

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, 2012  
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.)

1641 Fairystone Park Highway, Stanleystown, Virginia 24168

(Address of principal executive offices, Zip Code)

Registrant's telephone number, including area code: (276) 627-2010

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 (x) Smaller reporting company ( )  
(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 30, 2012: \$56 million.

Indicate the number of shares outstanding of each of the Registrant's classes of common stock as of February 3, 2013:

Common Stock, par value \$.02 per share

14,566,099

(Class of Common Stock)

Number of Shares

Documents incorporated by reference: Portions of the Registrant's Proxy Statement for our Annual Meeting of Stockholders scheduled for April 16, 2013 are incorporated by reference into Part III.

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## PART I

### Item 1. Business

#### **General**

We are a leading designer, manufacturer and importer of wood furniture in the premium segment of the residential market. We offer two major product lines that diversify us across all major style and product categories within our segment. Our fashion furniture line for the adult market is sold under the Stanley Furniture brand while our children's furniture is sold under the Young America brand. Our product depth and extensive style selection makes us a complete wood furniture resource for retailers and interior designers serving the upscale consumer. To support our customers and cater to the specific factors that drive consumer demand for our two branded product lines, we have distinct operating strategies for each brand. An import model serves the demands of the Stanley Furniture customer, while a domestic manufacturing model supports Young America.

#### **Products**

Our Stanley Furniture brand is marketed as upscale home furnishings which differentiate from other products in the market through styling and finish execution as well as wide selections for the entire home including dining, bedroom, home office, home entertainment, and accent items. We believe the end consumer for the Stanley Furniture brand is typically a mature, affluent consumer who values the interior aesthetics of their home.

Our Young America brand is marketed as the trusted brand for child safety. Controlling its production in our North Carolina manufacturing facility allows us to proudly market a product "Made in the USA", which we believe our customers associate with a higher level of product safety and quality. Additionally, certain products have achieved third party certifications for both indoor air quality and product safety. Product selection through color and choice also differentiate the Young America brand and attract the consumer wishing to customize their purchase and make an investment in furniture that grows with their child from crib to college and beyond. While we believe the typical consumer purchasing Young America is a parent between the ages of 25 and 40, grandparents are often involved in the purchase.

We believe that the diversity of our product lines enables us to anticipate and address changing consumer preferences and provide retailers a complete wood furniture resource in the premium segment. 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 woods and finishes. Our products are designed to appeal to a broad range of consumer tastes in the premium segment and cover all major style categories including traditional, continental, contemporary, transitional and cottage designs.

We continually design and develop new styles to replace those discontinued and, if desired, to expand our product lines. Our product design process begins with identifying customer preferences and marketplace trends and conceptualizing product ideas. A variety of sketches are produced, usually by company designers, 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.

#### **Distribution**

We have developed a broad domestic and international customer base and sell our furniture mainly through independent sales representatives to independent furniture stores, interior designers, smaller specialty retailers, regional furniture chains, buying clubs and e-tailers. We believe this broad network reduces exposure to fluctuations in regional economic conditions and allows us to capitalize on emerging channels of distribution. We offer tailored marketing programs to address each specific distribution channel.

The primary marketing practice followed in the furniture industry is to exhibit products at international and regional furniture markets. In the spring and fall of each year, a furniture market is held in High Point, North Carolina, which is attended by the majority of our retail customer base and is regarded by the industry as the most important international market. We utilize showroom space at this market to introduce new products, increase retail placements of existing products and test concepts for future products and services. In addition to displaying at the High Point

Furniture Market, we recently entered into a lease agreement for a showroom at the Las Vegas Market. In January 2013, we will be participating in this trade show for the first time.

In 2012, we sold product to approximately 1,900 customers and recorded approximately 10% of our sales from international customers. No single customer accounted for more than 10% of our sales in 2012 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.

## **Manufacturing and Offshore Sourcing**

### Stanley Furniture

The entire Stanley Furniture product line is sourced from independent factories in Southeast Asia, primarily in Indonesia and Vietnam. We operate a support organization in both of these countries to manage vendor relationships, sourcing decisions, engineering and quality control. While we operate solely as a purchaser, we do maintain a presence in each of our vendors' factories.

We are subject to the usual risks inherent in importing products manufactured abroad, including, but not limited to, supply disruptions and 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 any of our strategic vendors could significantly compromise our ability to fill customers' orders. If a disruption were to occur, we believe we would have sufficient inventory to meet a portion of demand for approximately three to four months. Further, we believe that we could source any impacted products from other strategic suppliers but could experience service gaps and short-term increases in cost.

We enter into standard purchase arrangements with certain overseas suppliers for finished goods inventory to support our Stanley Furniture product line. 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 currency risk. We generally expect to recover any substantial price increases from these suppliers in the price we charge for these goods.

### Young America

The Young America product line is manufactured domestically. We believe our domestic operations model supports the Young America product line as the trusted brand for child safety, color and choice, quick delivery, and quality and better differentiates our children's furniture in the marketplace. Over the last two years we have focused our efforts and capital on modernizing and automating our factory in Robbinsville, North Carolina, which produces our entire Young America product line.

Domestic manufacturing supports our product and distribution strategy by allowing us to drive continuous improvement in product safety, quality and customer service, while offering maximum choice and customization with minimum inventory. Our domestic manufacturing strategy includes:

- Smaller and more frequent production runs,
- Standardized engineering to improve quality and lower cost,
- Identification and elimination of manufacturing bottlenecks and waste,
- Use of cellular manufacturing in the production of component parts, and
- Improved relationships with a small, core group of suppliers.

In addition, we continue to involve all personnel and vendor partners in the improvement of the manufacturing, assembly and finishing processes by encouraging an open and collaborative environment that embraces continuous improvement.

## **Warehousing and Delivery**

We warehouse Young America products in our manufacturing facility in North Carolina and lease warehouse facilities domestically and abroad to support the Stanley Furniture product line. We consider our facilities to be generally modern, well equipped and well maintained. We use a small group of transportation providers for delivery of both product lines. While most of our products are delivered to retailers from our warehouses, we are able to ship direct containers from Asia as well as white-glove delivery services directly to the end consumer.

Production of our two product lines is scheduled based upon both actual and forecasted demand. To support our service objectives, we maintain a higher inventory of imported products when compared to those manufactured domestically. We ship the majority of our orders within 30 days from receipt of order. Our backlog of unshipped orders was \$11.5 million at December 31, 2012 and \$11.6 million at December 31, 2011. Our 2012 backlog includes approximately \$750,000 of orders that have been shipped from our Asian warehouse but have not yet been received by our customers.

## **Raw Materials**

Virtually all raw materials we use support the domestic manufacturing of our Young America product line. The principal materials used include lumber, plywood, veneers, particle board, hardware, glue, finishing materials, glass products, laminates, and metals. We use two main species of lumber: poplar and maple. Domestic lumber availability and prices fluctuate over time based primarily on supply and demand.

Our five largest raw material suppliers accounted for approximately 42% of our purchases in 2012. We believe we keep adequate inventory of lumber and other supplies to maintain production levels. We believe that our sources of supply for these materials are adequate and that we are not dependent on any one supplier.

## **Competition**

The furniture industry is highly competitive and includes a large number of competitors, none of which dominates the market. In addition, competition has significantly increased as the industry's worldwide manufacturing capacity remains relatively underutilized due to a lack of demand driven by the ongoing economic recession and its impact on domestic housing. Significant manufacturing capacity was added to support the housing boom that our economy experienced pre-recession. This excess capacity has created downward price pressure despite increases in operating costs as industry participants attempt to generate volume to better utilize their manufacturing capacity. The vast majority of our competitors own manufacturing facilities abroad or source finished goods from Asian suppliers.

The markets in which we compete include a large number of relatively small manufacturers. However, certain competitors have substantially greater sales volume and financial resources when compared to us. Competitive factors in the premium segment include design, quality, service, selection, price, and for our Young America brand, child safety. We believe the changes to our operational strategy, our long-standing customer relationships and customer responsiveness, our consistent support of high-quality and diverse product lines, and our experienced management team are all competitive advantages.

## **Associates**

At December 31, 2012, we employed 490 associates domestically and 59 associates overseas. 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 our success in profitably producing Young America products in our domestic manufacturing facility, a failure or interruption of our information technology infrastructure, 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, lower sales due to worsening of current economic conditions, the cyclical nature of the furniture industry, business failures or loss of large customers, the inability to raise prices in response to inflation and increasing costs, failure to anticipate or respond to changes in consumer tastes and fashions in a timely manner, competition in the furniture industry including competition from lower-cost foreign manufacturers, the inability to obtain sufficient quantities of quality raw materials in a timely manner, environmental, health, and safety compliance costs, limited use of operating loss carry forwards due to ownership change, extended business interruption at our manufacturing facility, and the possibility that U.S. Customs and Border Protection may seek to reclaim all or a portion of the \$39.9 million of Continued Dumping and Subsidy Offset Act (CDSOA) proceeds received in the second quarter of 2012. In addition, we have made certain forward looking statements with respect to payments we expect to receive under the CDSOA, which are subject to the risks and uncertainties described in our discussion of those payments that may cause the actual payments to be subject to claims for recovery or to differ materially from those in the forward looking statements. 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.  
1641 Fairystone Park Highway  
Stanleytown, Virginia 24168  
Attention: Mr. Micah S. Goldstein  
Telephone: 276-627-2565, Fax: 276-629-5114  
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.***

***We may experience asset impairment or other charges, as well as a decrease in revenues, if our marketing strategy for the Young America product line is unsuccessful, or if our strategy to improve operating efficiencies to achieve a profitable Young America product line is not successful.***

If our marketing strategy for the Young America product line is unsuccessful, or if we do not achieve operating efficiencies sufficient to profitably manufacture our Young America product line domestically, we may need to reposition our Young America product line, consider closing our Robbinsville facility and transition the manufacturing of Young America products to other sources, or we may need to cease production of our Young America product line altogether. In this event, we could experience asset impairment or other restructuring charges. In addition, if any of these actions are necessary, they could affect our ability to meet product demand which may in turn negatively impact customer relations and result in loss of market share.

***Our strategic decision to transition our Young America children's furniture product line from a blended manufacturing base comprised of both our own domestic factories and foreign sources to a completely domestic manufacturing platform utilizing only our Robbinsville, NC facility has increased our capital investment requirements and operating expenses. If we are not successful in the implementation of this strategy, we may experience disruptions to our operations that may result in a decline in revenues and liquidity, and an increase in our operating expenses.***

We believe our decision to manufacture all children's furniture products in our North Carolina facility was necessary to regain control of our entire production process and position and differentiate the Young America brand through product safety, color and choice, quick delivery and the cache that products "Made in USA" bring at retail in our premium segment. This transition has increased operating expenses due to the disruption caused by the transition of approximately one-third of our Young America product line from overseas sources to our domestic manufacturing facility. In addition, we upgraded the quality of the entire product line through improved construction specifications. We expect long-term benefits as we distinguish our Young America product line from overseas competition in the marketplace. If we are unsuccessful in implementing this strategy and do not lower our overall operating expenses through process improvements and capital investments, we may experience disruptions in our operations that may result in a decline in revenues and liquidity and an increase in operating expenses.

***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. We are in the second year of an initiative to improve our information technology infrastructure. These changes may be costly and disruptive to our operations, and could impose substantial demands on management time and resources. 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.

***As a result of our reliance on foreign sourcing for our Stanley Furniture product line:***

- ***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. A natural disaster or other causes of physical damage to any one of our sourcing partners' factories could interrupt production for an extended period of time. Our sourcing partners may not supply goods that meet our manufacturing, quality or safety specifications, in a timely manner and at an acceptable price. We may reject goods that do not meet our specifications, requiring us to find 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 consumer demand on product with extended lead times could result in lower sales, earnings and liquidity.***

Our use of foreign sources exposes us to risks associated with forecasting future demand on product with extended order lead time. Extended order 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 would also 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 costs and decrease earnings.

- **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 increase our costs and decrease 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 including the current economic recession. 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. These factors not only affect the ultimate consumer, but also impact furniture retailers, which are our primary customers. As a result, a worsening of current conditions could further 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.

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

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

***Failure to anticipate or respond to changes in consumer tastes and fashions 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 rapidly 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 many domestic and overseas manufacturers. Competition from overseas producers has increased dramatically in recent years, with most residential wood furniture sold in the United States now coming from imports. These overseas producers typically have lower selling prices due to their lower operating costs and often replicate our designs closely enough to attract a portion of our customer base, but not closely enough to warrant legal action that would result in any substantial effect towards thwarting this practice. In addition, some competitors have greater financial resources than we have 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.

***We may not be able to obtain sufficient quantities of quality raw materials in a timely manner, which could result in a decrease in our sales and earnings.***

Because we are dependent on outside suppliers for all of our raw material needs, we must obtain sufficient quantities of quality raw materials from our suppliers at acceptable prices and in a timely manner. We have no long-term supply contracts with our key suppliers. Unfavorable fluctuations in the price, quality and availability of these raw materials could negatively affect our ability to meet the demands of our customers and could result in a decrease in sales and earnings.



***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.

***An “ownership change” could limit the use of our net operating loss carry forwards and decrease a potential acquirer’s valuation of our business, both of which could decrease our liquidity and earnings.***

If an “ownership change” occurs pursuant to applicable statutory regulations, we are potentially subject to limitations on the use of our net operating loss carry forwards which in turn could adversely impact our future liquidity and profitability. The limitations triggered by an “ownership change” could also decrease a potential acquirer’s valuation of our business and discourage a potential acquirer. In general, an “ownership change” would occur if there is a cumulative change in the ownership of our common stock of more than 50 percentage points by one or more “5% shareholders” during a three-year test period.

***Extended business interruption at our manufacturing facility could result in reduced sales.***

Furniture manufacturing creates large amounts of highly flammable wood dust. Additionally, we utilize other highly flammable materials such as varnishes and solvents in our manufacturing processes and are therefore subject to the risk of losses arising from explosions and fires. Our inability to fill customer orders during an extended business interruption could negatively impact existing customer relationships resulting in the loss of market share.

**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 production and 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. Production capacity and the utilization of our Robbinsville manufacturing facilities are difficult to quantify as we continue to modernize and increase its available capacity.

<u>Location</u>	<u>Primary Use</u>	<u>Approximate Facility Size (Square Feet)</u>	<u>Owned or Leased</u>
Stanleytown, VA	Warehouse and Corporate Office Space	950,000 <sup>(1)</sup>	Leased
Robbinsville, NC	Manufacturing/ Distribution	562,100	Owned
Martinsville, VA	Distribution	300,000	Leased
High Point, NC	Showroom/Office	56,000	Leased
Las Vegas, NV	Showroom	11,500	Leased
Vietnam	Distribution	50,000	Leased

(1) Distribution and office utilization as of December 31, 2012 was approximately 50% of leased square footage.

**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 affect on our consolidated financial statements.

**Item 4. Mine Safety Disclosures**

Not Applicable.

**Executive Officers of the Registrant**

Our executive officers and their ages as of January 1, 2013 are as follows:

<u>Name</u>	<u>Age</u>	<u>Position</u>
Glenn Prillaman.....	41	President and Chief Executive Officer
Micah S. Goldstein .....	42	Chief Operating and Financial Officer

**Glenn Prillaman** has been President, 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.

**Micah S. Goldstein** has been Chief Operating Officer since joining the company in August 2010 and has also served as Chief Financial Officer since December 2010. From January 2006 until August 2010, Mr. Goldstein was President and Chief Executive Officer of Bri-Mar Manufacturing, LLC, a manufacturer of hydraulic equipment trailers.

## 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.

	2012		2011	
	<u>High</u>	<u>Low</u>	<u>High</u>	<u>Low</u>
First Quarter .....	<b>\$5.21</b>	<b>\$2.95</b>	\$6.13	\$3.15
Second Quarter .....	<b>4.87</b>	<b>3.80</b>	5.87	4.04
Third Quarter .....	<b>5.00</b>	<b>3.84</b>	4.75	2.90
Fourth Quarter .....	<b>5.00</b>	<b>4.08</b>	3.60	2.50

As of January 23, 2013, we have approximately 2,000 beneficial stockholders. In 2009, our Board of Directors voted to suspend quarterly cash dividend payments. Our dividend policy and the decision to suspend dividend payments is subject to review and revision by the Board of Directors and any future payments will depend upon our financial condition, our capital requirements and earnings, as well as other factors the Board of Directors may deem relevant.

#### Issuer Purchases of Equity Securities

The following table summarizes the repurchases of our equity securities during the 12-month period ended December 31, 2012:

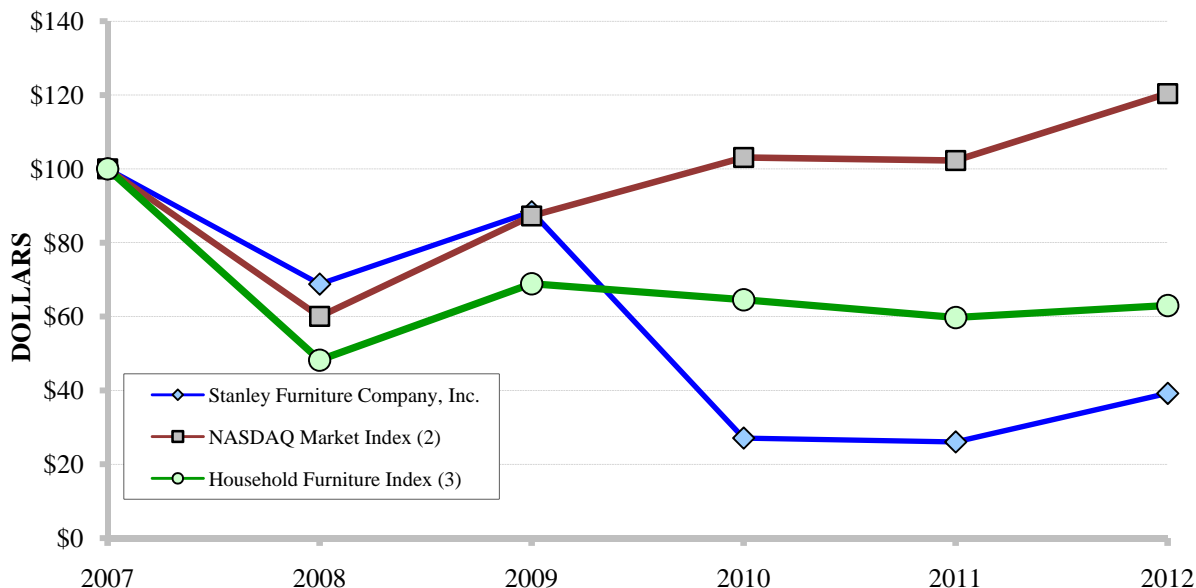
Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs <sup>(1)</sup>	Approximate Dollar Value of Shares that May Yet be Purchased under the Plans or Programs <sup>(1)</sup>
September 30 to November 3, 2012	3,373	4.47	3,373	4,984,914
November 4 to December 1, 2012	66,316	4.50	66,316	4,686,688
December 2 to December 31, 2012	<u>76,326</u>	4.55	<u>76,326</u>	4,339,172
Twelve months ended December 31, 2012	<u>146,015</u>		<u>146,015</u>	

<sup>(1)</sup> 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.

## Performance Graph

The following graph compares cumulative total stockholder return for our company with a broad performance indicator, the Nasdaq Market index (an industry index) and a Peer group index for the period from December 31, 2007 to December 31, 2012.

**COMPARISON OF CUMULATIVE TOTAL RETURN (1)**



- (1) The graph shows the cumulative total return on \$100 invested at the market close on December 31, 2007, the last trading day in 2007, in common stock or the specified index, including reinvestments of dividends.
- (2) Nasdaq Market Index as prepared by Zacks Investment Research, Inc.
- (3) Household Furniture Index as prepared by Zacks Investment Research, Inc. consists of SIC Codes 2510 and 2511. At January 11, 2013, Zacks Investment Research, Inc. reported that these two SIC Codes consisted of Bassett Furniture Industries, Inc., Bestar, Inc., Chromcraft Revington, Inc., Dorel Industries, Inc., Ethan Allen Interiors, Inc., First Choice Products Inc., Flexsteel Industries, Inc., Furniture Brands International, Inc., Hooker Furniture Corporation, La-Z-Boy, Inc., Leggett & Platt, Inc., Rowe Companies, Sealy Corp., Select Comfort Corp., Stanley Furniture Company, Inc. and Tempur Pedic International, Inc.

## Equity Compensation Plan Information

The following table summarizes our equity compensation plans as of December 31, 2012:

	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	<u>2,089,970</u>	<u>\$5.99</u>	<u>1,293,583</u>

**Item 6. Selected Financial Data**

	<b>Years Ended December 31,</b>				
	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
	(in thousands, except per share data)				
<b>Income Statement Data:</b>					
Net sales .....	<b>\$ 98,570</b>	\$104,646	\$137,012	\$160,451	\$226,522
Cost of sales (1) .....	<u>86,368</u>	<u>92,175</u>	<u>153,115</u>	<u>158,695</u>	<u>197,995</u>
Gross profit (loss) .....	<b>12,202</b>	12,471	(16,103)	1,756	28,527
Selling, general and administrative expenses (2) .....	<b>18,281</b>	19,250	20,625	26,666	32,375
Goodwill impairment charge .....			<u>9,072</u>		
Operating income (loss) .....	<b>(6,079)</b>	(6,779)	(45,800)	(24,910)	(3,848)
Income from Continued Dumping and Subsidy Offset Act, net.....	<b>39,349</b>	3,973	1,556	9,340	11,485
Other income, net.....	<b>79</b>	112	25	160	308
Interest expense, net.....	<u>2,320</u>	<u>2,330</u>	<u>3,534</u>	<u>3,703</u>	<u>3,211</u>
Income (loss) before income taxes .....	<b>31,029</b>	(5,024)	(47,753)	(19,113)	4,734
Income taxes (benefit).....	<b>645</b>	<u>1</u>	<u>(3,963)</u>	<u>(7,362)</u>	<u>998</u>
Net income (loss).....	<b><u>\$ 30,384</u></b>	<b><u>\$ (5,025)</u></b>	<b><u>\$(43,790)</u></b>	<b><u>\$(11,751)</u></b>	<b><u>\$ 3,736</u></b>
<b>Basic Earnings (loss) Per Share:</b>					
Net income (loss) .....	<b><u>\$ 2.12</u></b>	<b><u>\$ (.35)</u></b>	<b><u>\$ (4.11)</u></b>	<b><u>\$ (1.14)</u></b>	<b><u>\$ .36</u></b>
Weighted average shares .....	<b><u>14,328</u></b>	<b><u>14,345</u></b>	<b><u>10,650</u></b>	<b><u>10,332</u></b>	<b><u>10,332</u></b>
<b>Diluted Earnings (loss) Per Share:</b>					
Net income (loss) .....	<b><u>\$ 2.10</u></b>	<b><u>\$ (.35)</u></b>	<b><u>\$ (4.11)</u></b>	<b><u>\$ (1.14)</u></b>	<b><u>\$ .36</u></b>
Weighted average shares .....	<b><u>14,484</u></b>	<b><u>14,345</u></b>	<b><u>10,650</u></b>	<b><u>10,332</u></b>	<b><u>10,332</u></b>
Cash dividends paid per share.....	<b><u>\$</u></b>	<b><u>\$</u></b>	<b><u>\$</u></b>	<b><u>\$</u></b>	<b><u>\$ .40</u></b>
<b>Balance Sheet and Other Data:</b>					
Cash .....	<b>\$ 10,930</b>	\$ 15,700	\$ 25,532	\$ 41,827	\$ 44,013
Inventories.....	<b>35,060</b>	31,084	25,695	37,225	47,344
Working capital.....	<b>72,241</b>	46,066	52,769	87,277	97,059
Total assets .....	<b>110,716</b>	80,608	88,396	150,462	165,871
Capital leases.....	<b>717</b>	852			
Long-term debt including current maturities.....				27,857	29,286
Stockholders' equity .....	<b>87,239</b>	57,040	61,795	92,847	103,108
Capital expenditures.....	<b>3,820</b>	\$ 4,352	\$ 857	\$ 2,621	\$ 2,261
Stock repurchases:					
Shares.....	<b>146</b>				
Total cost.....	<b>\$ 661</b>				

- (1) Included in cost of sales in 2012 are restructuring and related charges of \$474,000 for lease commitments on warehousing space in the Stanleytown facility no longer being utilized. Included in cost of sales in 2011 are restructuring and related charges of \$416,000 for the conversion of the Stanleytown manufacturing facility to a warehouse and distribution center, the sale of the Martinsville, Virginia facility and other restructuring related cost. Included in 2010 cost of sales is \$10.4 million for accelerated depreciation and restructuring and related charges, also related to the Stanleytown facility conversion. Included in cost of sales in 2009 is \$5.2 million for restructuring and related charges for a warehouse consolidation, elimination of certain positions, and a write-down of inventories. Included in cost of sales in 2008 is \$5.9 million for the consolidation of two manufacturing facilities into one.
- (2) Included in selling, general and administrative expenses in 2009 is \$876 thousand and in 2008 is \$1.4 million of restructuring and related charges for the consolidations noted in footnote (1) above.

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

### Overview

Over the last five years the market for residential wood furniture has been significantly impacted by declines in housing activity, consumer confidence and disposable income. In response to these deteriorating industry conditions we took a number of steps during this time to reposition our company to align our cost structure and operating models with the lower sales volume and the changing marketplace. Major restructuring action was taken to consolidate facilities and ultimately reduce our domestic manufacturing footprint to improve asset utilization and production efficiencies. At the same time we shifted our operation strategy for each brand so that we could respond to the demands of a new marketplace and position our company for growth. Accordingly, we transitioned the manufacturing of the Stanley Furniture product line to a fully overseas sourced model and ceased domestic manufacturing operations for this brand in late 2010. This transition of our Stanley Furniture product line was successfully completed in 2011. For our Young America product line we implemented a strategy to differentiate this line by controlling the production to ensure safety, quality, selection and service. This led us to shift the production of sourced Young America items from overseas to our domestic operation. Over the past two years we have invested approximately \$8.0 million in the modernization of our Young America manufacturing facility in Robbinsville, North Carolina to allow us to compete as a domestic producer of this product. We completed this major modernization and the transition of the entire product line to higher quality standards in December 2012. All these actions resulted in significant losses in 2009 and 2010 and to a lesser extent in 2011 and 2012. The strength of our Balance Sheet during this transition has allowed us to act on strategic decisions that we believe have positioned us for growth in both product lines.

### Results of Operations

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

	For the Years Ended		
	December 31,		
	2012	2011	2010
Net sales.....	100.0%	100.0%	100.0%
Cost of sales.....	87.6	88.1	111.7
Gross profit (loss).....	12.4	11.9	(11.7)
Selling, general and administrative expenses.....	18.6	18.4	15.1
Goodwill impairment charge.....			6.6
Operating loss.....	(6.2)	(6.5)	(33.4)
CDSOA income, net.....	39.9	3.8	1.1
Other income, net.....	.1	.1	
Interest expense, net.....	2.3	2.2	2.6
Income before income taxes.....	31.5	(4.8)	(34.9)
Income taxes (benefit).....	.7		(2.9)
Net income (loss).....	30.8%	(4.8)%	(32.0)%

### 2012 Compared to 2011

Net sales decreased \$6.1 million, or 5.8%, in 2012 compared to 2011. The decrease was primarily due to lower unit volume for our Young America product line as we completed the modernization efforts in our factory and transitioned the entire product line to higher quality standards. Partially offsetting the volume declines on the Young America product line was increased sales and unit volume on the Stanley Furniture product line, as we believe we are regaining market share lost during our transition to a sourced model in early 2011.

Gross profit as a percentage of net sales improved to 12.4% in 2012 from 11.9% in 2011. The improvement in gross profit for 2012 compared to 2011 resulted from higher sales volume on the Stanley Furniture product line and operational improvements from our Young America product line. Included in gross profit in 2012 and 2011 is \$474,000 and \$416,000, respectively, in restructuring and related charges. During 2011, we began evaluating our overall warehousing and distribution requirements for our Stanley Furniture product line and concluded that only a portion of the leased warehouse space in Stanleytown, Virginia would be required. As a result, a restructuring charge against future lease obligations of \$418,000 and \$499,000 was taken in 2012 and 2011, respectively.

Selling, general and administrative expenses for 2012 were \$18.3 million, or 18.6% of net sales, compared to \$19.3 million, or 18.4% of net sales, in 2011. The decline in this expense is primarily due to the impact that lower sales has on variable selling expenses, lower spending on marketing related expenses and a decrease in bad debt expense.

As a result of the above, operating loss improved to \$6.1 million in 2012 compared with an operating loss of \$6.8 million in 2011.

We recorded income, net of legal expenses, of \$39.3 million in 2012 from the receipt of funds under the Continued Dumping and Subsidy Offset Act of 2000 (CDSOA) involving wooden bedroom furniture imported from China and other related payments compared to \$4.0 million in 2011.

Interest expense in 2012 remained flat with 2011. Interest expense for both periods is composed of interest on insurance policy loans from a legacy deferred compensation plan and imputed interest on a lease related obligation in 2011.

Our effective tax rate for 2012 was 2.1%. The tax expense in 2012 is primarily the result of federal alternative minimum tax on the receipt of proceeds from the CDSOA distributed by U.S. Customs and Border Protection. Federal alternative minimum tax regulations limit the ability to offset all of the income generated in the period with net operating loss carry forwards. Our 2011 effective tax rate was essentially zero since we had established a valuation allowance for our deferred tax assets in excess of our deferred tax liabilities.

#### 2011 Compared to 2010

Net sales decreased \$32.4 million, or 23.6%, in 2011 compared to 2010. The decrease was due primarily to lower unit volume. We believe the overall decline was the result of loss of market share and continued weakness in demand for residential wood furniture in the premium segment. We believe the loss of market share resulted from the transition caused by the major restructuring of our business. Partially offsetting the unit decline was higher average selling prices for our Young America products.

Gross profit in 2011 increased to \$12.5 million, or 11.9% of net sales, from a loss of \$16.1 million in 2010. Included in gross profit in 2011 and 2010 is \$416,000 and \$10.4 million, respectively, in restructuring and related charges. See Note 8 of the Notes to the Consolidated Financial Statements for further details on restructuring and related charges. The remaining improvement in gross profit for 2011 compared to 2010 resulted primarily from the Stanley product line operating with a globally sourced model with little fixed cost burden. Also contributing to the improved margins was the progression of operational improvements throughout the year in Robbinsville combined with higher average selling prices for Young America.

Selling, general and administrative expenses for 2011 were \$19.3 million, or 18.4% of net sales, compared to \$20.6 million, or 15.1% of net sales, in 2010. The decline in this expense is primarily due to the impact that lower sales has on variable selling expenses. Partially offsetting these lower costs were increased spending on marketing related expenses to educate the consumer on the reinvention of our product lines and increased bad debt expense. The higher percentage in 2011 is primarily due to lower sales.

During the first quarter of 2010, we completed an impairment analysis of goodwill and recognized a charge of \$9.1 million, the entire amount of goodwill at the time.

As a result of the above, operating loss improved to \$6.8 million in 2011 compared with an operating loss of \$45.8 million in 2010.

We recorded income, net of legal expenses, of \$4.0 million in 2011 from the receipt of funds under the Continued Dumping and Subsidy Offset Act of 2000 (CDSOA) involving wooden bedroom furniture imported from China and other related payments compared to \$1.6 million in 2010.

Interest expense in 2011 declined from 2010 due to the repayment of all outstanding debt in December 2010. Interest expense in the current year is composed of interest on insurance policy loans from a legacy deferred compensation plan and imputed interest on a lease related obligation.

Our effective tax rate for 2011 was essentially zero compared to a tax benefit rate of 8.3% in 2010. The 2011 rate is the result of using all available carry-back income and maintaining a full valuation allowance for our deferred tax assets in excess of our deferred tax liabilities. The effective tax benefit rate for 2010 was 8.3% which differs from the U.S. federal statutory rate of 35% because of the establishment of a deferred tax valuation allowance and to a lesser extent the goodwill impairment charge.

### **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 and restructuring efforts will be successful, we cannot predict with certainty the ultimate impact on our revenues, operating costs and cash flows from operations. The CDSOA proceeds of \$39.9 million have strengthened our balance sheet and allowed us to focus on the execution of our strategy. We expect cash on hand to be adequate for ongoing expenditures and capital expenditures for the foreseeable future. At December 31, 2012 we had \$10.9 million in cash, \$1.7 million in restricted cash and \$25.0 million of short-term investments.

Working capital, excluding cash, restricted cash and short-term investments, increased during 2012 to \$34.6 million from \$28.8 million on December 31, 2011. The increase was primarily the result of a build in inventories and a reduction in accounts payable.

Cash provided by operations was \$25.4 million in 2012 compared to cash used of \$7.3 million in 2011 and \$9.4 million in 2010. The cash provided by operations during 2012 was from the receipt of \$39.9 million in proceeds from the CDSOA compared to \$4.6 million in 2011 and \$2.2 million in 2010. Also during the current year, we paid income taxes of \$768,000, largely driven by the income related to the CDSOA proceeds compared to income tax refunds of \$3.6 million in 2011 and \$8.2 million in 2010. The increase in cash used by operations in 2012, excluding the CDSOA receipts, was primarily due to lower sales, partially offset by a decrease in cash paid to suppliers and employees resulting from savings related to operational improvements on our Young America product line.

Net cash used by investing activities was \$31.6 million in 2012 compared to \$4.4 million in 2011 and cash provided of \$4.8 million in 2010. During 2012 we invested \$25.0 million of our CDSOA proceeds in short-term investments. In addition, we invested \$3.8 million in 2012, \$4.4 million in 2011 and \$857,000 in 2010 in capital expenditures, a majority of which was for the modernization of our Young America manufacturing operation in Robbinsville, North Carolina. We also began to improve our systems and website during 2012 with an investment of \$2.7 million, and project to spend another \$2.0 million in 2013 to finalize the project. Included in 2011 investing activities was a \$1.6 million transfer of cash to restricted cash to secure letters of credit. Sale of assets provided cash of \$81,000, \$1.6 million and \$5.7 million in 2012, 2011 and 2010, respectively. Capital expenditures for 2013 should return back to normal maintenance capital at approximately \$1.0 million, with most occurring in the later part of the year. In addition, we expect to invest \$1.7 million in leasehold improvements on the consolidation of our showroom and corporate offices in High Point, North Carolina. Approximately \$178,000 has been invested in 2012 and the remainder will be invested in the first half of 2013.

Net cash provided by financing activities was \$1.5 million in 2012 compared to \$1.9 million in 2011 and cash used of \$11.7 million in 2010. In 2012, funds were used for the purchase and retirement of \$661,000 of our common stock. In 2012, 2011 and 2010, proceeds from insurance policy loans provided cash of \$2.2 million, \$2.0 million and \$1.8 million, respectively. In 2010, cash of \$27.9 million was used to retire outstanding debt, proceeds of \$11.8 million (net of expenses) were received from the issuance of 4 million shares of our common stock and proceeds of \$2.4 million were received from the sale of our Martinsville, Virginia facility which was accounted for as a financing obligation.

In the first quarter of 2012, we entered into a lease agreement for a new corporate office and showroom location that will allow for the consolidation of our corporate offices and our High Point Market showroom into a single, multi-purpose location in High Point, North Carolina. As a result of this consolidation, we expect to record approximately \$600,000 in restructuring charges for severance and relocation cost in the first quarter of 2013. In addition, we entered into a lease agreement to open a new showroom within the Las Vegas Design Center located within the World Market Center Las Vegas in January 2013. With the addition of these leases, our future minimum operating lease payments will be \$1.5 million in 2013 and 2014, \$1.6 million in 2015, \$1.2 million in 2016, \$800,000 in 2017 and \$3.7 million for the years thereafter.



The following table sets forth our contractual cash obligations and other commercial commitments at December 31, 2012 (in thousands):

	<b>Payment due or commitment expiration</b>				
	<b>Total</b>	<b>Less Than 1 year</b>	<b>1-3 years</b>	<b>4-5 years</b>	<b>Over 5 years</b>
Contractual cash obligations:					
Postretirement benefits other than pensions <sup>(1)</sup>	\$ 3,562	\$ 346	\$ 599	\$ 540	\$ 2,077
Operating leases	10,207	1,454	3,074	2,016	3,663
Capital lease	747	147	294	294	12
Total contractual cash obligations	<u>\$ 14,516</u>	<u>\$ 1,947</u>	<u>\$ 3,967</u>	<u>\$ 2,850</u>	<u>\$ 5,752</u>
Other commercial commitments:					
Letters of credit	<u>\$ 1,737</u>	<u>\$ 1,737</u>			

- (1) The RP-2000 Combined Health Mortality Table with generational mortality improvements were used in estimating future benefit payments, and the health care cost trend rate for determining payments is 8.5% for 2012 and gradually declines to 5.5% in 2018 where it is assumed to remain constant for the remaining years.

Not included in the above table are unrecognized tax benefits of \$678,000, due to the uncertainty of the date of occurrence.

### 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") concerning wooden bedroom furniture imported from China. We received CDSOA proceeds in the amount of \$39.9 million, \$4.0 million and \$1.6 million in 2012, 2011 and 2010. 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 in the amount of \$39.9 million in April 2012. If the Federal Circuit were to reverse the decisions of the Court of International Trade and determine that the Non-Supporting Producers were entitled to CDSOA distributions, it is possible that Customs may seek to have us return all or a portion of our share of this most recent distribution. The Federal Circuit has scheduled oral arguments for March 8, 2013 concerning the appeals of the Non-Supporting Producers. Based on what we know today, we believe that the chance Customs will seek and be entitled to obtain a return is remote. We therefore recorded income, net of expenses, of \$39.4 million in April 2012 as a result of the receipt of these funds.

In addition, according to Customs, as of October 1, 2012, approximately \$8.9 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 producers in connection with the case involving wooden bedroom furniture imported from China. The amount ultimately distributed will be impacted by appeals concerning the results of the annual administrative review process, which can retroactively increase or decrease the actual duties owed on entries secured by cash deposits and bonds, by collection efforts concerning duties that may be owed, and by any applicable legislation and Custom's interpretation of that legislation. Assuming that such funds are distributed and that our percentage allocation in future years is the same as it was for the 2011 distribution (approximately 30% of the funds distributed) and the \$8.9 million in estimated antidumping duties secured by antidumping duty cash deposits and bonds does not change as a result of the annual administrative review process or otherwise, we could receive approximately \$2.7 million more in CDSOA funds.

In November 2012, Customs disclosed that it has again withheld funds from any available distribution associated with any cases involved in ongoing litigation until the amounts at issue in the pending litigation have been resolved. It is expected that Customs will continue withholding such funds until a final decision is reached in the pending litigation. Therefore, no distributions were made in December 2012 for the case involving wooden bedroom furniture imported from China.

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

### **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.

**Cash and equivalents** – We consider highly liquid investments with maturities of 90 days or less when purchased to be cash equivalents. Cash equivalents are stated at cost, which approximates fair market value. Our cash and cash equivalents are primarily in bank deposits, money market funds and certificate of deposits.

**Short-term investments** – We consider investments with maturities of greater than three months and less than one year at the time of purchase as short-term investments. Our investments are in certificates of deposits, which we intend to hold until maturity. We report the investments at cost with earnings recognized through interest income.

**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 the company's financial statements, management exercises judgments in estimating the potential exposure to unresolved tax matters and applies a more likely than not criteria approach for recording tax benefits related to uncertain tax positions. While actual results could vary, in management's judgment, the company has 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.

## **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**

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 products obtained from offshore sourcing and reduce our earnings, unless we are able to increase our prices for these items to reflect any such increased cost.

### **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* 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, 2012. The effectiveness of our internal control over financial reporting as of December 31, 2012 has been audited by PricewaterhouseCoopers LLP, our independent 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 Controls 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 “2013 Proxy Statement”) for our annual meeting of shareholders scheduled for April 16, 2013. 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 2013 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 2013 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 person 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 captions “Compensation of Executive Officers,” “Compensation Committee Interlocks and Insider Participation” and “Compensation Committee Report” of our 2013 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 and Related Stockholder Matters” of our 2013 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 caption “Compensation of Executive Officers – Employment Agreements and Related Transactions” and “Board and Board Committee Information” of our 2013 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 Registered Public Accountants” of our 2013 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, 2012 and 2011  
Consolidated Statements of Income for each of the three years in the period ended December 31, 2012  
Consolidated Statements of Comprehensive Income for each of the three years ended in the period ended December 31, 2012  
Consolidated Statements of Changes in Stockholders' Equity for each of the three years in the period ended December 31, 2012.  
Consolidated Statements of Cash Flow for each of the three years in the period ended December 31, 2012  
Notes to Consolidated Financial Statements
  - (2) Financial Statement Schedule:  
Schedule II – Valuation and Qualifying Accounts for each of the three years in the period ended December 31, 2012.
- (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 February 3, 2010).
  - 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 10.12 to the Registrant's Registration Statement on Form S-1 (Commission File No. 0-14938), No. 33-7300).(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).
- 10.9 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, dated December 11, 2009, by and between Stanley Furniture Company, Inc. and Glenn Prillaman (incorporated by reference to Exhibit 10.1 to the Registrant's Form 8-K (commission File No. 0-14938) filed on December 14, 2009).(1)
- 10.11 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)
- 10.12 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)
- 10.13 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)
- 10.14 Change in Control Protection Agreement, dated August 11, 2010, by and between the Registrant and Micah Goldstein (incorporated by reference to Exhibit 10.1 to the Registrant's Form 8-K (Commission File No. 0-14938) filed August 16, 2010).(1)
- 10.15 Amendment to the Change in Control Protection Agreement dated September 10, 2010, by and between the Registrant and Glenn Prillaman (incorporated by reference to Exhibit 10.1 to Registrant's Form 8-K (Commission File No. 0-14938) filed September 16, 2010).(1)
- 10.16 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, 2011).(1)
- 10.17 Form of Restricted Stock Award under 2008 Incentive Plan (Directors). (1) (2)
- 10.18 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)
- 10.19 Form of Stock Option Award under 2012 Incentive Plan (Officers). (1) (2)
- 10.20 Form of Restricted Stock Award under 2012 Incentive Plan (Officers). (1) (2)

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(1) Management contract or compensatory plan  
(2) Filed Herewith

- 21 List of Subsidiaries. (2)
- 23 Consent of PricewaterhouseCoopers 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 Micah S. Goldstein, our Chief 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.(2)
- 32.2 Certification by Micah S. Goldstein, our Chief Financial Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.(2)
- 101 The following financial statements from the Company's Annual Report on Form 10-K for the year ended December 31, 2012, formatted in Extensible Business Reporting Language ("XBRL"): (i) consolidated balance sheets, (ii) consolidated statements of income, (iii) condensed consolidated statements of comprehensive income, (iv) condensed consolidated statements of cash flow, (v) the notes to the consolidated financial statements, and (vi) document and entity information. (2) (3)

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(1) Management contract or compensatory plan

(2) Filed Herewith

(3) Under Rule 406T of Regulation S-T, this exhibit is deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, is deemed not filed for purposes of Section 18 of the Securities and Exchange Act of 1934, as amended, and otherwise is not subject to liability under those sections

## 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 our behalf by the undersigned, thereunto duly authorized.

STANLEY FURNITURE COMPANY, INC.

February 6, 2013

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/Michael P. Haley</u> (Michael P. Haley)	Chairman and Director	February 6, 2013
<u>/s/Glenn Prillaman</u> (Glenn Prillaman)	President and Chief Executive Officer (Principal Executive Officer) and Director	February 6, 2013
<u>/s/Micah S. Goldstein</u> (Micah S. Goldstein)	Chief Operating and Financial Officer and Secretary (Principal Financial and Accounting Officer) and Director	February 6, 2013
<u>/s/D. Paul Dascoli</u> (D. Paul Dascoli)	Director	February 6, 2013
<u>/s/T. Scott McIlhenny, Jr.</u> (T. Scott McIlhenny, Jr.)	Director	February 6, 2013



STANLEY FURNITURE COMPANY, INC.  
ANNUAL REPORT ON FORM 10-K  
FOR THE YEAR ENDED DECEMBER 31, 2012  
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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## **Report of Independent Registered Public Accounting Firm**

To the Board of the Directors and Stockholders of Stanley Furniture Company, Inc.:

In our opinion, the consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of Stanley Furniture Company, Inc. and its subsidiaries at December 31, 2012 and December 31, 2011, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2012 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the accompanying index presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2012, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements and financial statement schedule, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control Over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on these financial statements, on the financial statement schedule, and on the Company's internal control over financial reporting based on our integrated 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included 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, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting 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 audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

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 (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) 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 (iii) 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.

PricewaterhouseCoopers LLP  
Richmond, Virginia  
February 5, 2013

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

	December 31,	
	2012	2011
<b>ASSETS</b>		
Current assets:		
Cash.....	\$ 10,930	\$ 15,700
Restricted cash .....	1,737	1,587
Short-term investments.....	25,000	
Accounts receivable, less allowances of \$654 and \$1,051 ....	10,028	10,252
Inventories:		
Finished goods.....	30,980	27,793
Work-in-process.....	1,845	1,213
Raw materials .....	2,235	2,078
Total inventories .....	35,060	31,084
Prepaid expenses and other current assets.....	3,438	3,380
Deferred income taxes .....	962	519
Total current assets .....	87,155	62,522
Property, plant and equipment, net .....	19,870	17,590
Other assets .....	3,691	496
Total assets.....	\$ 110,716	\$ 80,608
<b>LIABILITIES</b>		
Current liabilities:		
Accounts payable.....	\$ 8,667	\$ 9,963
Accrued salaries, wages and benefits .....	3,826	4,378
Other accrued expenses.....	2,421	2,115
Total current liabilities .....	14,914	16,456
Deferred income taxes .....	962	519
Other long-term liabilities.....	7,601	6,593
Total liabilities .....	23,477	23,568
Commitments and Contingencies		
<b>STOCKHOLDERS' EQUITY</b>		
Common stock, \$0.02 par value, 25,000,000 shares authorized, 14,566,099 and 14,524,015 shares issued and outstanding, respectively .....	284	287
Capital in excess of par value .....	15,018	14,898
Retained earnings .....	72,421	42,037
Accumulated other comprehensive loss .....	(484)	(182)
Total stockholders' equity .....	87,239	57,040
Total liabilities and stockholders' equity .....	\$ 110,716	\$ 80,608

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

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

	For the Years Ended		
	December 31,		
	<u>2012</u>	2011	<u>2010</u>
Net sales.....	<b>\$ 98,570</b>	\$104,646	\$137,012
Cost of sales.....	<u>86,368</u>	<u>92,175</u>	<u>153,115</u>
Gross profit (loss) .....	<b>12,202</b>	12,471	(16,103)
Selling, general and administrative expenses.....	<b>18,281</b>	19,250	20,625
Goodwill impairment charge.....	<u>          </u>	<u>          </u>	<u>9,072</u>
Operating loss.....	<b>(6,079)</b>	(6,779)	(45,800)
Income from Continued Dumping and Subsidy Offset Act, net .....	<b>39,349</b>	3,973	1,556
Other income, net.....	<b>79</b>	112	25
Interest income.....	<b>82</b>	25	3
Interest expense.....	<u>2,402</u>	<u>2,355</u>	<u>3,537</u>
Income (loss) before income taxes.....	<b>31,029</b>	(5,024)	(47,753)
Income tax (benefit) expense.....	<u>645</u>	<u>1</u>	<u>(3,963)</u>
Net income (loss).....	<b><u>\$ 30,384</u></b>	<b><u>\$ (5,025)</u></b>	<b><u>\$(43,790)</u></b>
Income (loss) per share:			
Basic .....	<b><u>\$ 2.12</u></b>	<b><u>\$ (.35)</u></b>	<b><u>\$ (4.11)</u></b>
Diluted.....	<b><u>\$ 2.10</u></b>	<b><u>\$ (.35)</u></b>	<b><u>\$ (4.11)</u></b>
Weighted average shares outstanding:			
Basic .....	<b><u>14,328</u></b>	<u>14,345</u>	<u>10,650</u>
Diluted.....	<b><u>14,484</u></b>	<u>14,345</u>	<u>10,650</u>

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

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

	For the Years Ended December 31,		
	2012	2011	2010
Net income (loss).....	<b><u>\$ 30,384</u></b>	<b><u>\$ (5,025)</u></b>	<b><u>\$ (43,790)</u></b>
Other comprehensive loss (income):			
Amortization of prior service cost .....	177	177	57
Amortization of actuarial loss (benefit).....	<u>125</u>	<u>18</u>	<u>(179)</u>
Adjustments to net periodic postretirement cost (benefit)	<u>302</u>	<u>195</u>	<u>(122)</u>
Comprehensive income (loss).....	<b><u>\$ 30,082</u></b>	<b><u>\$ (5,220)</u></b>	<b><u>\$ (43,668)</u></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 three years in the period ended December 31, 2012  
(in thousands)

	<u>Common Stock</u>		<u>Capital in</u> <u>Excess of</u>	<u>Retained</u>	<u>Accumulated</u> <u>Other</u> <u>Comprehensive</u>	<u>Total</u>
	<u>Shares</u>	<u>Amount</u>	<u>Par Value</u>	<u>Earnings</u>	<u>Income (Loss)</u>	
Balance at December 31, 2009 .....	10,332	\$ 207	\$ 1,897	\$ 90,852	\$ (109)	\$92,847
Net loss .....				(43,790)		(43,790)
Other comprehensive income .....					122	122
Exercise of stock options .....	13		116			116
Issuance of common stock .....	4,000	80	11,717			11,797
Stock-based compensation .....	<u>      </u>	<u>      </u>	<u>703</u>	<u>      </u>	<u>      </u>	<u>703</u>
Balance at December 31, 2010 .....	14,345	287	14,433	47,062	13	61,795
Net loss .....				(5,025)		(5,025)
Other comprehensive loss .....					(195)	(195)
Fees related to issuance of common stock .....			(40)			(40)
Restricted stock grants .....	179					
Stock-based compensation .....	<u>      </u>	<u>      </u>	<u>505</u>	<u>      </u>	<u>      </u>	<u>505</u>
Balance at December 31, 2011 .....	14,524	287	14,898	42,037	(182)	57,040
<b>Net income .....</b>				<b>30,384</b>		<b>30,384</b>
<b>Other comprehensive loss .....</b>					<b>(302)</b>	<b>(302)</b>
<b>Fees related to issuance of common stock .....</b>			<b>(1)</b>			<b>(1)</b>
<b>Restricted stock grants .....</b>	<b>188</b>					
<b>Purchase and retirement of common stock .....</b>	<b>(146)</b>	<b>(3)</b>	<b>(658)</b>			<b>(661)</b>
<b>Stock-based compensation .....</b>	<u>      </u>	<u>      </u>	<u>779</u>	<u>      </u>	<u>      </u>	<u>779</u>
<b>Balance at December 31, 2012 .....</b>	<b><u>14,566</u></b>	<b><u>\$ 284</u></b>	<b><u>\$ 15,018</u></b>	<b><u>\$ 72,421</u></b>	<b><u>\$ (484)</u></b>	<b><u>\$ 87,239</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,		
	<u>2012</u>	<u>2011</u>	<u>2010</u>
<b>Cash flows from operating activities:</b>			
Cash received from customers .....	\$ 99,064	\$ 103,295	\$142,481
Cash paid to suppliers and employees .....	(110,185)	(116,763)	(158,560)
Cash from Continued Dumping and Subsidy Offset Act, net .....	39,466	4,615	2,232
Interest paid .....	(2,218)	(2,094)	(3,750)
Income tax (payments) refunds .....	(768)	3,640	8,195
Net cash provided (used) by operating activities .....	<u>25,359</u>	<u>(7,307)</u>	<u>(9,402)</u>
<b>Cash flows from investing activities:</b>			
Purchase of short-term securities .....	(25,000)		
Increase in restricted cash .....	(150)	(1,587)	
Capital expenditures .....	(3,820)	(4,352)	(857)
Proceeds from sale of assets .....	81	1,570	5,731
Purchase of other assets .....	(2,730)	(38)	(28)
Net cash (used) provided by investing activities .....	<u>(31,619)</u>	<u>(4,407)</u>	<u>4,846</u>
<b>Cash flows from financing activities:</b>			
Repayment of senior notes .....			(27,857)
Capital lease payments .....	(132)	(121)	
Purchase and retirement of common stock .....	(661)		
Proceeds from lease related obligation .....			2,360
Proceeds from exercise of stock options .....			116
Proceeds from issuance of common stock .....			11,797
Proceeds from insurance policy loans .....	2,283	2,003	1,845
Net cash provided (used) by financing activities .....	<u>1,490</u>	<u>1,882</u>	<u>(11,739)</u>
Net decrease in cash .....	(4,770)	(9,832)	(16,295)
Cash at beginning of year .....	<u>15,700</u>	<u>25,532</u>	<u>41,827</u>
Cash at end of year .....	<u>\$ 10,930</u>	<u>\$ 15,700</u>	<u>\$ 25,532</u>
<b>Reconciliation of net loss to net cash used by operating activities:</b>			
Net income (loss) .....	\$ 30,384	\$ (5,025)	\$(43,790)
Adjustments to reconcile net income (loss) to net cash used by operating activities:			
Goodwill impairment charge .....			9,072
Depreciation .....	1,753	1,614	9,357
Amortization .....	14	29	48
Deferred income taxes .....			1,305
Stock-based compensation .....	779	505	703
Other, net .....	(62)	468	657
Changes in assets and liabilities:			
Accounts receivable .....	224	(364)	5,409
Inventories .....	(3,976)	(5,389)	11,530
Prepaid expenses and other current assets .....	(2,363)	2,917	508
Accounts payable .....	(1,652)	847	(2,517)
Accrued salaries, wages and benefits .....	(1,044)	(205)	(1,667)
Other accrued expenses .....	374	(2,330)	292
Other assets .....	146	130	87
Other long-term liabilities .....	782	(504)	(396)
Net cash provided (used) by operating activities .....	<u>\$ 25,359</u>	<u>\$ (7,307)</u>	<u>\$ (9,402)</u>
<b>Supplemental disclosure of cash flow information:</b>			
Non-cash financing activities:			
Capital lease .....		\$ 973	
Equipment purchases in accounts payable .....	\$ 255		

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 designer, manufacturer and importer of wood furniture exclusively targeted at the premium price range of the residential market.

For financial reporting purposes, we operate in one business segment where substantially all revenues are from the sale of residential wood furniture products. This business segment consists of two product lines that are branded as Stanley Furniture and Young America. Sales from these two groups of products for the three years ended are as follows:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Stanley Furniture.....	62%	56%	55%
Young America .....	<u>38%</u>	<u>44%</u>	<u>45%</u>
Total net sales .....	<u>100%</u>	<u>100%</u>	<u>100%</u>

Subsequent events were evaluated through the date these financial statements were issued.

Cash Equivalents

Cash and short-term, highly-liquid investments with original maturities of three months or less are considered cash and 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 are in certificates of deposits, which we intend to hold until maturity. We report the investments at cost with earnings recognized through interest income.

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.

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. 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. 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, 2012 and 2011 was approximately \$2.8 million and \$14,000, respectively, and is included in other assets.



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

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

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 trade receivables, trade payables and letters of credit 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 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. 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.

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.

**2. Property, Plant and Equipment**

	Depreciable lives	(in thousands)	
	(in years)	<u>2012</u>	<u>2011</u>
Land and buildings .....	20 to 50	\$ <b>13,896</b>	\$ 13,896
Machinery and equipment.....	5 to 12	<b>28,406</b>	27,277
Office furniture and equipment.....	3 to 10	<b>1,153</b>	1,168
Construction in progress .....		<u><b>522</b></u>	<u>2,116</u>
Property, plant and equipment, at cost .....		<b>43,977</b>	44,457
Less accumulated depreciation .....		<u><b>24,107</b></u>	<u>26,867</u>
Property, plant and equipment, net.....		<u><b>\$ 19,870</b></u>	<u>\$ 17,590</u>

**3. Goodwill**

In 2010, an impairment analysis was performed and an impairment charge of \$9.1 million was recognized, the entire amount of goodwill.

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

4. **Income Taxes**

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

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Current:			
Federal.....	\$ 434	\$ 32	\$ (5,605)
State.....	<u>211</u>	<u>(31)</u>	<u>27</u>
Total current.....	<u>645</u>	<u>1</u>	<u>(5,578)</u>
Deferred:			
Federal.....	—	—	1,476
State.....	—	—	139
Total deferred.....	—	—	<u>1,615</u>
Income tax expense (benefit).....	<u>\$ 645</u>	<u>\$ 1</u>	<u>\$ (3,963)</u>

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

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Federal statutory rate.....	35.0%	(35.0)%	(35.0)%
State tax, net of federal benefit.....	2.0	(3.4)	(1.4)
State tax credits and adjustments.....	.5	.6	(.7)
Increase in cash surrender value of life insurance policies.....	(2.2)	(12.3)	(1.2)
Tax-exempt interest.....	—	.7	—
Valuation allowance (decrease) increase.....	(33.7)	46.7	23.3
Goodwill impairment.....	—	—	6.7
Other, net.....	<u>.5</u>	<u>2.7</u>	<u>—</u>
Effective income tax rate.....	<u>2.1%</u>	<u>0.0%</u>	<u>(8.3)%</u>

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

	<u>2012</u>	<u>2011</u>
Current deferred tax assets:		
Accounts receivable.....	\$ 243	\$ 402
Employee benefits.....	978	1,324
Other accrued expenses.....	<u>278</u>	<u>257</u>
Gross current deferred tax asset.....	1,499	1,983
Less valuation allowance.....	<u>(537)</u>	<u>(1,464)</u>
Net current deferred tax asset.....	<u>\$ 962</u>	<u>\$ 519</u>
Noncurrent deferred tax assets (liabilities)		
Property, plant and equipment.....	\$ (6,211)	\$ (4,829)
Employee benefits.....	3,377	3,188
Other noncurrent assets.....	142	154
AMT credit.....	649	211
Net Operating Loss.....	<u>4,131</u>	<u>13,117</u>
Gross non-current deferred tax assets (liabilities).....	2,088	11,841
Less valuation allowance.....	<u>(3,050)</u>	<u>(12,360)</u>
Net noncurrent deferred tax assets (liabilities).....	<u>\$ (962)</u>	<u>\$ (519)</u>

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

**4. Income Taxes (continued)**

We have U.S. federal and state net operating loss carry-forwards of approximately \$10.5 million which are available to reduce future taxable income. The federal net operating loss will begin expiring in 2031 and the state net operating losses will expire at various times beginning in 2026.

During 2012, we recorded a non-cash credit to our valuation allowance of \$10.2 million against our December 31, 2012 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. Although realization is not assured, we have concluded that the remaining net deferred tax asset in the amount of \$962,000 will be realized based on the reversal of existing deferred tax liabilities. The amount of the deferred tax assets actually realized, however, could vary if there are differences in the timing or amount of future reversals of existing deferred tax liabilities. 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 follow (in thousands):

	<u>2012</u>	<u>2011</u>
Unrecognized tax benefits balance at January 1 .....	\$ 650	\$ 722
Gross increases for tax positions of prior years .....	81	560
Gross decreases for tax positions of prior years .....	<u>(53)</u>	<u>(632)</u>
Unrecognized tax benefits balance at December 31 .....	<u>\$ 678</u>	<u>\$ 650</u>

As of December 31, 2012 and 2011, we had approximately \$253,000 and \$361,000 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 \$510,000 at December 31, 2012 and \$489,000 at December 31, 2011. The 2009, 2010 and 2011 tax years remain open to examination by major taxing jurisdictions.

**5. Stockholders' Equity**

In December 2010, we issued 4,000,000 shares of common stock at \$3.00 per share in a rights offering.

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, 2012. 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.

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

5. **Stockholders' Equity (continued)**

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

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Weighted average shares outstanding for basic calculation.....	14,328	14,345	10,650
Dilutive effect of stock options .....	<u>156</u>	<u>          </u>	<u>          </u>
Weighted average shares outstanding for diluted calculation.....	<u>14,484</u>	<u>14,345</u>	<u>10,650</u>

In 2011 and 2010, the dilutive effect of stock options and restricted shares was not recognized since we had a net loss. Approximately 738,000 shares in 2012, 1.8 million shares in 2011 and 2.1 million shares in 2010 were issuable upon the exercise of stock options, which were not included in the diluted per share calculation because they were anti-dilutive. In 2011, 179,336 shares of restricted stock were not included because they were anti-dilutive.

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. During 2012, we used \$661,000 to repurchase 146,015 shares of our common stock.

6. **Stock Based Compensation**

In 2012, our shareholders approved The Stanley Furniture Company, Inc. 2012 Incentive Compensation Plan (Incentive Compensation Plan). This 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 immediately. 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. The weighted average for key assumptions used in determining the fair value of options granted follows:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Expected price volatility.....	53.25%	45.89%	53.21%
Risk-free interest rate.....	0.91%	1.34%	2.30%
Weighted average expected life in years.....	5.5	5.7	5.6
Forfeiture rate.....	21.87%	19.82%	14.27%

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

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

Historical information was the primary basis for the selection of the expected volatility, expected dividend yield, forfeiture rate and the expected lives of the options. The risk-free interest rate was selected based upon yields of U.S. Treasury issues with a term equal to the expected life of the option being valued.

Stock option activity for the three years ended December 31, 2012, follows:

	Number of shares	Weighted- Average Exercise Price	Weighted- Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in thousands)
Outstanding at December 31, 2009	1,640,624	\$11.71	6.8	
Exercised.....	(12,500)	9.22		
Lapsed.....	(70,000)	9.43		
Expired .....	(175,000)	12.47		
Granted .....	<u>710,530</u>	3.40		
Outstanding at December 31, 2010.....	2,093,654	\$ 8.91	7.6	
Lapsed.....	(566,000)	11.14		
Expired .....	(164,000)	13.94		
Granted .....	<u>451,302</u>	3.38		
Outstanding at December 31, 2011 .....	1,814,956	\$ 6.39	7.1	
<b>Expired .....</b>	<b>(22,000)</b>	<b>17.62</b>		
<b>Granted.....</b>	<b><u>297,014</u></b>	<b>4.43</b>		
<b>Outstanding at December 31, 2012.....</b>	<b><u>2,089,970</u></b>	<b>\$ 5.99</b>	<b>6.4</b>	<b>\$1,451</b>
<b>Exercisable at December 31, 2012 .....</b>	<b><u>1,090,742</u></b>	<b>\$ 7.94</b>	<b>6.7</b>	<b>\$ 574</b>

As of December 31, 2012, there was \$1.3 million 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 2.2 years.

The average fair market value of options granted in 2012, 2011 and 2010, and cash proceeds, tax benefits and intrinsic value related to total stock options exercised during 2010 are as follows (in thousands, except per share data):

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Average fair market value of options granted (per share) .....	<b>\$ 2.12</b>	\$ 1.51	\$ 1.72
Proceeds from stock options exercised.....			\$ 116
Intrinsic value of stock options exercised .....			\$ 126

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

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

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 vest at the end of a four year period from the date of grant 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 award is amortized into compensation expense on a straight-line basis between the award date and the vesting date. No restricted stock awards have vested as of December 31, 2012.

The following table summarizes information about non-vested share awards as of and for the year ended December 31, 2012:

	<u>Number of shares</u>	<u>Weighted- Average Grant Date Fair Value</u>
Outstanding at December 31, 2010.....		
Granted.....	<u>179,336</u>	\$3.07
Outstanding at December 31, 2011 .....	179,336	\$3.07
<b>Granted</b> .....	<b><u>188,099</u></b>	<b>\$4.48</b>
<b>Outstanding at December 31, 2012.....</b>	<b><u>367,435</u></b>	<b>\$ 3.79</b>

As of December 31, 2012, there was \$1.1 million 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 3.4 years.

**7. 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. We suspended employer contributions to the plan in 2010 and 2011, and reinstated them in 2012. The total plan cost, including employer contributions, was \$317,000 in 2012, \$84,000 in 2011, and \$89,000 in 2010.

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

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

Supplemental Retirement Plan

The financial status of our Supplemental Retirement Plan at December 31 follows (in thousands):

	<u>2012</u> <u>Supplemental</u> <u>Plan</u>	<u>2011</u> <u>Supplemental</u> <u>Plan</u>
Change in benefit obligation:		
Beginning benefit obligation	\$ 2,065	\$ 1,956
Interest cost.....	82	93
Actuarial loss.....	223	179
Benefits paid.....	<u>(163)</u>	<u>(163)</u>
Ending benefit obligation.....	<u>2,207</u>	<u>2,065</u>
Change in plan assets:		
Beginning fair value of plan assets .....		
Employer contributions.....	163	163
Benefits paid.....	<u>(163)</u>	<u>(163)</u>
Ending fair value of plan assets .....		
Funded status .....	<u>\$ (2,207)</u>	<u>\$ (2,065)</u>
Amount recognized in the consolidated balance sheet:		
Current liabilities.....	\$ (161)	\$ (162)
Non current liabilities.....	<u>(2,046)</u>	<u>(1,903)</u>
Total.....	<u>\$ (2,207)</u>	<u>\$ (2,065)</u>

Components of pension cost follow (in thousands):

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Interest cost.....	\$ 82	\$ 93	\$ 101
Net amortization and deferral.....	223	179	94
Total expense.....	<u>\$ 305</u>	<u>\$ 272</u>	<u>\$ 195</u>

The assumptions used to determine the plans' financial status and pension cost were:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Discount rate for funded status .....	3.10%	4.15%	4.90%
Discount rate for pension cost.....	4.15%	4.90%	5.50%

Estimated future benefit payments for the supplemental retirement plan are \$162,000 in 2013, \$159,000 in 2014, \$157,000 in 2015, \$154,000 in 2016, \$151,000 in 2017 and a total of \$707,000 from 2018 through 2022.

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

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

Postretirement Benefits Other Than Pensions

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 plan's financial status at December 31, the measurement date, follows (in thousands):

	<u>2012</u>	<u>2011</u>
Change in benefit obligation:		
Beginning benefit obligation .....	\$ 1,400	\$ 1,658
Interest cost.....	49	61
Actuarial gain.....	(66)	(143)
Plan participants' contributions .....	122	199
Benefits paid.....	<u>(150)</u>	<u>(375)</u>
Ending benefit obligation.....	<u>1,355</u>	<u>1,400</u>
Change in plan assets:		
Beginning fair value of plan assets .....		
Employer contributions.....	28	176
Plan participants' contributions .....	122	199
Benefits paid.....	<u>(150)</u>	<u>(375)</u>
Ending fair value of plan assets .....	<u>(1,355)</u>	<u>(1,400)</u>
Funded status .....	<u><u>\$(1,355)</u></u>	<u><u>\$(1,400)</u></u>

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

	<u>2012</u>	<u>2011</u>
Current liabilities.....	\$ (184)	\$ (208)
Non current liabilities.....	<u>(1,171)</u>	<u>(1,192)</u>
Total .....	<u><u>\$(1,355)</u></u>	<u><u>\$(1,400)</u></u>

Components of net periodic postretirement benefit cost were (in thousands):

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Interest cost .....	\$ 49	\$ 61	\$ 82
Amortization of transition obligation .....	(177)	(177)	(153)
Amortization of net actuarial loss.....	11	8	47
Net periodic postretirement benefit income .....	<u><u>\$(117)</u></u>	<u><u>\$(108)</u></u>	<u><u>\$ (24)</u></u>

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

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Discount rate for funded status .....	2.65%	3.70%	4.35%
Discount rate for postretirement benefit cost .....	3.70%	4.35%	4.75%
Health care cost assumed trend rate for next year .....	8.00%	8.50%	9.00%
Rate that the cost trend rate gradually declines to.....	5.50%	5.50%	5.50%
Year that the rate reaches the rate it is assumed to remain at.....	2018	2018	2018



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

**7. 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, 2012 by approximately \$3,000 and the annual postretirement benefit cost by approximately \$100.

Estimated future benefit payments are \$184,000 in 2013, \$151,000 in 2014, \$131,000 in 2015, \$122,000 in 2016, \$112,000 in 2017 and a total of \$429,000 from 2018 through 2022.

The amounts in accumulated other comprehensive income that have not yet been recognized as components of net periodic benefit cost at December 31, 2012, are as follows (in thousands):

	Supplemental <u>Plan</u>	Other Postretirement <u>Benefits</u>
Net loss .....	\$773	\$ 118
Prior service credit.....		<u>(414)</u>
Total.....	<u>\$773</u>	<u>\$(296)</u>

The amounts in accumulated other comprehensive incomes that are expected to be recognized as components of net periodic benefit cost during 2013 are as follows (in thousands):

	Supplemental <u>Plan</u>	Other Postretirement <u>Benefits</u>
Net loss .....	\$ 33	
Prior service credit .....		<u>\$ (168)</u>
Total .....	<u>\$ 33</u>	<u>\$(168)</u>

Deferred Compensation

We have a deferred compensation plan, funded with life insurance policies, which permitted certain management employees to defer portions of their compensation and earn a fixed rate of return. No deferrals have been made since 1991. The accrued liabilities relating to this plan of \$1.3 million at December 31, 2012 and \$1.3 million at December 31, 2011 are included in accrued salaries, wages and benefits and other long-term liabilities. The cash surrender value, net of policy loans (\$19.5 million and \$19.2 million at December 31, 2012 and 2011, respectively), is included in other assets. Policy loan interest of \$2.4 million, \$2.2 million, and \$2.0 million was charged to interest expense in 2012, 2011 and 2010, respectively.

**8. Restructuring and Related Charges**

In 2010, we completed a major restructuring plan that ceased all production at our Stanleytown, Virginia manufacturing facility; however, we continued to use a portion of this facility for warehousing and distribution. In 2011, we evaluated our overall warehousing and distribution requirements for our Stanley Furniture product line and concluded only a portion of the leased warehouse space in Stanleytown, Virginia would be required. Therefore, a restructuring charge against future lease obligations of \$499,000 was taken in 2011 for the portion of the Stanleytown warehouse facility no longer in use as of December 31, 2011.

In the second quarter of 2012, we further reduced our required warehouse space at our Stanleytown, Virginia leased facility and recorded an additional restructuring charge against future lease obligations of \$418,000 for the additional space no longer being utilized. As of December 31, 2012, we are utilizing approximately 50% of the leased facility in Stanleytown, Virginia.

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

**8. Restructuring and Related Charges (continued)**

The following table summarizes restructuring and related expenses for the years ended December 31, 2012, 2011 and 2010 (in thousands):

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Accelerated depreciation, asset write-down and equipment relocation .....		\$ 232	\$ 7,160
Gain on sale of Martinsville facility .....		(674)	
Lease obligation .....	<b>\$ 418</b>	499	
Severance and other termination cost .....	<b>17</b>	17	1,370
Inventory write-down .....			682
Other cost .....	<u><b>39</b></u>	<u>342</u>	<u>1,237</u>
 Total restructuring and related charges .....	 <u><b>\$ 474</b></u>	 <u>\$ 416</u>	 <u>\$10,449</u>

All of the above expenses are in cost of sales in the consolidated statement of income.

Restructuring accrual activity for the years ended December 31, 2012 and 2011 follows (in thousands):

	<u>Severance and other termination costs</u>	<u>Other cost</u>	<u>Lease Obligations</u>	<u>Total</u>
Accrual January 1, 2011.....	\$ 1,239	\$ 730		\$ 1,969
Charges (credits) to expense .....	64	(447)	\$ 499	116
Cash Payments .....	<u>(1,246)</u>	<u>(233)</u>	<u>          </u>	<u>(1,479)</u>
Accrual December 31, 2011.....	57	50	499	606
 <b>Charges (credits) to expense .....</b>	 <b>17</b>	 <b>(40)</b>	 <b>418</b>	 <b>395</b>
<b>Cash payments .....</b>	<b><u>(74)</u></b>	<b><u>(10)</u></b>	<b><u>(185)</u></b>	<b><u>(269)</u></b>
<b>Accrual December 31, 2012.....</b>	<b><u>\$          </u></b>	<b><u>\$          </u></b>	<b><u>\$ 732</u></b>	<b><u>\$ 732</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 for imports covered by antidumping duty orders entering the United States through September 30, 2007 to qualified domestic producers. During 2012, we recorded income of \$39.3 million, net of related expenses, from CDSOA distributions previously withheld by Customs pending resolution of non-supporting producers' claims seeking to share in these distributions. Although these claims have not been completely resolved by the United States Court of Appeals for the Federal Circuit, Customs distributed the holdback to the supporting producers in April 2012. Based on what we know today, we believe there is only a remote possibility that Customs will seek and be entitled to obtain a return of all or a portion of our share of the distributed funds. We recorded income of \$4.0 million and \$1.6 million in 2011 and 2010, respectively, from CDSOA payments and other related payments, net of legal expenses.

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

**10. Commitments and Contingencies**

During the first quarter of 2012, we entered into a lease agreement for a new corporate office and showroom location that will allow for the consolidation of our corporate offices and our High Point Market showroom into a single multi-purpose facility in High Point, North Carolina. In addition, we entered into a lease agreement to open a new showroom within the Las Vegas Design Center located within the World Market Center Las Vegas in January 2013. During 2012 we leased warehouse and distribution space, showroom and office space and certain technology equipment. Rental expenses charged to operations were \$2.5 million, \$1.8 million and \$1.1 million in 2012, 2011 and 2010 respectively.

At December 31, 2012, our total capital lease obligation was \$717,000 for certain machinery and equipment, of which \$137,000 was classified as a short-term liability, with the remaining \$580,000 classified as a long-term liability. The asset carries a gross value of \$973,000, with accumulated depreciation of \$149,000.

At December 31, 2012, the future minimum lease payments for our current capital and operating leases were as follows (in thousands):

	<u>Capital</u>	<u>Operating</u>	<u>Total</u>
2013 .....	\$ 147	\$ 1,454	\$ 1,601
2014 .....	147	1,464	1,611
2015 .....	147	1,610	1,757
2016 .....	147	1,204	1,351
2017 .....	147	812	959
Thereafter.....	<u>12</u>	<u>3,663</u>	<u>3,675</u>
Total minimum lease payments.....	747	10,207	10,954
Less amount representing interest .....	<u>30</u>	<u>          </u>	<u>30</u>
Present value of total minimum lease payments	<u>\$ 717</u>	<u>\$10,207</u>	<u>\$10,924</u>

During 2011 we entered into an agreement for the issuance of 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 \$1.7 million. The compensating balance amount is reflected as restricted cash on the 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 affect 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)

<u>2012 Quarters:</u>	<u>First</u>	<u>Second</u>	<u>Third</u>	<u>Fourth</u>
Net Sales .....	\$26,781	\$24,428	\$23,977	\$23,384
Gross profit .....	3,597	3,078	3,345	2,182
Net (loss) income .....	(1,563)	36,860 <sup>(1)(2)</sup>	(1,904) <sup>(2)</sup>	(3,008) <sup>(2)</sup>
Net (loss) income per share:				
Basic .....	\$ (.11)	\$ 2.57	\$ (.13)	\$ (.21)
Diluted .....	(.11)	2.54	(.13)	(.21)
 <u>2011 Quarters:</u>	 <u>First</u>	 <u>Second</u>	 <u>Third</u>	 <u>Fourth</u>
Net Sales .....	\$26,571	\$27,393	\$26,051	\$24,631
Gross profit .....	1,685	3,633	3,824	3,329
Net (loss) income .....	(3,929) <sup>(1)</sup>	(595) <sup>(1)(2)</sup>	(1,691)	1,190 <sup>(1)(2)</sup>
Net (loss) income per share:				
Basic .....	\$ (.27)	\$ (.04)	\$ (.12)	\$ .08
Diluted .....	(.27)	(.04)	(.12)	.08

(1) Includes restructuring and other charges for the consolidation of a warehouse and distribution center and charges for future lease obligation for a portion of the leased facility no longer required. The 2012 impact was a second quarter charge of \$474,000. The 2011 impact was a first quarter charge of \$768,000, second quarter credit of \$277,000 and fourth quarter credit of \$75,000.

(2) In 2012 Continued Dumping and Subsidy Offset Act totaled income of \$39.4 million and \$53,000 in the second quarter and the third quarter, respectively, and an expense of \$65,000 in the fourth quarter. In 2011, Continued Dumping and Subsidy Offset Act income totaled \$1.1 million in the second quarter and \$2.9 million in the fourth quarter.

STANLEY FURNITURE COMPANY, INC.  
SCHEDULE II – VALUATION AND QUALIFYING ACCOUNTS  
For each of the Three Years in the Period Ended December 31, 2012  
(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>2012</b>				
Doubtful receivables .....	\$ 700	\$ (176)	\$ 124(a)	\$ 400
Discounts, returns, and allowances .....	<u>351</u>	<u>(97)(b)</u>		<u>254</u>
	<u>\$ 1,051</u>	<u>\$ (273)</u>	<u>\$ 124</u>	<u>\$ 654</u>
Valuation allowance for deferred tax assets .....	<u>\$13,824</u>	<u>\$ (10,237)</u>	=====	<u>\$ 3,587</u>
<b>2011</b>				
Doubtful receivables .....	\$ 900	\$ 459	\$ 659(a)	\$ 700
Discounts, returns, and allowances .....	<u>340</u>	<u>11(b)</u>		<u>351</u>
	<u>\$ 1,240</u>	<u>\$ 470</u>	<u>\$ 659</u>	<u>\$ 1,051</u>
Valuation allowance for deferred tax assets .....	<u>\$11,598</u>	<u>\$ 2,226</u>	=====	<u>\$13,824</u>
<b>2010</b>				
Doubtful receivables .....	\$ 1,160	\$ 29	\$ 289(a)	\$ 900
Discounts, returns, and allowances .....	<u>587</u>	<u>(247)(b)</u>		<u>340</u>
	<u>\$ 1,747</u>	<u>\$ (218)</u>	<u>\$ 289</u>	<u>\$ 1,240</u>
Valuation allowance for deferred tax assets .....	<u>\$ 188</u>	<u>\$ 11,410</u>	=====	<u>\$11,598</u>

(a) Uncollectible receivables written-off, net of recoveries.  
(b) Represents net increase (decrease) in the reserve.

(Date)  
(Address)

Dear \_\_\_\_\_ :

Stanley Furniture Company, Inc. (the "Company") makes this restricted stock grant (the "Grant") to you pursuant to its 2008 Incentive Compensation Plan (the "Plan").

This Grant incorporates the terms of the Plan and in the case of any conflict between the Plan and this Grant, the terms of the Plan will control.

1. Shares. \_\_\_\_\_ shares of Company Stock (the "Restricted Stock") are awarded to you on \_\_\_\_\_ ("Date of Grant"), subject to the terms and conditions of the Plan, and subject further to the terms and conditions set forth in this Grant.

2. Vesting. Except as provided in Paragraphs 3, 4, 5 or 6, one hundred percent (100%) of the shares of Restricted Stock awarded under this Agreement will vest on the day before the Company's annual meeting at which directors are elected in \_\_\_\_\_ (the "Vesting Date").

3. Forfeiture. Except as provided in Paragraph 4, you will forfeit any and all rights in the Restricted Stock if you cease to be a Director of the Company for any reason prior to the Vesting Date.

4. Death, Disability, Change in Control. Notwithstanding the provisions of Paragraph 3, your shares of Restricted Stock will be fully vested in the event of a Change in Control as defined in the Plan occurring after the Date of Grant or upon your death or Disability as defined in the Plan, if you are a Director of the Company on the relevant date.

5. Dividends.

(a) Dividends. You will be entitled to dividends or other distributions paid or made on Restricted Stock but only as and when the Restricted Stock to which the dividends or other distributions are attributable become vested. Dividends paid on Restricted Stock will be held by the Company and transferred to you, without interest, on such date as the Restricted Stock becomes vested. Dividends or other distributions paid on Restricted Stock that is forfeited shall be retained by the Company.

(b) Unfunded Liability. The Company's obligation under this Paragraph 5 shall be an unfunded and unsecured promise to pay. The Company shall not be obligated under any circumstances to fund its financial obligations under this Paragraph 5 prior to the date any dividends become payable pursuant to the terms of this Award. All dividends on Restricted Stock will remain

general assets of the Company subject to the claims of its general creditors. This Award does not give you any ownership interest in the assets of the Company, and all rights of ownership in the accumulated dividends attributable to Restricted Stock shall be solely those of an unsecured general creditor of the Company.

#### 6. Other Terms and Conditions.

(a) **Nontransferability.** The shares of Restricted Stock are not transferable and are subject to a substantial risk of forfeiture until the Vesting Date.

(b) **Stock Power.** As a condition of accepting this award, you hereby assign and transfer the shares of Restricted Stock granted pursuant to this Agreement to the Company, and hereby appoints the Company as attorney to transfer said shares on its books.

(c) **Custody of Shares.** The Company will retain custody of the shares of Restricted Stock.

(d) **Shareholder Rights.** You will have the right to vote the shares of Restricted Stock awarded under Paragraph 1, both vested and unvested.

(e) **Delivery of Shares.** As soon as administratively feasible after the Vesting Date or after Restricted Shares have become vested due to the occurrence of an event described in Paragraph 4, the Company will deliver to you (or in the event of your death, your Beneficiary) the appropriate number of shares of Company Stock. The Company will also cancel the stock power covering such shares. If you have not designated a beneficiary, your spouse, if any, and if none your estate shall be the beneficiary.

(f) **Fractional Shares.** Fractional shares of Company Stock will not be issued.

(h) **No Right to Continued Election as Director.** This Restricted Stock Award does not confer upon you any right with respect to continuance as a Director of the Company, nor shall it interfere in any way with the right of the Company to terminate your service as a director at any time.

(i) **Change in Capital Structure.** The number and fair market value of shares of Restricted Stock awarded by this Agreement shall be automatically adjusted as provided in Section 13 of the Plan if the Company has a change in capital structure.

(j) **Governing Law.** This Agreement shall be governed by the laws of the State of Delaware, other than its choice of law provisions.

(k) **Conflicts.** In the event of any conflict between the provisions of the Plan and the provisions of this Agreement, the provisions of the Plan shall govern. All references in this Agreement to the Plan shall mean the plan as in effect on the Date of Grant.

(l) Bound by Plan. By accepting this Agreement, you hereby acknowledge receipt of a copy of the Prospectus and Plan document and agree to be bound by all the terms and provisions thereof.

(m) Binding Effect. This Agreement shall be binding upon and inure to the benefit of your legatees, distributees, and personal representatives and any successors of the Company.

STANLEY FURNITURE COMPANY, INC.

---

By: Micah S. Goldstein  
Its: Chief Operating and Financial Officer



(Date)  
(Name and Address)

Dear :

Stanley Furniture Company, Inc. (the "Company") grants you this stock option pursuant to its 2012 Incentive Compensation Plan (the "Plan").

This Agreement incorporates the terms of the Plan and in the case of any conflict between the Plan and this Agreement, the terms of the Plan will control.

1. Option. The Company grants you a nonstatutory stock option (the "Option") to purchase from the Company \_\_\_\_\_ shares of common stock of the Company ("Company Stock"), at \$ \_\_\_\_\_ per share. This option price is the fair market value of Company Stock on \_\_\_\_\_ (the "Date of Grant"). The grant of the Option is subject to the following terms and conditions:

(a) The shares covered by the Option shall vest, and shall be exercisable, under the following schedule:

<u>Date</u>	<u>Number of Shares That May Be Exercised (Vested Portion of Option)</u>
First Anniversary of Date of Grant	
Second Anniversary of Date of Grant	
Third Anniversary of Date of Grant	
Fourth Anniversary of Date of Grant	

(b) Subject to the limitations set forth in this letter and in the Plan, you may exercise the vested and exercisable portion of the Option in whole or in part at any time, or from time to time, from the Effective Date until the first to occur of: (i) 10 years from the Date of Grant, (ii) three months from the date on which your employment with the Company (including its parent and subsidiary corporations) terminates for any reason other than your permanent disability or your death, or (iii) one year from the date on which your employment with the Company (including its parent and subsidiary corporations) terminates on account of your death or your permanent disability (as determined by the Committee). In no event may the Option be exercised after the eighth anniversary of the Date of Grant.

(c) Except as provided in Section 3, the Option may be exercised during your lifetime only by you. If you die while you are in the employ of the Company or a parent or subsidiary

corporation and at a time when you hold any part of the Option that is fully vested and exercisable, then the person to whom your rights under the Option shall have passed by will or by the laws of descent and distribution may exercise the Option.

(d) You must be employed by the Company (or a parent or subsidiary corporation) on the relevant date for any shares to vest. If your employment with the Company (or a parent or subsidiary corporation) terminates, you will forfeit any unvested shares.

(e) Notwithstanding the provisions of subsection (a), your Option will be fully vested and exercisable in the event of a Change in Control as defined in the Plan occurring after the Effective Date or upon your death or Disability as defined in the Plan, if you are employed by the Company on the relevant date.

2. Payment For Option. Any person entitled to exercise the Option may do so by giving written notice of the exercise to the Company, stating the number of shares that he is purchasing and transmitting the exercise price in cash.

3. Transferability. The Option is exercisable by you during your lifetime unless you have transferred the Option. The Option is transferable pursuant to your will or by the laws of descent at your death. During your life, the Option is transferable as follows:

(a) Transfers may be made only to the following individuals and entities: (i) your spouse, child(ren), step-child(ren), grandchild(ren), or step-grandchild(ren), including relationships that arise from legal adoption ("Immediate Family Members"); (ii) a trust or trusts for the exclusive benefit of any one or more of your Immediate Family Members; or (iii) a partnership, limited liability company or other entity the only partners, members, interest holders of which are you, or are among your Immediate Family Members;

(b) There may be no consideration for the transfer;

(c) You must have a fully vested right, as of the date of the transfer, to exercise that portion of the Option that is transferred;

(d) There may be no subsequent transfer of the portion of the Option being transferred except by will or the laws of descent or distribution;

(e) Following transfer, the Option will remain subject to the same terms and conditions as were applicable immediately before the transfer, including conditions under which the Option may terminate prior to expiration; except that (i) the transferee may deliver the Option exercise notice and payment of the exercise price with respect to that portion of the Option that has been transferred, and (ii) the right to consent to modification or amendment of only that portion of the Option which has not been transferred will remain with you, while the right to consent to modification or amendment of the remainder of the Option will rest solely with the transferee;

(f) You will remain responsible for the payment of Applicable Withholding Taxes as described in Section 6, notwithstanding any transfer of the Option. In the event you fail to pay or provide for the Applicable Withholding Taxes, the transferee may direct the Company to withhold sufficient shares from those that would otherwise be transferable to the transferee in order to pay such taxes.

(g) Written notice of any transfer must be delivered to the Company at the address specified in Section 5.

Your estate may transfer the Option to the beneficiaries of your estate, subject to the limitations set forth in subsections 3(a) through 3(g) above.

4. Adjustments. If the number of outstanding shares of Company Stock is increased or decreased as a result of a stock dividend, stock split or combination of shares, recapitalization, merger in which the Company is the surviving corporation, or other change in the capitalization, the number and kind of shares with respect to which you have an unexercised Option and the Option price shall be appropriately adjusted by the Committee, whose determination shall be binding.

5. Exercise and Notices. To exercise your Option, you must deliver to the VP- Corporate Controller of the Company written notice, signed by you, stating the number of shares you have elected to purchase, and payment to the Company as described in paragraph 2. Any notice to be given under the terms of this letter shall be addressed to the VP- Corporate Controller at Stanley Furniture Company, Inc., 1641 Fairystone Park Highway, Stanleytown, Virginia 24168 or the Company's current headquarters. Any notice to be given to you shall be given to you or your personal representative, legatee or distributee, and shall be addressed to him or her at the address set forth above or your last known address at the time notice is sent. Notices shall be deemed to have been duly given if mailed first class, postage prepaid, addressed as above.

6. Withholding. By signing this letter, you agree to make arrangements satisfactory to the Company to comply with any income tax withholding requirements that may apply upon the exercise of the Option or the disposition of Company Stock received upon the exercise of the Option. The Company agrees to allow you to pay the Applicable Withholding Taxes (as defined in the Plan) (a) with cash, (b) by delivery of Company Stock (valued at its Fair Market Value), or (c) by having the Company retain the number of shares of Company Stock that will satisfy all or a specified portion of the Applicable Withholding Taxes.

7. Continuation of Employee of the Company. Neither the Plan nor the Option confers upon you any right to continue as an employee of the Company or limits in any respect the right of the Company to terminate your employment.

8. Delivery of Certificate. The Company may delay delivery of the certificate for shares purchased pursuant to the exercise of an Option until (a) the admission of such shares to listing on any stock exchange on which the Company Stock may then be listed, (b) receipt of any required representation by you or completion of any registration or other qualification of such shares under any state or federal law or regulation that the Company's counsel shall determine as necessary or advisable,

and (c) receipt by the Company of advice by counsel that all applicable legal requirements have been complied with.

STANLEY FURNITURE COMPANY, INC.

---

By: Micah S. Goldstein  
Its: Chief Operating and Financial Officer

(Date)

(Name and Address)

Dear \_\_\_\_\_ :

Stanley Furniture Company, Inc. (the “Company”) makes this restricted stock grant (the “Grant”) to you pursuant to its 2012 Incentive Compensation Plan (the “Plan”).

This Grant incorporates the terms of the Plan and in the case of any conflict between the Plan and this Grant, the terms of the Plan will control.

1. Shares. \_\_\_\_\_ shares of Company Stock (the “Restricted Stock”) are awarded to you on \_\_\_\_\_ (“Date of Grant”), subject to the terms and conditions of the Plan, and subject further to the terms and conditions set forth in this Grant.

2. Vesting. Except as provided in Paragraphs 3, 4, 5 or 6, one hundred percent (100%) of the shares of Restricted Stock awarded under this Agreement will vest on \_\_\_\_\_ (the “Vesting Date”).

3. Forfeiture. Except as provided in Paragraph 4, you will forfeit any and all rights in the Restricted Stock if your employment with the Company or a subsidiary terminates for any reason prior to the Vesting Date.

4. Death, Disability, Change in Control. Notwithstanding the provisions of Paragraph 3, your shares of Restricted Stock will be fully vested in the event of a Change in Control as defined in the Plan occurring after the Date of Grant or upon your death or Disability as defined in the Plan, if you are employed by the Company on the relevant date.

5. Dividends.

(a) Dividends. You will be entitled to dividends or other distributions paid or made on Restricted Stock but only as and when the Restricted Stock to which the dividends or other distributions are attributable become vested. Dividends paid on Restricted Stock will be held by the Company and transferred to you, without interest, on such date as the Restricted Stock becomes vested. Dividends or other distributions paid on Restricted Stock that is forfeited shall be retained by the Company.

(b) Unfunded Liability. The Company’s obligation under this Paragraph 5 shall be an unfunded and unsecured promise to pay. The Company shall not be obligated under any circumstances to fund its financial obligations under this Paragraph 5 prior to the date any dividends become payable pursuant to the terms of this Award. All dividends on Restricted Stock will remain general assets of the Company subject to the claims of its general creditors. This Award does not give you any ownership interest in the assets of the Company, and all rights of ownership in the

accumulated dividends attributable to Restricted Stock shall be solely those of an unsecured general creditor of the Company.

## 6. Other Terms and Conditions.

- (a) **Nontransferability.** The shares of Restricted Stock are not transferable and are subject to a substantial risk of forfeiture until the shares of Restricted Stock are vested.
- (b) **Stock Power.** As a condition of accepting this award, you hereby assign and transfer the shares of Restricted Stock granted pursuant to this Agreement to the Company, and hereby appoints the Company as attorney to transfer said shares on its books.
- (c) **Custody of Shares.** The Company will retain custody of the shares of Restricted Stock.
- (d) **Shareholder Rights.** You will have the right to vote the shares of Restricted Stock awarded under Paragraph 1, both vested and unvested.
- (e) **Delivery of Shares.** As soon as administratively feasible after the Vesting Date or after Restricted Shares have become vested due to the occurrence of an event described in Paragraph 4, the Company will deliver to you (or in the event of your death, your Beneficiary) the appropriate number of shares of Company Stock. The Company will also cancel the stock power covering such shares. If you have not designated a beneficiary, your spouse, if any, and if none your estate shall be the beneficiary.
- (f) **Withholding of Taxes.** No Company Stock will be delivered until you (or your beneficiary) has paid to the Company the amount that must be withheld under federal, state and local income and employment tax laws (the "Applicable Withholding Taxes") or the you and the Company have made satisfactory arrangements for the payment of such taxes. Unless you make an alternative election, the Company will retain the number of shares of Restricted Stock (valued at their Fair Market Value) required to satisfy the Applicable Withholding Taxes. As an alternative to the Company retaining shares, you or your beneficiary may elect to (i) deliver shares of Company Stock (valued at their Fair Market Value) or (ii) make a cash payment to satisfy Applicable Withholding Taxes. Fair Market Value will be determined based on the closing price of Company Stock on the business day immediately preceding the date the Restricted Stock shares become vested.
- (g) **Fractional Shares.** Fractional shares of Company Stock will not be issued.
- (h) **No Right to Continued Employment.** This Restricted Stock Award does not confer upon the Participant any right with respect to continuance of employment by the Company, nor shall it interfere in any way with the right of the Company to terminate the Participant's employment at any time.
- (i) **Change in Capital Structure.** The number and fair market value of shares of Restricted Stock awarded by this Agreement shall be automatically adjusted as provided in Section 13 of the Plan if the Company has a change in capital structure.

(j) **Governing Law.** This Agreement shall be governed by the laws of the State of Delaware, other than its choice of law provisions.

(k) **Conflicts.** In the event of any conflict between the provisions of the Plan and the provisions of this Agreement, the provisions of the Plan shall govern. All references in this Agreement to the Plan shall mean the plan as in effect on the Date of Grant.

(l) **Participant Bound by Plan.** By accepting this Agreement, Participant hereby acknowledges receipt of a copy of the Prospectus and Plan document and agrees to be bound by all the terms and provisions thereof.

(m) **Binding Effect.** This Agreement shall be binding upon and inure to the benefit of the legatees, distributees, and personal representatives of the Participant and any successors of the Company.

STANLEY FURNITURE COMPANY, INC.

---

By: Micah S. Goldstein  
Its: Chief Operating and Financial Officer

**Subsidiaries**

The following is a list of subsidiaries of Stanley Furniture Company, Inc. as of December 31, 2012:

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



**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

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 report dated February 5, 2013 relating to the financial statements, financial statement schedule and the effectiveness of internal control over financial reporting, which appears in this Form 10-K.

PricewaterhouseCoopers LLP  
Richmond, Virginia  
February 5, 2013

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 6, 2013

/s/Glenn Prillaman  
Glenn Prillaman  
Chief Executive Officer

I, Micah S. Goldstein, 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 6, 2013

/s/ Micah S. Goldstein  
Micah S. Goldstein  
Chief Financial 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, 2012 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 6, 2013

/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, 2012 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Micah S. Goldstein, Chief 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 6, 2013

/s/ Micah S. Goldstein  
Micah S. Goldstein  
Chief Financial Officer