	25.4	19.4	22.9
Selling, general and administrative expenses..	29.1	22.8	28.7	23.8
Operating (loss) income.....	(12.0)	2.6	(9.3)	(.9)
CDSOA income.....	-	7.1	-	16.4
Other income, net.....	-	.2	.1	.1
Interest expense, net.....	-	1.4	.5	1.8
(Loss) income from continuing operations before income taxes.....	(12.0)	8.5	(9.7)	13.8
Income tax (benefit) expense.....	(.4)	.1	2.4	.2
Net (loss) income from continuing operations.....	(11.6)	8.4	(12.1)	13.6
Net income (loss) from discontinued operations.....	-	.2	-	(.3)
Net (loss) income.....	(11.6)%	8.6%	(12.1)%	13.3%

Net sales of \$12.1 million for the three month period ended July 2, 2016, decreased \$3.1 million, or 20.4%, compared to the comparable 2015 period. For the six month period ended July 2, 2016, net sales decreased \$6.1 million, or 20.4%, from the comparable 2015 period. The decrease in both periods was due to lower unit volume and lower average selling prices. Lower unit volume was primarily a result of delays in shipping new product introduced in 2015 as the production ramp up of the new factory in Vietnam dedicated solely to our new product has taken longer than originally anticipated. The initial orders of 2015 introductions should be on retail floors during the third quarter and begin to generate orders in the second half of this year. Lower average selling prices are the result of aggressive discounting to move older discontinued product and also on inline product to achieve additional floor space to fuel future sales.

Gross profit for the current three month period decreased to \$2.1 million, or 17.1% of net sales, from \$3.8 million, or 25.4% of net sales, for the comparable three months of 2015. Gross profit for the current six month period decreased to \$4.6 million, or 19.4% of net sales, from \$6.8 million, or 22.9% of net sales, for the comparable six months of 2015. The decrease in gross profit and gross margin in both the three and six month periods was driven by lower sales volume, higher sales discounting and higher quality costs from our existing vendor base. Partially offsetting the impact of these items in the three and six month periods was lower ocean freight costs and, to a lesser extent, lower operation support costs. The prior year three and six month periods contained higher freight costs resulting from West Coast port issues.

Selling, general and administrative expenses for the three and six month periods of 2016 were \$3.5 million and \$6.8 million, or 29.1% and 28.7% of net sales, respectively, compared to \$3.5 million and \$7.1 million, or 22.8% and 23.8% of net sales, in the comparable 2015 periods. Expenditures for the current three month period were flat to the comparable prior year period and slightly lower in the current six month period compared to last year. Spending reductions in both periods were driven by lower sales commissions and marketing costs, and lower equity compensation expenses on performance awards. In addition, trade showroom related costs are down as the prior year periods included the preparation of our showroom for the launch of the new product line. Partially offsetting these lower expenditures were increased legal and professional costs and higher benefit costs as we liquidated our corporate owned life insurance policies in late March of this year eliminating any growth in cash surrender value from these policies. The decline in cash surrender value growth of corporate-owned life insurance policies, net of expenses was \$347,000 in the current three month period and \$541,000 during the six month period. Approximately 60% of this growth was in selling, general and administrative expenses and the remaining 40% was in cost of goods sold. The elimination of this

growth will be partially offset by the elimination of interest expense going forward. The higher selling, general and administrative percentages in the current year are due to lower sales impairing absorption for fixed cost components of expenses.

As a result, operating loss as a percentage of net sales was 12.0% for the current three month period and 9.3% for the current six month period compared to income of 2.6% in the prior year three month period and a loss of 0.9% in the prior year six month period.

During the prior year three and six month periods we recorded income of \$1.1 million and \$4.9 million, respectively, from the receipt of funds under the Continued Dumping and Subsidy Offset Act (CDSOA). No proceeds were received in the current three and six month periods.

Interest expense for the three and six month periods of 2016 decreased \$210,000 and \$431,000, respectively, from the comparable 2015 periods. Interest expense is composed of interest on loans against cash surrender value of insurance policies used to fund our legacy deferred compensation plan. The decrease in expense is due to paying down these outstanding loans with excess cash starting in late 2015 and eventually paying them off when we liquidated our corporate-owned life insurance policies in the first quarter of 2016.

Our effective tax rates for the current three and six month periods were 3.3% and negative 24.3%, respectively. As indicated above, we surrendered our corporate-owned life insurance policies during the first quarter of 2016, which resulted in taxable income for the period. The premiums paid and the growth in surrender value of these policies were excludable from taxable income over the life of these policies when held until death of the covered lives, but this growth, net of premiums paid, became taxable when we surrendered the policies. The aggregate impact of the surrender of these policies in the first quarter of this year was \$24.0 million in taxable income. The income tax expense associated with the surrender of the corporate-owned life insurance policies was recognized in full during the first quarter as that is when the surrender was complete. Therefore, the income tax benefit recognized during the current three month period was the result of normal operating losses incurred during the period. These will ultimately offset the income recognized in the first three months, which will lower the impact of the federal alternative minimum tax and state income taxes. The income tax expense recognized during the current six month period was the result of federal alternative minimum tax and, to a lesser extent, the impact of surrendering these policies have on state income taxes. The effective tax rates in the prior year three and six month periods were 1.1% and 2.0%, respectively, also driven by the impact of the alternative minimum tax limiting the ability to offset the income received from the Continued Dumping and Subsidy Offset Act during those periods. The major reconciling items between our effective income tax rate and the federal statutory rate are the change in our valuation allowance and the cash surrender value on life insurance policies.

Financial Condition, Liquidity and Capital Resources

Sources of liquidity include cash on hand and cash generated from operations. 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 flow from operations. We expect cash on hand to be adequate for ongoing operational and capital expenditures for the foreseeable future. At July 2, 2016, we had \$26.7 million in cash and \$663,000 in restricted cash.

Working capital, excluding cash and restricted cash, decreased to \$19.3 million at July 2, 2016 from \$21.2 million on December 31, 2015. The decrease was primarily the result of a decrease in accounts receivable as a result of our lower sales volumes and a decrease in prepaid and other assets, partially offset by an increase in accrued taxes and a slight increase in inventories.

Cash used by operations was \$1.4 million in the current six months of 2016 compared to cash generated from operations of \$1.9 million in the comparable prior year period. The cash generation in 2015 was the result of receiving \$4.9 million on CDSOA proceeds during the period. Excluding these proceeds, less cash was used by operations during the first six months of 2016 due to lower freight costs and lower interest payments on loans against corporate owned life insurance policies.

Cash generated from investing activities in the first six months of 2016 was due to \$28.1 million in proceeds from the surrender of corporate-owned life insurance policies. Cash provided by investing activities was \$527,000 in the prior year six months with the release of restricted cash.

Net cash used by financing activities in the current six months of 2016 was \$6.5 million compared to \$4.3 million in the comparable six months of 2015. During the current year we used \$5.5 million to pay off the remaining outstanding life insurance policy loans in conjunction with our decision to surrender these corporate-owned life insurance policies and \$1.0 million for the repurchase and retirement of 400,000 shares of our common stock. In the first six months of 2015 we used \$4.3 million to pay-down life insurance policy loans.

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 \$4.9 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. As of April 30, 2016, Customs preliminarily reported that approximately \$3.2 million is potentially available for distribution under the CDSOA during the fourth quarter of calendar year 2016 to eligible domestic manufacturers in connection with the case involving bedroom furniture imported from China. The final amounts available for distribution may be higher or lower than the preliminary amounts reported due to liquidations, reliquidations, protests, and other events affecting entries that may take place before the end of the government’s fiscal year. Assuming our percentage allocation in 2016 is the same as it was for the 2015 distribution (approximately 33.6% of the funds distributed) and the \$3.2 million collected by the government as of April 30, 2016 does not change, we could receive approximately \$1.1 million in CDSOA funds in the fourth quarter of 2016.

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 February 2016, the FASB issued its final lease accounting standard, FASB Accounting Standard Codification ("ASC") Topic 842, *Leases*, which requires lessees to reflect most leases on their balance sheet as assets and obligations. The effective date for the standard is for fiscal years beginning after December 15, 2018. Early adoption is permitted. We are evaluating the effect that ASC 842 will have on our consolidated financial statements and related disclosures. The standard is to be applied under the modified retrospective method, with elective reliefs, which requires application of the new guidance for all periods presented.

In March 2016, the FASB issued ASU 2016-09, *Improvements to Employee Share-Based Payment Accounting* ("ASU 2016-09). The amendments in ASU 2016-09 simplify several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities and classification on the statement of cash flows. The effective date for the standard for public entities is for fiscal years beginning after December 15, 2016. Early adoption is permitted. We are evaluating the effect that ASU 2016-09 will have on our consolidated financial statements and related disclosures.

Critical Accounting Policies

There have been no material changes to our critical accounting policies and estimates from the information provided in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations", included in our 2015 Annual Report on Form 10-K.

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 from transitioning to and using a single contract manufacturer for substantially all of our products including those arising in the event the manufacturer is not able to manufacture as anticipated in terms of cost, quality or timeliness or in the event we lost this relationship, 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, 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.

ITEM 3. Quantitative and Qualitative Disclosures about Market Risk

None of our foreign sales or purchases are denominated in foreign currency and we do not have any foreign currency hedging transactions. While our foreign purchases are denominated in U.S. dollars, a relative decline in the value of the U.S. dollar could result in an increase in the cost of our products obtained from offshore sourcing and reduce our earnings or increase our losses, unless we are able to increase our prices for these items to reflect any such increased cost.

ITEM 4. Controls and Procedures

- (a) Evaluation 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 quarterly report.
- (b) Changes in internal controls over financial reporting. There were no changes in our internal control over financial reporting that occurred during the second quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Part II. OTHER INFORMATION

ITEM 5. Other Information

On July 22, 2016, the Company and Glenn Prillaman, President and Chief Executive Officer of the Company, entered into an employment agreement.

Mr. Prillaman's employment agreement provides for a base salary of at least \$255,000 per year with upward adjustments as the Board of Directors of the Company deems appropriate and a potential target annual bonus of 100% of his base salary.

If the Company terminates Mr. Prillaman's employment for cause (as defined in his employment agreement), he is entitled to no further benefits or payments under his employment agreement other than accrued benefits consisting of (i) any unpaid salary earned or accrued through the date of termination, (ii) any accrued but unused paid time off, (iii) any reimbursement for business expenses owed to Mr. Prillaman by the Company, and (iv) any other previously unpaid payments to which Mr. Prillaman may be entitled through the date of termination under the terms of any applicable employee benefit plan (including COBRA, disability or death benefit plans) of the Company.

If (i) the Company terminates Mr. Prillaman's employment without cause, (ii) Mr. Prillaman terminates employment for good reason or (iii) Mr. Prillaman terminates his employment without good reason and the Company elects to make severance payments in order to have the non-competition restriction and the interference restrictions of the employment agreement effective, then Mr. Prillaman is entitled to receive accrued benefits and severance payments for 12 months following the date of termination consisting of monthly payments equal to one-twelfth of the sum of

- (i) Mr. Prillaman's salary in effect at the date of termination, plus
- (ii) an amount equal to the highest of the annual bonuses paid to Mr. Prillaman for the two fiscal years preceding the fiscal year in which his employment terminates.

Good reason generally exists if:

- (i) there is a 10% or more reduction in his base salary,
- (ii) his authority, duties or responsibilities are materially reduced,
- (iii) he is required to report to a corporate officer or employee instead of reporting directly to the Company's board of directors or our ultimate parent following a change in control,
- (iv) his place of employment is relocated further than 50 miles from his current place of employment, or
- (v) any other action or inaction that constitutes a material breach by the Company.

In the event of Mr. Prillaman's death or disability, his employment agreement provides that he entitled to no further payments under the employment agreement other than accrued benefits. He or his estate is also entitled to a bonus payment equal to the bonus which would otherwise have been payable for the full year prorated for the number of days he was employed during that year.

The term of Mr. Prillaman's employment agreement is initially through December 31, 2017 and thereafter extends automatically for additional one-year terms at the end of each year unless either party to the agreement gives notice on or before November 1 of any year that the agreement will not be extended. In the event of such notice, employment terminates as of December 31 of the year in which such notice is given.

Mr. Prillaman's employment agreement provides that, during his employment and, in the event he receives severance payments, during the 12 month period following employment with the Company, he will not compete against the Company and will not make disparaging comments about the Company or otherwise take certain actions that interfere with the Company's business if the Company elects to make the severance payments as described above. Mr. Prillaman's employment agreement also provides that he will not solicit Company employees during the 12 month period following employment with the Company.

Mr. Prillaman's employment agreement provides that if he is or becomes entitled to severance payments or benefits upon termination pursuant to his change in control protection agreement with the Company, he is not entitled to the payments or benefits under the provisions of his employment agreement in connection with termination without cause or resignation for good reason.

ITEM 6. Exhibits

- 3.1 Restated Certificate of Incorporation of the Registrant as amended (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).
- 10.1 Employment agreement dated July 22, 2016 between the Company and Glenn Prillaman.(1)
- 31.1 Certification by Glenn Prillaman, our Chief Executive Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.(1)
- 31.2 Certification by Anita W. Wimmer, our Principal Financial Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. (1)
- 32.1 Certification of 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. (1)
- 32.2 Certification of 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. (1)
- 101 The following financial statements from the Company's Quarterly Report on Form 10-Q for the quarter ended July 2, 2016, formatted in Extensible Business Reporting Language ("XBRL"): (i) consolidated balance sheets, (ii) consolidated statements of operations, (iii) condensed consolidated statements of comprehensive (loss) income, (iv) condensed consolidated statements of cash flows, (v) the notes to the consolidated financial statements, and (vi) document and entity information.(1)

(1) Filed herewith

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: July 25, 2016

STANLEY FURNITURE COMPANY, INC.

By: /s/ Anita W. Wimmer

Anita W. Wimmer

Principal Financial and Accounting Officer

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT (the "Agreement") between GLENN PRILLAMAN ("Employee") and STANLEY FURNITURE COMPANY, INC., a Delaware corporation (the "Company"), is effective as of July 22, 2016 (the "Effective Date").

WHEREAS, the Company desires to assure that it will have the benefit of the continued service and experience of the Employee, who is a principal executive officer of the Company and an integral part of its management, and the Employee is willing to enter into an agreement to such end upon the terms and conditions set forth in this Agreement;

NOW, THEREFORE, in consideration of the foregoing and the mutual agreements herein contained, the parties agree as follows:

1. Employment. The Company hereby employs the Employee and the Employee hereby accepts employment upon and agrees to the terms and conditions set forth herein.

2. Term. The term of employment under this Agreement (the "Term") shall commence on the Effective Date and continue through December 31, 2017 and shall automatically renew for additional one-year periods thereafter unless either party gives notice on or before November 1 of any calendar year that employment under this Agreement will not continue for an additional period of one year beginning on the following January 1.

3. Compensation.

a. Salary. During the Employee's employment hereunder, the Company shall pay the Employee for all services rendered by the Employee a base salary at an annual rate of at least \$255,000, with upward adjustments as the Board of Directors of the Company shall deem appropriate (the "Salary"). The Salary shall be payable to the Employee in accordance with the Company's usual paying practices, but not less frequently than monthly.

b. Annual Bonus. In addition to Salary, the Employee shall be eligible to receive a target annual bonus of 100% of his Salary for each fiscal year of the Company while this Agreement is in effect, subject to performance (the "Annual Bonus"). The Annual Bonus for any fiscal year shall be related to the achievement of certain performance thresholds and objectives to be set at the beginning of each fiscal year by the Board of Directors of the Company (the "Board"). The Annual Bonus (if any) shall be payable promptly following a determination by the Board that the applicable performance criteria have been satisfied but no later than March 15th of the next following year. Nothing in this Section 3(b) shall prohibit Employee from receiving any other bonus amount payable pursuant to any plan approved by the Compensation Committee of the Board of Directors of the Company.

c. Other Benefits. The Employee shall also be eligible to participate in such employee benefit plans and receive such other fringe benefits as are afforded generally by the Company to its senior personnel, subject to the terms and conditions of such plans as in effect from time to time.

d. Directors and Officers Insurance. The Company shall maintain directors and officers liability insurance for the benefit of Employee in connection with Employee's employment with the Company.

e. Paid Time Off. During the Term, Employee shall be entitled to at least four (4) weeks of paid time off (“PTO”) for vacation and illness in each calendar year in accordance with Company policy.

f. Business Expenses. During the Term, the Company shall reimburse Employee for documented, reasonable and necessary business expenses incurred on its behalf in performing Employee’s duties and promoting the business of the Company, in accordance with Company policy.

4. Duties. The Employee shall continue to perform the duties of President and Chief Executive Officer of the Company and shall, under the direction of the Board, faithfully and to the best of his ability perform such duties and such other duties and responsibilities as may be reasonably assigned by the Board from time to time, including service as an officer or director of any subsidiaries of the Company.

5. Extent of Services. During the Employee’s employment hereunder, the Employee shall devote his entire working time, attention and energy to the business of the Company and shall not be engaged in any other active business of any kind except as authorized by the Board.

6. Non-competition Restriction.

a. During the Restricted Period (as defined below), in the event Employee receives severance payments pursuant to Section 17(b), the Employee shall not: (i) engage in Competitive Activity (as defined below) within or with respect to the Prohibited Territory (as defined below); or (ii) assist any entity or person to engage in Competitive Activity within or with respect to the Prohibited Territory, whether as an owner, investor, executive, consultant or otherwise. In interpreting the foregoing, the Employee agrees, for example, that communications about furniture to be delivered to a location within the Prohibited Territory (whether such communication is by telephone, e-mail, or otherwise) would constitute the Employee engaging in activity “within or with respect to the Prohibited Territory” regardless of where the Employee may be physically located at the time of that communication.

b. The “Restricted Period” means: (i) the period of time that the Employee is employed by the Company; and (ii) the 12 month period following Employee’s last day of employment with the Company (the “Separation Date”).

c. “Competitive Activity” means: (i) engaging in work for a competitor of the Company that is the same as or substantially similar to the work the Employee performed on behalf of the Company; and/or (ii) engaging in an aspect of the Restricted Business (as defined below) that the Employee was involved with on behalf of the Company. Notwithstanding the preceding, passively owning less than 3% of a public company shall not constitute by itself Competitive Activity or assisting others to engage in Competitive Activity.

d. The “Restricted Business” means: (i) the business engaged in by the Company as of the Separation Date; and (ii) the business of designing, sourcing, manufacturing, marketing, distributing and selling wood furniture for the residential market in the United States.

e. “Prohibited Territory” means: (a) the United States; and (b) each country in which the Company had sales at any time during the 12 months prior to the Separation Date. As a senior executive for the Company, the Employee acknowledges and agrees that he has duties and responsibilities with respect to all of the Company’s business and that such business extends throughout the United States.

7. Non-interference Restriction.

a. During the Restricted Period, in the event Employee receives severance payments pursuant to Section 17(b), the Employee shall not: (i) solicit, encourage, or cause any Restricted Partner (as defined below) not to do business with or to reduce any part of its business with the Company; (ii) solicit, encourage, or cause any Restricted Partner to do business with any Company competitor; (iii) make any disparaging comments about the Company or its business, products, directors or employees, whether in writing, verbally, or on any online forum; (v) assist or encourage anyone else to engage in any of the conduct prohibited by this Section; or (vi) allow any of the Employee's immediate family members or any entity controlled by the Employee to engage in any of the conduct prohibited by this Section

b. "Restricted Partner" means: (i) each Company supplier, independent sales representative, customer, financing source, or other business partner (each, a "Partner") with whom the Employee had business contact or communications at any time during the 12 months prior to the Separation Date; (ii) each Company Partner for whom the Employee supervised or assisted with the Company's dealings at any time during the 12 months prior to the Separation Date; (iii) each Company Partner about whom the Employee received Confidential Information (as defined below) at any time during the 12 months prior to the Separation Date; and (iv) each prospective Company Partner with whom the Employee had business contact or communications at any time during the six months prior to the Separation Date.

8. Non-solicitation of Employees. Except with the prior consent in writing of the Board, the Employee shall not during the Restricted Period directly or indirectly, on his own behalf or on behalf of any other person, hire, attempt to hire, employ in any capacity, solicit the employment of, offer employment to, entice away, or in any other manner persuade or attempt to persuade to leave, any person who is then or was at any time during the preceding six months employed by the Company.

9. Confidential Information. The Employee further agrees to keep confidential and not use for his personal benefit or for any other person's benefit any and all proprietary information received or developed by the Employee during his employment with the Company relating to inventions, products, production methods, financial matters, sources of supply, markets, marketing methods or customers of the Company ("Confidential Information"). Notwithstanding the foregoing, Employee shall be authorized to disclose Confidential Information (i) as may be required by law or legal process after providing the Company with prior written notice and an opportunity to respond to such demand for disclosure (unless such notice is prohibited by law); and (ii) with the prior written consent of the Board. "Confidential information" shall not include any information that is generally known to the industry or the public other than as a result of Employee's breach of this covenant or any breach of other confidentiality obligations by third parties. This Agreement, however, does not prohibit communications directly with the Securities and Exchange Commission about any possible securities law violation.

10. Return of Property. All property, documents, data, and Confidential Information prepared or collected by the Employee as part of the Employee's employment with the Company, in whatever form, are and shall remain the property of the Company. The Employee shall return upon the Company's request at any time (and, in any event, before the Employee's employment with the Company ends) all documents, data, Confidential Information, and other property belonging to the Company in the Employee's possession or control, regardless of how stored or maintained and including all originals, copies and compilations.

11. Developments. The Employee hereby assigns and agrees in the future to assign to the Company the Employee's full right, title and interest in all Developments (as defined below). In addition, all copyrightable works that the Employee has created or creates in the course of or related to the Employee's employment with the Company shall be considered "work made for hire" and shall be owned exclusively by the Company. "Developments" means any design, invention, formula, process, development, innovation or improvement made, conceived or first reduced to practice by the Employee, solely or jointly with others, during the Employee's employment with the Company and that was developed using the equipment, supplies, facilities or trade secret information of the Company or that relates at the time of conception or reduction to practice to: (a) the business of the Company, or (b) any work performed by the Employee for the Company.

12. Specific Enforcement. It is agreed and understood by the parties hereto that, in view of the nature of the business of the Company, the restrictions in Sections 6 through 16 are reasonable and necessary to protect the legitimate interests of the Company, that monetary damages alone are not an adequate remedy for any breach of such provisions, and that any violation thereof would result in irreparable injuries to the Company. The Employee therefore acknowledges that, in the event of his violation of any of such restrictions, the Company shall be entitled to obtain from any court of competent jurisdiction preliminary and permanent injunctive relief as well as damages and an equitable accounting of all earnings, profits and other benefits arising from such violation, which rights shall be cumulative and in addition to any other rights or remedies to which the Company may be entitled.

13. Severability and Extension. If a court of competent jurisdiction determines that any part of Sections 6 through 16 is not enforceable, then the parties request that such court modify such provision in order to render such provision not unenforceable and then enforce the provision as modified. The parties further agree that each provision of this Agreement is severable from each other provision of this Agreement. If the Employee violates any of the restrictions contained in Sections 6 through 8, the Restricted Period shall not run in favor of the Employee from the time of the commencement of any such violation until such time as such violation shall cease.

14. Breach. If after Employee's termination of employment, Employee breaches (other than an unintentional and immaterial breach) the post-employment restrictions in this Agreement and fails to cure the breach to the satisfaction of the Board, as determined in its sole discretion, within fifteen (15) days after receipt of written notice of the breach from the Company, in addition to any other remedy available at law or in equity to the Company, the Company's obligation to make or provide payments or benefits (other than the Accrued Benefits) under Section 17 shall cease.

15. Certain Affiliates. The "Company" as used in Section 6 and 7 shall mean: (a) the Company as defined above; and (b) any Company subsidiary or affiliate with or for whom the Employee performed services or had responsibilities at any time during the 12 months prior to the Separation Date. The "Company" as used in Sections 8 through 14 shall mean the Company and its subsidiaries and affiliates.

16. Survival. Section 6 and 7 shall survive termination of Employee's employment in the event Employee receives severance payments pursuant to Section 17(b). Any termination of Employee's employment or of this Agreement shall have no effect on the continuing operation of Sections 8 through 16.

17. Termination of Employment and Severance Payments.

a. Termination for Cause. During the Term, the Company may terminate the

Employee's employment under this Agreement at any time for Cause (as defined below) upon written notice specifying the cause and date of termination. Upon termination for Cause, Employee shall be entitled to no further payments or benefits under this Agreement, other than: (i) any unpaid salary earned or accrued through the date of termination, (ii) any accrued but unused PTO, (iii) any reimbursement for business expenses owed to Employee by the Company, and (iv) any other previously unpaid payments to which Employee may be entitled through the date of termination under the terms of any applicable employee benefit plan (including COBRA, disability or death benefit plans) of the Company (collectively, the "Accrued Benefits").

For purposes of this Agreement, "Cause" means gross or willful neglect of duty which is not corrected after 30 days' written notice thereof; misconduct, malfeasance, fraud or dishonesty which materially and adversely affects the Company or its reputation in the industry; or the commission of a felony or a crime involving moral turpitude.

b. Termination without Cause; Resignation for Good Reason. During the Term, the Company may terminate the Employee's employment under this Agreement at any time for any reason other than Cause, death or Disability, upon written notice specifying the date of termination; or Employee may terminate the Employee's employment under this Agreement at any time for Good Reason (as defined below) upon written notice specifying the date of termination, and in either case, the Employee shall be entitled to the payments provided under this Section 17(b). In the event (i) the Company terminates the Employee's employment for reasons other than Cause, death or Disability, (ii) the Employee terminates the Employee's employment for Good Reason, or (iii) the Employee terminates the Employee's employment under this Agreement without Good Reason and the Company elects to make the following severance payments in order to have the non-competition restriction in Section 6 and the non-interference restriction in Section 7 be effective, then the Employee shall be entitled to the Accrued Benefits and, provided Employee signs, delivers and does not revoke a Release (as defined below) and the Release has become effective no later than the 30th day after the date of termination, shall be entitled to severance payments as follows: for 12 months following the date of termination, monthly payments equal to one-twelfth of the sum of (i) the Employee's Salary in effect at the date of termination, plus (ii) an amount equal to the highest of the Annual Bonuses paid to the Employee for the two fiscal years preceding the fiscal year in which Employee's employment terminates. Such payments shall commence with the next regular payroll date on or following the 30th day after the date of termination (or such other date as may be required by Section 409A pursuant to Section 24 below).

For purposes of this Agreement, "Good Reason" means any of the following events occur without Employee's consent: (i) a 10% or more diminution in the Employee's Salary; (ii) a material diminution in the Employee's authority, duties, or responsibilities; (iii) a requirement that the Employee report to a corporate officer or employee instead of reporting directly to the Board of Directors of the Company or its ultimate parent following a Change in Control (as defined in the Change in Control Agreement as defined in Section 17(e) below); (iv) a change of more than 50 miles in the geographic location at which the Employee must perform the services from the Company's offices in High Point, North Carolina; or (v) any other action or inaction that constitutes a material breach by the Company of this Agreement; provided, however, that Good Reason shall not exist unless the Employee has provided written notice to the Company of the event within 30 days after its initial occurrence and the Company has failed to cure such event within 30 days after its receipt of Employee's notice, and unless Employee's employment terminates within two years after the initial occurrence of the event.

For purposes of this Agreement, "Release" means a general release of claims against the

Company and its subsidiaries and affiliates, and their respective directors, employees, benefit plans, attorneys, and owners, on a form reasonably determined by the Company (which shall have no post-employment obligation or limitation in it other than as set forth in this Agreement hereof, and shall except out rights of indemnification, rights to directors and officers liability insurance coverage and amounts due under this Agreement).

c. Termination in Event of Death or Disability. If the Employee dies or incurs a Disability (as defined below) during the Term, his employment under this Agreement shall terminate, and Employee or his estate shall be entitled to no further payments or benefits under this Agreement other than the Accrued Benefits and the payment described in the following sentence. If the Employee's employment is terminated pursuant to this Section 17(c), the Employee or Employee's estate shall be entitled to a pro-rated Annual Bonus payment for the year of termination in an amount equal to the amount determined by multiplying the Annual Bonus (if any) which would otherwise have been payable for the full fiscal year in which the termination occurs by a fraction, the numerator of which is the number of days the Employee was employed during such fiscal year and the denominator of which is 365, payable at the same time such bonuses are paid to similarly-situated active employees of the Company in accordance with Section 3(b) above.

For purposes of this Agreement, "Disability" means that either (i) the Employee is unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment that can be expected to result in death or can be expected to last for a continuous period of not less than 12 months, or (ii) the Employee is, by reason of any medically determinable physical or mental impairment that can be expected to result in death or can be expected to last for a continuous period of not less than 12 months, receiving income replacement benefits for a period of not less than three months under an accident and health plan covering employees of the Company.

d. Resignation without Good Reason. During the Term, the Employee may terminate the Employee's employment under this Agreement at any time without Good Reason, upon 30 days' advance written notice (which the Board may choose to waive in its sole discretion). Upon termination without Good Reason, Employee shall be entitled to no further payments or benefits under this Agreement, other than the Accrued Benefits or the severance payments contemplated by Section 17(b) in the event the Company has elected to make such payments in order to have the non-competition restriction in Section 6 and the non-interference restriction in Section 7 be effective.

e. Coordination with Change in Control Agreement. If in connection with any termination of his employment, the Employee is or becomes entitled to any severance payments or benefits upon such termination pursuant to the Change in Control Protection Agreement between the Company and the Employee dated as of December 11, 2015, as amended (the "Change in Control Agreement"), then Employee shall not be entitled to any payments or benefits under Section 17(b) of this Agreement.

f. Resignation from Company Offices. Unless the Company agrees in writing to waive this requirement, upon termination of Employee's employment for any reason, Employee agrees to promptly resign as an officer, director or manager of any member of the Company and its subsidiaries and affiliates.

g. No Mitigation. Employee shall not be required to mitigate any amounts payable under this Agreement and no such amounts shall be offset or reduced by the amount of any compensation or benefits from any subsequent employment.

18. Notices.

a. If to the Company:

Stanley Furniture Company, Inc.
200 North Hamilton Street
No. 200
High Point, NC 27260

b. If to the Employee:

Glenn Prillaman
[address]

Any party may change the address to which notices are to be addressed by giving the other party written notice in the manner herein set forth.

19. Waiver of Breach. Waiver by either party of a breach of any provision of this Agreement by the other shall not operate as a waiver of any subsequent breach by such other party.

20. Entire Agreement. This Agreement contains the entire agreement of the parties in this matter and supersedes any other agreement, oral or written, concerning the employment or compensation of the Employee by the Company, excluding the Change in Control Agreement. It may be changed only by an agreement in writing signed by both parties hereto.

21. Governing Law and Exclusive Venue. This Agreement shall be governed by the laws of the State of North Carolina, without regard to the choice of law principles of any jurisdiction. Each party agrees that any litigation under this Agreement shall occur exclusively in a state or federal court in Guilford County, North Carolina and in no other venue. As such, each party irrevocably consents to the jurisdiction of and venue in the courts in Guilford County, North Carolina for all disputes with respect to this Agreement. Executive agrees to service of process in any such dispute via FedEx to Executive's last home address in the Company's records, without limiting other service methods allowed by applicable law. The parties agree that the terms in this Section are material to this Agreement, and that they will not challenge the enforceability of this Section in any forum.

22. Benefit. This Agreement shall be binding upon and inure to the benefit of and shall be enforceable by and against the Company, its successors and assigns, and the Employee, his heirs, beneficiaries and legal representatives. The Employee irrevocably consents to any assignment or transfer of this Agreement to a Company affiliate or to a successor to all or part of the Company's business or assets. As used in this Agreement, the "Company" shall include the Company as defined above and any affiliated entity or successor to which this Agreement is assigned or transferred.

23. Tax Withholding. The Company may withhold from any amounts payable under this Agreement such federal, state and local income and employment taxes as the Company shall determine is required to be withheld pursuant to any applicable law or regulation.

24. Section 409A.

a. It is intended that any amounts payable under this Agreement shall either be exempt from or comply with Section 409A of the Internal Revenue Code of 1986, as amended

(including the Treasury regulations and other published guidance relating thereto) (“Section 409A”) so as not to subject the Employee to payment of any interest or additional tax imposed under Section 409A. To the extent that any amount payable under this Agreement would trigger the additional tax, penalty or interest imposed by Section 409A, this Agreement shall be modified to avoid such additional tax, penalty or interest yet preserve (to the nearest extent reasonably possible) the intended benefit payable to the Employee.

b. To the extent a payment or benefit is nonqualified deferred compensation subject to Section 409A, a termination of employment shall not be deemed to have occurred for purposes of any provision of this Agreement providing for the payment of any amounts upon or following a termination of employment unless such termination is also a “separation from service” within the meaning of Section 409A and, for purposes of any such provision of this Agreement, references to a “termination,” “termination of employment” or like terms shall mean “separation from service.” If Employee is deemed on the date of a separation from service (within the meaning of Section 409A) to be a “specified employee” (within the meaning of that term under Section 409A(a)(2)(B) of the Code and determined using any identification methodology and procedure selected by the Company from time to time, or, if none, the default methodology and procedure specified under Section 409A), then with regard to any payment or the provision of any benefit that is “nonqualified deferred compensation” within the meaning of Section 409A and which is paid as a result of the Employee’s “separation from service,” such payment or benefit shall not be made or provided prior to the date which is the earlier of (A) the expiration of the six month period measured from the date of such “separation from service” of the Employee, and (B) the date of the Employee’s death (the “Delay Period”). Upon the expiration of the Delay Period, all payments and benefits delayed pursuant to this clause (whether they would have otherwise been payable in a single sum or in installments in the absence of such delay) shall be paid or reimbursed to the Employee in a lump sum, and any remaining payments and benefits due under this Agreement shall be paid or provided in accordance with the normal payment dates specified for them herein.

c. For purposes of Section 409A, the Employee’s right to receive any installment payments pursuant to this Agreement shall be treated as a right to receive a series of separate and distinct payments. Whenever a payment under this Agreement specifies a payment period with reference to a number of days (e.g., “payment shall be made within thirty (30) days following the date of termination”), the actual date of payment within the specified period shall be within the sole discretion of the Company.

d. With regard to any provision herein that provides for reimbursement of costs and expenses or in-kind benefits, except as permitted by Section 409A, (i) the right to reimbursement or in-kind benefits shall not be subject to liquidation or exchange for another benefit; (ii) the amount of expenses eligible for reimbursement, or in-kind benefits, provided during any taxable year shall not affect the expenses eligible for reimbursement, or in-kind benefits to be provided, in any other taxable year, provided, that the foregoing clause (ii) shall not be violated with regard to expenses reimbursed under any arrangement covered by Section 105(b) of the Internal Revenue Code solely because such expenses are subject to a limit related to the period the arrangement is in effect; and (iii) such payments shall be made on or before the last day of the Employee’s taxable year following the taxable year in which the expense was incurred.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, the Employee and the Company have executed this Agreement as of the day and year above written.

COMPANY:

STANLEY FURNITURE COMPANY, INC.

By: /s/T. Scott McIlhenny, Jr. _____
T. Scott McIlhenny, Jr., Chairman,
Compensation and Benefits Committee

EMPLOYEE:

/s/Glenn Prillaman _____
Glenn Prillaman

I, Glenn Prillaman, certify that:

1. I have reviewed this quarterly report on Form 10-Q 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 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 function):
 - (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: July 25, 2016

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

I, Anita W. Wimmer, certify that:

1. I have reviewed this quarterly report on Form 10-Q 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 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 function):
 - (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: July 25, 2016

By: /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") Quarterly Report on Form 10-Q for the period ended July 2, 2016 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: July 25, 2016

By: /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") Quarterly Report on Form 10-Q for the period ended July 2, 2016 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: July 25, 2016

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