

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

Form 10-Q

(Mark One)

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

*For the quarterly period ended **September 26, 2009***

*or*

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

*for the transition period from \_\_\_\_\_ to \_\_\_\_\_.*

Commission file number: 0-14938

**STANLEY FURNITURE COMPANY, INC.**

(Exact name of registrant as specified in its charter)

**Delaware**

(State or other jurisdiction of incorporation or organization)

**54-1272589**

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

**1641 Fairystone Park Highway, Stanleytown, Virginia 24168**

(Address of principal executive offices, Zip Code)

**(276) 627- 2000**

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days: Yes (x) No ( )

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ( ) No ( )

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ( )

Accelerated filer (x)

Non-accelerated filer ( ) (Do not check if a smaller reporting company) Smaller reporting company ( )

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ( ) No (x)

As of **October 12, 2009**, **10,332,179** shares of common stock of Stanley Furniture Company, Inc., par value \$.02 per share were outstanding.

PART I. FINANCIAL INFORMATION

**ITEM 1. Consolidated Financial Statements**

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

	<b>September 26, 2009</b>	December 31, 2008
<b>ASSETS</b>		
Current assets:		
Cash .....	\$ 42,430	\$ 44,013
Accounts receivable, less allowances of \$1,797 and \$1,644 .....	18,052	21,873
Inventories:		
Finished goods .....	23,909	36,803
Work-in-process .....	5,589	3,493
Raw materials .....	5,876	7,048
Total inventories .....	<u>35,374</u>	<u>47,344</u>
Prepaid expenses and other current assets .....	9,023	3,758
Deferred income taxes .....	3,726	3,906
Total current assets .....	<u>108,605</u>	<u>120,894</u>
Property, plant and equipment, net .....	33,255	35,445
Goodwill .....	9,072	9,072
Other assets .....	1,013	460
Total assets .....	<u>\$151,945</u>	<u>\$165,871</u>
<b>LIABILITIES</b>		
Current liabilities:		
Current maturities of long-term debt .....	\$ 1,429	\$ 1,429
Accounts payable .....	10,157	11,236
Accrued salaries, wages and benefits .....	7,102	6,280
Other accrued expenses .....	2,837	4,890
Total current liabilities .....	<u>21,525</u>	<u>23,835</u>
Long-term debt, exclusive of current maturities .....	26,428	27,857
Deferred income taxes .....	2,406	2,778
Other long-term liabilities .....	8,192	8,293
Total liabilities .....	<u>58,551</u>	<u>62,763</u>
<b>STOCKHOLDERS' EQUITY</b>		
Common stock, \$.02 par value, 25,000,000 shares authorized 10,332,179 shares issued and outstanding .....	207	207
Capital in excess of par value .....	1,750	1,058
Retained earnings .....	92,131	102,603
Accumulated other comprehensive loss .....	(694)	(760)
Total stockholders' equity .....	<u>93,394</u>	<u>103,108</u>
Total liabilities and stockholders' equity .....	<u>\$151,945</u>	<u>\$165,871</u>

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)

	Three Months Ended		Nine Months Ended	
	<b>September 26, 2009</b>	September 27, 2008	<b>September 26, 2009</b>	September 27, 2008
Net sales .....	<b>\$38,455</b>	\$54,483	<b>\$120,545</b>	\$176,165
Cost of sales .....	<b><u>39,056</u></b>	<u>49,493</u>	<b><u>112,829</u></b>	<u>150,394</u>
Gross profit (loss) .....	<b>(601)</b>	4,990	<b>7,716</b>	25,771
Selling, general and administrative expenses .....	<b><u>6,875</u></b>	<u>10,606</u>	<b><u>22,345</u></b>	<u>28,358</u>
Operating loss .....	<b>(7,476)</b>	(5,616)	<b>(14,629)</b>	(2,587)
Other income (expense), net .....	<b>45</b>	(22)	<b>133</b>	215
Interest income .....	<b>3</b>	158	<b>44</b>	516
Interest expense .....	<b><u>953</u></b>	<u>957</u>	<b><u>2,809</u></b>	<u>2,807</u>
Loss before income taxes .....	<b>(8,381)</b>	(6,437)	<b>(17,261)</b>	(4,663)
Income tax benefit .....	<b><u>(3,308)</u></b>	<u>(2,948)</u>	<b><u>(6,789)</u></b>	<u>(2,154)</u>
Net loss .....	<b><u>\$ (5,073)</u></b>	<u>\$ (3,489)</u>	<b><u>\$ (10,472)</u></b>	<u>\$ (2,509)</u>
Loss per share:				
Basic .....	<b><u>\$ (0.49)</u></b>	<u>\$ (0.34)</u>	<b><u>\$ (1.01)</u></b>	<u>\$ (0.24)</u>
Diluted .....	<b><u>\$ (0.49)</u></b>	<u>\$ (0.34)</u>	<b><u>\$ (1.01)</u></b>	<u>\$ (0.24)</u>
Weighted average shares outstanding:				
Basic .....	<b><u>10,332</u></b>	<u>10,332</u>	<b><u>10,332</u></b>	<u>10,332</u>
Diluted .....	<b><u>10,332</u></b>	<u>10,332</u>	<b><u>10,332</u></b>	<u>10,332</u>
Cash dividend declared and paid per common share .....	<b><u>\$ _____</u></b>	<u>\$ .10</u>	<b><u>\$ _____</u></b>	<u>\$ .30</u>

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

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

	Nine Months Ended	
	September 26, 2009	September 27, 2008
<b>Cash flows from operating activities:</b>		
Cash received from customers.....	\$124,071	\$176,259
Cash paid to suppliers and employees .....	(120,262)	(160,516)
Interest paid .....	(2,725)	(2,143)
Income taxes paid .....	(2,531)	(4,046)
Net cash provided (used) by operating activities.....	(1,447)	9,554
<b>Cash flows from investing activities:</b>		
Capital expenditures.....	(1,702)	(1,485)
Purchase of other assets.....	(55)	
Proceeds from sale of assets .....	1,303	
Net cash provided (used) by investing activities .....	(454)	(1,485)
<b>Cash flows from financing activities:</b>		
Repayment of senior notes .....	(1,429)	(1,429)
Proceeds from insurance policy loans.....	1,651	1,550
Dividends paid .....		(3,099)
Other, net.....	96	
Net cash provided (used) by financing activities .....	318	(2,978)
Net increase (decrease) in cash.....	(1,583)	5,091
Cash at beginning of period .....	44,013	31,648
<b>Cash at end of period.....</b>	<b>\$ 42,430</b>	<b>\$ 36,739</b>
<b>Reconciliation of net loss to net cash provided (used) by operating activities:</b>		
Net loss.....	\$(10,472)	\$ (2,509)
Depreciation and amortization.....	4,291	7,517
Deferred income taxes .....	(192)	(2,021)
Stock-based compensation .....	692	329
Other, net.....		27
Changes in assets and liabilities:		
Accounts receivable.....	3,821	266
Inventories .....	11,970	10,540
Prepaid expenses and other current assets.....	(8,809)	(3,164)
Accounts payable .....	(1,079)	(4,003)
Accrued salaries, wages and benefits .....	997	2,351
Other accrued expenses .....	(2,161)	698
Other assets .....	(404)	(334)
Other long-term liabilities.....	(101)	(143)
Net cash provided (used) by operating activities .....	<b>\$ (1,447)</b>	<b>\$ 9,554</b>

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

**STANLEY FURNITURE COMPANY, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
(in thousands, except per share data)

**1. Preparation of Interim Unaudited Consolidated Financial Statements**

The consolidated financial statements have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission ("SEC"). In our opinion, these statements include all adjustments necessary for a fair presentation of the results of all interim periods reported herein. All such adjustments are of a normal recurring nature. Certain information and footnote disclosures prepared in accordance with generally accepted accounting principles have been either condensed or omitted pursuant to SEC rules and regulations. However, we believe that the disclosures made are adequate for a fair presentation of our results of operations and our financial position. Operating results for the interim periods reported herein may not be indicative of the results expected for the year. We suggest that these consolidated financial statements be read in conjunction with the consolidated financial statements and accompanying notes included in our 2008 Annual Report on Form 10-K. Subsequent events were evaluated through October 15, 2009, the date these financial statements were issued.

**2. Property, Plant and Equipment**

	<b>September</b>	December
	<u><b>26, 2009</b></u>	<u>31, 2008</u>
Land and buildings .....	<b>\$ 38,851</b>	\$ 41,615
Machinery and equipment .....	<b>63,468</b>	76,451
Office furniture and equipment .....	<b>1,284</b>	1,384
Construction in process .....	<u><b>1,656</b></u>	<u>120</u>
Property, plant and equipment, at cost .....	<b>105,259</b>	119,570
Less accumulated depreciation .....	<u><b>72,004</b></u>	<u>84,125</u>
Property, plant and equipment, net .....	<u><b>\$ 33,255</b></u>	<u>\$ 35,445</u>

**3. Debt**

Our long-term debt, shown below, is recorded at historical cost, which approximates its fair value, based primarily on estimated current rates available to us for debt of the same remaining duration and adjusted for nonperformance risk and credit risk.

	<b>September</b>	December
	<u><b>26, 2009</b></u>	<u>31, 2008</u>
6.73% senior notes due through May 3, 2017 .....	<b>\$ 25,000</b>	\$ 25,000
6.94% senior notes due through May 3, 2011 .....	<u><b>2,857</b></u>	<u>4,286</u>
Total .....	<b>27,857</b>	29,286
Less current maturities .....	<u><b>1,429</b></u>	<u>1,429</u>
Long-term debt, exclusive of current maturities .....	<u><b>\$ 26,428</b></u>	<u>\$ 27,857</u>

#### 4. Employee Benefit Plans

Components of other postretirement benefit cost:

	Three Months Ended		Nine Months Ended	
	September 26, 2009	September 27, 2008	September 26, 2009	September 27, 2008
Service cost .....	\$ 19	\$ 22	\$ 58	\$ 66
Interest cost .....	71	71	213	214
Amortization of transition obligation .....	33	32	98	97
Amortization of prior service cost .....	(2)	(2)	(6)	(6)
Amortization of accumulated loss.....	5	8	14	24
Net periodic postretirement benefit cost.....	<u>\$ 126</u>	<u>\$ 131</u>	<u>\$ 377</u>	<u>\$ 395</u>

#### 5. Stockholders' Equity

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

	Three Months Ended		Nine Months Ended	
	September 26, 2009	September 27, 2008	September 26, 2009	September 27, 2008
Weighted average shares outstanding for basic calculation .....	10,332	10,332	10,332	10,332
Add: Effect of dilutive stock options (1) .....	—	—	—	—
Weighted average shares outstanding Adjusted for diluted calculation.....	<u>10,332</u>	<u>10,332</u>	<u>10,332</u>	<u>10,332</u>

(1) The dilutive effect of stock options is not recognized in periods in which a net loss has occurred.

Weighted-average shares issuable upon the exercise of stock options, which were not included in the diluted loss per share calculation because they were anti-dilutive, were 1.9 million and 1.1 million for the three months ending September 26, 2009 and September 27, 2008, respectively; and 1.6 million and 1.1 million for the nine months ended September 26, 2009 and September 27, 2008, respectively.

A reconciliation of the activity in Stockholders' Equity accounts for the nine months ended September 26, 2009 is as follows:

	Common Stock	Capital in Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Loss
Balance, December 31, 2008.....	\$ 207	\$ 1,058	\$102,603	\$ (760)
<b>Net loss</b> .....			<b>(10,472)</b>	
<b>Stock-based compensation</b> .....		<b>692</b>		
<b>Adjustment to net periodic benefit cost</b> .....				<b>66</b>
<b>Balance, September 26, 2009.....</b>	<u><b>\$ 207</b></u>	<u><b>\$ 1,750</b></u>	<u><b>\$92,131</b></u>	<u><b>\$ (694)</b></u>

The components of other comprehensive loss are as follows:

	Three Months Ended		Nine Months Ended	
	<b>September 26, 2009</b>	September 27, 2008	<b>September 26, 2009</b>	September 27, 2008
Net loss.....	<b><u>\$(5,073)</u></b>	\$(3,489)	<b><u>\$(10,472)</u></b>	\$(2,509)
Adjustment to net periodic benefit cost .....	<b><u>22</u></b>	(5)	<b><u>66</u></b>	71
Comprehensive loss .....	<b><u>\$(5,051)</u></b>	<u>\$(3,494)</u>	<b><u>\$(10,406)</u></b>	<u>\$(2,438)</u>

## 6. Restructuring and Related Charges

In 2008, we took steps to improve our cost structure by consolidating our North Carolina manufacturing operations from two facilities to one and offered a voluntary early retirement incentive for qualified salaried associates. Restructuring and related charges in the nine months of 2009 was \$172,000 and consisted of ongoing cost at our Lexington, North Carolina facility until it was sold in the first quarter of 2009.

During the third quarter of 2009, we began consolidating our Lexington, North Carolina warehouse operation into other owned facilities and recorded accelerated depreciation of \$1.0 million and other related charges of \$20,000.

Restructuring activity for the nine months ended September 26, 2009 was as follows:

	<u>Severance and other termination costs</u>	<u>Other Cost</u>	<u>Total</u>
Accrual at January 1, 2009.....	\$ 1,446		\$ 1,446
Charges to expense.....	109	\$ 82	191
Cash payments .....	<u>1,385</u>	<u>82</u>	<u>1,467</u>
Accrual at September 26, 2009.....	<u>\$ 170</u>	<u>\$</u>	<u>\$ 170</u>

The restructuring accrual for severance and other employee termination cost is classified as "Other accrued expenses".

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

### Results of Operations

Net sales decreased \$16.0 million, or 29.4%, for the three month period ended September 26, 2009, from the comparable 2008 period. For the nine month period, net sales decreased \$55.6 million, or 31.6% from the comparable 2008 nine month period. The decrease was due primarily to lower unit volume, resulting from continued weakness in demand, which we believe is due primarily to the current economic recession and is consistent with industry trends. Higher average unit prices of less than 1% partially offset this lower unit volume.

Gross profit in 2009 decreased to a loss of \$601,000 for the three month period and a gross profit of \$7.7 million for the nine month period. This compares to a gross profit of \$5.0 million and \$25.8 million, respectively, for the comparable three and nine month periods of 2008. Accelerated depreciation of \$1.0 million related to the closing of our warehouse facility in Lexington, North Carolina is included in the three and nine month periods of 2009. Cost of sales for the three and nine month periods of 2008 include restructuring and related charges of \$3.8 million and \$4.1 million, respectively.

The lower gross profit and margins are primarily due to the significant decline in sales and production levels. Sales have declined at a faster rate in 2009 than we have been able to adjust our cost structure. The much lower production levels have led to significant unfavorable factory overhead variances and plant inefficiencies. Cost associated with the transition of approximately one-third of our Young America product line (infant-to-

teen furniture) from off-shore sourcing to our domestic manufacturing facilities and higher selling discounts also contributed to lower gross profit in 2009. These factors were partially offset by cost savings from restructuring steps taken in 2008 which resulted in an estimated \$3 million to \$4 million in savings during the first nine months of 2009.

Selling, general and administrative expenses for the three and nine month periods decreased \$3.7 million and \$6.0 million, respectively, compared to the 2008 periods, due primarily to lower selling expenses resulting from decreased sales and cost reduction initiatives. Restructuring and related charges of \$1.4 million are included in the three and nine month periods of 2008.

As a result of the above, operating loss was \$7.5 million and \$14.6 million for the three and nine month periods of 2009 compared to operating loss of \$5.6 million and \$2.6 million, for the comparable 2008 periods.

Interest income for the three and nine month periods of 2009 decreased over the comparable prior year periods due primarily to lower earnings on invested cash.

The effective tax rate for 2009 is expected to be 39.3%, compared to 21.1% for total year 2008. The higher effective tax rate is due to the impact of permanent differences on loss before income taxes. The primary permanent difference is the increase in the cash surrender value of life insurance policies used to fund our deferred compensation plan. We expect this relationship to continue, but the percentage impact on the effective tax rate will depend on the level of future losses or earnings.

The consolidation of our Lexington, North Carolina warehouse operation into other owned warehouse space is progressing slightly ahead of schedule and should be completed in the fourth quarter of 2009. As noted above, we recorded \$1.0 million of accelerated depreciation for the three month period ended September 26, 2009 and we expect to record approximately \$700,000 of additional accelerated depreciation in the final quarter of 2009. The warehouse consolidation is expected to lower our annual operating expenses by approximately \$1.3 million beginning in 2010.

We will continue to evaluate our total cost structure, including our manufacturing capacity, considering current and anticipated demand for our products, overall market conditions, offshore sourcing opportunities and other factors we consider relevant. The outcome of this evaluation could result in additional restructuring charges in the fourth quarter of 2009 or in future periods.

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

Sources of liquidity include cash on hand and cash generated from operations. We expect these sources of liquidity to be adequate for ongoing expenditures, debt payments and capital expenditures for the foreseeable future. We believe that cash on hand will be adequate during 2009 in the event we do not generate cash from operations. Working capital, excluding cash and current maturities of long-term debt, decreased \$8.4 million during the first nine months of 2009 to \$46.1 million from \$54.5 million at December 31, 2008. The decrease was primarily due to lower inventories and accounts receivable, in response to lower sales.

Cash used by operations was \$1.4 million in the first nine months of 2009 compared to cash generated of \$9.6 million in the comparable 2008 period. The decrease was primarily due to lower receipts from customers due to lower sales.

Net cash used for investing activities was \$454,000 in the 2009 period compared to \$1.5 million in 2008. Sale of assets provided cash from investing activities during the first nine months of 2009. These assets were included in prepaid expenses and other current assets at December 31, 2008.

Net cash provided by financing activities was \$318,000 in the 2009 period compared to cash used of \$3.0 million in the 2008 period. The change is due primarily to the suspension of quarterly cash dividend payments during 2009.

At September 26, 2009, long-term debt including current maturities was \$27.9 million. Debt service requirements are \$1.4 million in 2010, \$5.0 million in 2011, and \$3.6 million in 2012, 2013 and 2014. In



January 2009, we entered into an amendment to our note agreement providing that two financial covenants relating to operating income and earnings not apply during 2009. Instead, this amendment requires that we maintain unrestricted cash of at least \$20 million and maintain earnings before interest and taxes (as defined in our note agreement) of not less than a loss of \$10 million for each twelve month period ending each quarter in 2009. At September 26, 2009, our cash on hand was \$42.4 million and our earnings before interest and taxes (as defined in our note agreement) for the twelve months ended September 26, 2009 was a loss of \$2.4 million. It is likely that we will not meet the covenant requirement on earnings before interest and taxes (as defined in our note agreement) for the twelve months ending December 31, 2009 and will need to seek a waiver or additional amendment of this requirement. In addition, in the event of noncompliance with the two financial covenants relating to operating income and earnings that will apply after 2009, we would also have to seek waivers or additional amendments. If we are not able to obtain such waivers or amendments from our lenders, then we would need to seek other funding or use our cash on hand to repay the lenders.

We are including earnings before interest and taxes (as defined in our note agreement) for the twelve months ended September 26, 2009, which is a financial measure not derived in accordance with generally accepted accounting principles in the United States of America, to quantify our compliance with a financial covenant in our note agreement, and not as a measure of operating results. The following table sets forth a reconciliation of loss before income taxes to earnings before interest and taxes (as defined in our note agreement) for the twelve months ended September 26, 2009 (dollars are shown in thousands):

	Twelve Months Ending <u>September 26, 2009</u>
Loss before income taxes .....	\$ (7,861)
Interest expense, net.....	3,685
Restructuring charge .....	<u>1,777</u>
Earnings (loss) before interest and taxes (as defined in our note agreement) .....	<u>\$ (2,399)</u>

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

According to U.S. Customs and Border Protection (CBP), as of October 1, 2008, approximately \$100 million in duties had been secured by cash deposits and bonds on unliquidated entries, and this amount is potentially available for distribution under the CDSOA to eligible domestic manufacturers in connection with the case involving wooden bedroom furniture imported from China. In addition, approximately \$99 million of funds available for distribution were set aside by the government over the past three years principally for domestic producers that have requested CDSOA funds and are not eligible to receive funds based on the CDSOA and the government's historical administration of the CDSOA. The government set aside these CDSOA funds in connection with two lower court cases involving the CDSOA that were decided against the government on constitutional grounds and that have been appealed. The resolution of these legal appeals will have a significant impact on the amount of additional CDSOA funds we receive with respect to the antidumping order on wooden bedroom furniture from China.

There are a number of factors that can affect how much additional CDSOA funds we receive. These factors include:

- the annual administrative review process which can retroactively increase or decrease the actual duties owed on entries secured by cash deposits and bonds,
- the ultimate resolution of the legal appeals discussed above, and
- other administrative and legal challenges that may be instituted.

Assuming our percentage allocation in future years is the same as it was for the 2008 payment (approximately 27% of the funds distributed), that the amount of \$100 million collected by the government as of October 1, 2008 does not change as a result of the annual administrative review process or otherwise, and that the government loses the pending appeals based on constitutional issues (reducing our percentage allocation by approximately 62% based on the amount of funds held back for this pending litigation in 2008), we could potentially receive approximately \$10 million in additional CDSOA funds. If the government ultimately prevails

on the pending constitutional legal challenges and the other assumptions remain the same, we could potentially receive approximately \$54 million in additional CDSOA funds.

Of the approximately \$100 million in duties collected by the government as of October 1, 2008, the CBP recently disclosed that \$57 million was liquidated as of April 30, 2009 and is available for disbursement in 2009 to eligible domestic manufacturers. However, the CBP did not update the amount of duties collected by the government. The CBP noted in its notice that the final amounts available for distribution may be higher or lower than the preliminary amounts due to additional duties collected on entries that are liquidated before September 30, 2009 or some funds may be removed from the account because of reliquidations or administrative errors. Based on this preliminary amount we expect to receive \$6 million to \$7 million in the fourth quarter of 2009.

Due to the uncertainty of the various legal and administrative processes, we cannot provide assurances as to the amount of CDSOA funds that ultimately will be received, if any. Furthermore, we cannot predict when we may receive any CDSOA funds after 2009.

### **Critical Accounting Policies**

There have been no material changes to our critical accounting policies and estimates from the information provided in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations", included in our 2008 annual report on form 10-K.

### **Forward-Looking Statements**

Certain statements made in this report are not based on historical facts, but are forward-looking statements. These statements can be identified by the use of forward-looking terminology such as "believes," "estimates," "expects," "may," "will," "should," 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 the cyclical nature of the furniture industry, business failures or loss of large customers, competition in the furniture industry including competition from lower-cost foreign manufacturers, our success in transitioning Young America products to our domestic manufacturing facilities, disruptions in offshore 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, manufacturing realignment, the inability to obtain sufficient quantities of quality raw materials in a timely manner, 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, environmental, health and safety compliance costs, and extended business interruption at manufacturing facilities. In addition, we have made certain forward looking statements with respect to payments we expect to receive under the Continued Dumping and Subsidy Offset Act, which are subject to the risks and uncertainties described in our discussion of those payments that may cause the actual payments 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.

### **ITEM 3. Quantitative and Qualitative Disclosures about Market Risk**

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

#### **ITEM 4. Controls and Procedures**

- (a) Evaluation of disclosure controls and procedures. Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of our disclosure controls and procedures, as such term is defined under Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended (the Exchange Act). Based on this evaluation, our principal executive officer and our principal financial officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this quarterly report.
  
- (b) Changes in internal controls over financial reporting. There were no changes in our internal control over financial reporting that occurred during the third quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## PART II. OTHER INFORMATION

### **ITEM 1A. Risk Factors**

Our results of operations and financial condition can be adversely affected by numerous risks including those described in Item 1A of our 2008 Annual Report on 10-K. There have been no material changes from those risk factors except as set forth below.

***Our strategy to transition Young America Products (infant-to-teen furniture) to our domestic manufacturing facilities has, and will in the near term, increase operating expenses. If we are not successful in the implementation of this strategy, we may continue to experience significant disruptions to our operations that may result in a decline in revenues in addition to a continued increase in operating expenses.***

We believe our decision to bring all Young America production back to our domestic manufacturing facilities was necessary to regain control of the entire production process so that we can reposition Young America as the trusted childrens' furniture brand for safety, broad selection, quick delivery and environmental commitment. This transition has, and will in the near term, increase operating expenses due to the disruption caused by the transition of approximately one-third of our Young America product line from off-shore sourcing to our domestic manufacturing facilities. We expect the long-term benefit to be beneficial as we distinguish our Young America product line from the competition in the marketplace. If we are unsuccessful in implementing this strategy, we may continue to experience significant disruptions in our operations that may result in a decline in revenues in addition to a continued increase in operating expenses.

### **ITEM 6. Exhibits**

- 3.1 Restated Certificate of Incorporation of the Registrant as amended (incorporated by reference to Exhibit 3.1 to the Registrant's Form 10-Q (Commission File No. 0-14938) for the quarter ended July 2, 2005).
- 3.2 By-laws of the Registrant as amended (incorporated by reference to Exhibit 3.1 to the Registrant's Form 8-K (Commission File No. 0-14938 filed on August 26, 2009).
- 31.1 Certification by Albert L. Prillaman, our Chairman and Chief Executive Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.(1)
- 31.2 Certification by Douglas I. Payne, our Chief Financial Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. (1)
- 32.1 Certification of Albert L. Prillaman, our Chairman and Chief Executive Officer, pursuant to 18 U. S. C. Section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002. (1)
- 32.2 Certification of Douglas I. Payne, 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. (1)

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(1) Filed herewith

SIGNATURE

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

Date: October 15, 2009

**STANLEY FURNITURE COMPANY, INC.**  
By: /s/ Douglas I. Payne  
Douglas I. Payne  
Executive V.P. – Finance & Administration  
And Secretary  
(Principal Financial and Accounting Officer)

I, Albert L. Prillaman, certify that:

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

Date: October 15, 2009

/s/ Albert L. Prillaman  
Albert L. Prillaman  
Chairman and Chief Executive Officer

I, Douglas I. Payne, certify that:

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

Date: October 15, 2009

/s/Douglas I. Payne  
Douglas I. Payne  
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") Quarterly Report on form 10-Q for the period ended September 26, 2009 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Albert L. Prillaman, Chairman and 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: October 15, 2009

/s/ Albert L. Prillaman  
Albert L. Prillaman  
Chairman and Chief Executive Officer



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

In connection with the Stanley Furniture Company, Inc. (the "Company") Quarterly Report on form 10-Q for the period ended September 26, 2009 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Douglas I. Payne, 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: October 15, 2009

/s/Douglas I. Payne  
Douglas I. Payne  
Chief Financial Officer