

**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 29, 2012

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- 2010

(Registrant's telephone number, including area code)

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

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

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act, (check one):
Large accelerated filer () Accelerated filer () Non-accelerated filer (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)

As of October 12, 2012, 14,549,711 shares of common stock of Stanley Furniture Company, Inc., par value \$.02 per share, were outstanding.

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	<u>September 29, 2012</u>	<u>December 31, 2011</u>
ASSETS		
Current assets:		
Cash and equivalents.....	\$ 23,156	\$ 15,700
Restricted cash.....	1,737	1,587
Short-term investments.....	20,000	
Accounts receivable, less allowances of \$1,008 and \$1,051 ...	11,871	10,252
Inventories:		
Finished goods.....	28,055	27,793
Work-in-process.....	1,792	1,213
Raw materials.....	<u>1,638</u>	<u>2,078</u>
Total inventories.....	31,485	31,084
Prepaid expenses and other current assets.....	3,278	3,380
Deferred income taxes.....	<u>599</u>	<u>519</u>
Total current assets.....	92,126	62,522
Property, plant and equipment, net.....	19,926	17,590
Other assets.....	<u>3,126</u>	496
Total assets.....	<u>\$ 115,178</u>	<u>\$ 80,608</u>
LIABILITIES		
Current liabilities:		
Accounts payable.....	\$ 8,907	\$ 9,963
Accrued salaries, wages and benefits.....	5,107	4,378
Other accrued expenses.....	<u>2,586</u>	<u>2,115</u>
Total current liabilities.....	16,600	16,456
Deferred income taxes.....	599	519
Other long-term liabilities.....	<u>7,067</u>	<u>6,593</u>
Total liabilities.....	<u>24,266</u>	<u>23,568</u>
STOCKHOLDERS' EQUITY		
Common stock, \$.02 par value, 25,000,000 shares authorized, 14,549,711 and 14,524,015 shares issued and outstanding.....	287	287
Capital in excess of par value.....	15,487	14,898
Retained earnings.....	75,429	42,037
Accumulated other comprehensive loss.....	<u>(291)</u>	<u>(182)</u>
Total stockholders' equity.....	90,912	57,040
Total liabilities and stockholders' equity.....	<u>\$ 115,178</u>	<u>\$ 80,608</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	
	September 29, 2012	October 1, 2011	September 29, 2012	October 1, 2011
Net sales.....	\$23,977	\$26,051	\$ 75,186	\$ 80,015
Cost of sales.....	<u>20,632</u>	<u>22,227</u>	<u>65,166</u>	<u>70,873</u>
Gross profit (loss)	3,345	3,824	10,020	9,142
Selling, general and administrative expenses.....	<u>4,634</u>	<u>4,952</u>	<u>13,699</u>	<u>14,821</u>
Operating loss	(1,289)	(1,128)	(3,679)	(5,679)
Income from Continued Dumping and Subsidy Offset Act, net.....	53		39,414	1,117
Other income, net.....	23	25	64	75
Interest income.....	26	9	51	12
Interest expense.....	<u>640</u>	<u>623</u>	<u>1,761</u>	<u>1,747</u>
Income (loss) before income taxes	(1,827)	(1,717)	34,089	(6,222)
Income tax expense (benefit)	<u>77</u>	<u>(26)</u>	<u>697</u>	<u>(7)</u>
Net income (loss)	<u>\$ (1,904)</u>	<u>\$ (1,691)</u>	<u>\$ 33,392</u>	<u>\$ (6,215)</u>
Income (loss) per share:				
Basic.....	<u>\$ (.13)</u>	<u>\$ (.12)</u>	<u>\$ 2.33</u>	<u>\$ (.43)</u>
Diluted	<u>\$ (.13)</u>	<u>\$ (.12)</u>	<u>\$ 2.30</u>	<u>\$ (.43)</u>
Weighted average shares outstanding:				
Basic.....	<u>14,345</u>	<u>14,345</u>	<u>14,345</u>	<u>14,345</u>
Diluted	<u>14,345</u>	<u>14,345</u>	<u>14,487</u>	<u>14,345</u>

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

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

	Three Months Ended		Nine Months Ended	
	September 29, 2012	October 1, 2011	September 29, 2012	October 1, 2011
Net income (loss).....	<u>\$ (1,904)</u>	<u>\$ (1,691)</u>	<u>\$ 33,392</u>	<u>\$ (6,215)</u>
Other comprehensive income:				
Amortization of prior service benefit.....	(44)	(48)	(133)	(133)
Amortization of actuarial loss (benefit).....	<u>10</u>	<u>(2)</u>	<u>24</u>	<u>15</u>
Adjustments to net periodic postretirement (benefit) cost.....	(34)	(50)	(109)	(118)
Comprehensive income (loss).....	<u>\$ (1,870)</u>	<u>\$ (1,641)</u>	<u>\$ 33,501</u>	<u>\$ (6,097)</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 29, 2012	October 1, 2011
Cash flows from operating activities:		
Cash received from customers.....	\$ 73,503	\$ 77,805
Cash paid to suppliers and employees	(79,818)	(86,695)
Cash from Continued Dumping and Subsidy Offset Act	39,909	1,117
Interest paid, net.....	(2,246)	(2,103)
Income taxes (paid) received	(748)	3,077
Net cash provided (used) by operating activities	<u>30,600</u>	<u>(6,799)</u>
Cash flows from investing activities:		
Purchase of short-term investments.....	(20,000)	
Restricted cash increase.....	(150)	(1,587)
Capital expenditures.....	(3,226)	(2,562)
Purchase of other assets.....	(2,007)	(38)
Proceeds from sale of assets	55	1,472
Net cash used by investing activities	<u>(25,328)</u>	<u>(2,715)</u>
Cash flows from financing activities:		
Payments on capital lease obligation	(99)	(88)
Proceeds from insurance policy loans	2,283	2,003
Net cash provided by financing activities	<u>2,184</u>	<u>1,915</u>
Net increase (decrease) in cash and equivalents	7,456	(7,599)
Cash and equivalents at beginning of period	15,700	25,532
Cash and equivalents at end of period	<u>\$ 23,156</u>	<u>\$ 17,933</u>
Reconciliation of net income (loss) to net cash provided (used) by operating activities:		
Net income (loss).....	\$ 33,392	\$ (6,215)
Depreciation and amortization.....	1,320	1,233
Stock-based compensation.....	589	342
Gain on disposal of assets.....	(50)	
Changes in assets and liabilities:		
Accounts receivable	(1,619)	(2,063)
Inventories	(401)	(659)
Income tax receivable.....		3,427
Prepaid expenses and other current assets.....	(2,181)	(1,421)
Accounts payable	(1,502)	(1,640)
Accrued salaries, wages and benefits.....	475	2,003
Other accrued expenses	496	(866)
Other assets	(492)	(448)
Other long-term liabilities.....	573	(492)
Net cash provided (used) by operating activities	<u>\$ 30,600</u>	<u>\$ (6,799)</u>

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)
(unaudited)

1. Preparation of Interim Unaudited Consolidated Financial Statements

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

2. Property, Plant and Equipment

	September 29, 2012	December 31, 2011
Land and buildings	\$ 13,896	\$ 13,896
Machinery and equipment	30,340	27,277
Office furniture and equipment	1,168	1,168
Construction in process	<u>1,163</u>	<u>2,116</u>
Property, plant and equipment, at cost.....	46,567	44,457
Less accumulated depreciation	<u>26,641</u>	<u>26,867</u>
Property, plant and equipment, net	<u>\$ 19,926</u>	<u>\$ 17,590</u>

3. Income taxes

During the nine months of 2012, we utilized \$39.4 million of our net operating loss carry forwards against the income recognized by proceeds from the Continued Dumping and Subsidy Offset Act distributed by U.S. Customs and Border Protection in April of this year (see Note 8). The income tax expense recognized during the nine month period is primarily generated from the federal alternative minimum tax. The alternative minimum tax limits our ability to offset income generated during the period with net operating loss carry forwards. During the nine months of 2012, we reduced our valuation allowance against deferred tax assets from \$13.8 million to \$3.2 million at September 29, 2012.

We maintain a valuation allowance against deferred tax assets that currently exceed our deferred tax liabilities. 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 operating losses in the most recent three-year period, in our view, represented sufficient negative evidence to require a valuation allowance under the provisions of ASC 740, Income Taxes. We intend to maintain a valuation allowance until sufficient 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 \$599,000 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.

4. Employee Benefit Plans

Components of other postretirement benefit cost:

	Three Months Ended		Nine Months Ended	
	September	October	September	October
	<u>29, 2012</u>	<u>1, 2011</u>	<u>29, 2012</u>	<u>1, 2011</u>
Interest cost	\$ 34	\$ 36	\$ 99	\$ 115
Amortization of prior service benefit	(44)	(48)	(133)	(133)
Amortization of accumulated loss (benefit)	10	(2)	24	15
Net periodic postretirement benefit	<u>\$ 0</u>	<u>\$ (14)</u>	<u>\$ (10)</u>	<u>\$ (3)</u>

5. Stockholders' Equity

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

	Three Months Ended		Nine Months Ended	
	September	October	September	October
	<u>29, 2012</u>	<u>1, 2011</u>	<u>29, 2012</u>	<u>1, 2011</u>
Weighted average shares outstanding for basic calculation	14,345	14,345	14,345	14,345
Add: Effect of dilutive stock options and restricted stock	—	—	<u>142</u>	—
Weighted average shares outstanding adjusted for diluted calculation	<u>14,345</u>	<u>14,345</u>	<u>14,487</u>	<u>14,345</u>

During the three month period ended September 29, 2012, the dilutive effect of outstanding stock options is not recognized since we have a net operating loss for the period. During the nine month period ended September 29, 2012, approximately 729,000 stock options were excluded from the diluted per share calculation as they would be anti-dilutive. During the three and nine month periods ended October 1, 2011, the dilutive effect of outstanding stock options is not recognized since we have a net operating loss for those periods. Approximately 1.8 million shares in 2012 and 1.4 million shares in 2011 were issuable upon the exercise of stock options. No restricted stock was available for inclusion in the diluted per share calculation for the respective 2011 periods.

A reconciliation of the activity in Stockholders' Equity accounts for the nine months of 2012 is as follows:

	Common Stock	Capital in Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Loss
Balance, December 31, 2011	\$ 287	\$ 14,898	\$ 42,037	\$ (182)
Net income			33,392	
Stock-based compensation		589		
Adjustment to net periodic benefit cost ...				(109)
Balance, September 29, 2012	<u>\$ 287</u>	<u>\$ 15,487</u>	<u>\$ 75,429</u>	<u>\$ (291)</u>

6. 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 September 29, 2012, we are utilizing approximately 50% of the leased facility in Stanleytown, Virginia.

Restructuring accrual activity for the nine months ended September 29, 2012 was as follows:

	<u>Severance and other termination costs</u>	<u>Lease Obligations</u>	<u>Other Cost</u>	<u>Total</u>
Accrual at January 1, 2012.....	\$ 57	\$ 499	\$ 50	\$ 606
Charges and adjustments to expense	17	418	(40)	395
Cash payments	<u>(74)</u>	<u>(124)</u>	<u>(10)</u>	<u>(208)</u>
Accrual at September 29, 2012.....	<u>\$ 0</u>	<u>\$ 793</u>	<u>\$ 0</u>	<u>\$ 793</u>

Restructuring accrual activity for the nine months ended October 1, 2011 was as follows:

	<u>Severance and other termination costs</u>	<u>Other Cost</u>	<u>Total</u>
Accrual at January 1, 2011.....	\$ 1,239	\$ 730	\$ 1,969
Charges and adjustments to expense	21	(274)	(253)
Cash payments	<u>(956)</u>	<u>(316)</u>	<u>(1,272)</u>
Accrual at October 1, 2011.....	<u>\$ 304</u>	<u>\$ 140</u>	<u>\$ 444</u>

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

7. 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 at 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.

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

We recorded income of \$39.4 million, net of related expenses, in the second quarter of 2012 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 of 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.

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

Results of Operations

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

	Three Months Ended		Nine Months Ended	
	September 29, 2012	October 1, 2011	September 29, 2012	October 1, 2011
Net sales	100.0%	100.0%	100.0%	100.0%
Cost of sales	<u>86.0</u>	<u>85.3</u>	<u>86.7</u>	<u>88.6</u>
Gross profit.....	14.0	14.7	13.3	11.4
Selling, general and administrative expenses	<u>19.3</u>	<u>19.0</u>	<u>18.2</u>	<u>18.5</u>
Operating loss	(5.3)	(4.3)	(4.9)	(7.1)
CDSOA income, net.....	.2		52.4	1.4
Other income, net1	.1	.1	.1
Interest expense, net	<u>2.6</u>	<u>2.4</u>	<u>2.3</u>	<u>2.2</u>
Income (loss) before income taxes	(7.6)	(6.6)	45.3	(7.8)
Income tax (benefit)	<u>.3</u>	<u>(.1)</u>	<u>.9</u>	
Net income (loss)	<u>(7.9)%</u>	<u>(6.5)%</u>	<u>44.4%</u>	<u>(7.8)%</u>

Net sales for the three and nine month periods ended September 29, 2012 decreased \$2.1 million, or 8.0%, and \$4.8 million, or 6.0% from the comparable 2011 periods, respectively. The decreases to the comparable prior year periods were due to lower unit volume on our Young America product line. We attribute the lower unit volume to lost sales resulting from the conversion of the entire product line to a newly enhanced design and construction method, with higher quality standards. This conversion was recently completed and incoming order rates increased throughout the quarter as the new product became available for both floor samples and retail sales. This resulted in our highest backlog level in Young America since the consolidation of the product line into our domestic factory in Robbinsville, North Carolina. We believe we will reduce our backlog to a more normal level during the fourth quarter of 2012. 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 continuing to regain market share lost during our transition to a sourced model early last year.

Gross profit for the current three month period was \$3.3 million, or 14.0% of net sales, compared to \$3.8 million, or 14.7% of net sales, for the comparable three month period of 2011. Gross profit for the first nine months of 2012 increased to \$10.0 million, or 13.3% of net sales, from \$9.1 million, or 11.4% of net sales, for the comparable nine months of 2011. The nine month periods include restructuring related charges of \$474,000 and \$491,000, respectively for 2012 and 2011. See Note 6 to the Consolidated Notes to the Financial Statements for further details on restructuring and related charges. The decline in gross profit in the current three month period was the result of lower shipments and production levels as we completed our Young America product line conversion. The lower production negatively impacted gross profit due to under absorption of factory overhead. With the conversion of the Young America product line complete, production levels should increase to meet the incoming order demand. The gross profit improvement for the nine month comparison resulted from the improvement in operating efficiencies in the manufacturing of our Young America product line combined with the lower fixed cost burden on the Stanley Furniture product line as it continued the transition to a fully sourced offshore model in early 2011.

Selling, general and administrative expenses for the three and nine month periods of 2012 as a percentage of net sales were 19.3% and 18.2%, respectively, compared to 19.0% and 18.5% for the comparable 2011 periods. Selling, general and administrative expenses for the three and nine month periods decreased \$318,000 and \$1.1 million, respectively, compared to the 2011 periods. The higher percentage in the current three month period is the result of lower sales. The lower percentage in the current nine month period is due to lower marketing and advertising spending when compared to the prior year.

As a result, operating loss as a percentage of net sales was 5.3% for the three month period of 2012 compared to 4.3% for the comparable 2011 period. For the nine month period, operating loss was 4.9% compared to an operating loss of 7.1% for the comparable 2011 period.

Year to date we have recorded income, net of expenses, of \$39.4 million from the receipt of funds under the Continued Dumping and Subsidy Offset Act (CDSOA) compared to \$1.1 million in the 2011 period.

Our effective tax rate is essentially zero since we have established a valuation allowance for our deferred tax assets in excess of our deferred tax liabilities. The expense in the nine month period 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 earlier this year. Federal alternative minimum tax regulations limit the ability to offset all of the income generated in the period with net operating loss carry forwards. With the exception of this tax event, we expect our rate to continue at essentially zero for the remainder of the year.

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 sufficient to fund our ongoing operations and capital expenditures for the foreseeable future. At September 29, 2012 cash was \$44.9 million, including \$1.7 million of restricted cash and \$20.0 million of short-term investments.

Working capital, excluding cash, restricted cash and short-term investments, increased during the first nine months of 2012 to \$30.6 million from \$28.8 million on December 31, 2011. The increase was largely the result of a reduction in accounts payable as we paid for finished goods in-transit from overseas suppliers at the end of 2011 and an increase in accounts receivable due to the timing of shipments during the current period.

Cash provided by operations was \$30.6 million for the nine months of 2012 compared to a use of \$6.8 million in the comparable prior year period. The cash provided by operations was the result of the receipt of \$39.9 million in proceeds from the CDSOA compared to the \$1.1 million in proceeds the prior year. In the current year, we paid income taxes of \$748,000, largely driven by the income related to the CDSOA proceeds while we received \$3.1 million in income tax refunds in the prior year period as net operating losses were carried back to prior years. The remaining improvement in cash provided from operations was the result of lower fixed costs to support our Stanley Furniture product line and operating improvements at our Young America manufacturing facility.

Net cash used by investing activities was \$25.3 million in the first nine months of 2012 compared to \$2.7 million used in the comparable prior year period. During the first nine months of 2012, we invested \$20.0 million of our CDSOA proceeds in short-term investments. In addition, we invested \$3.2 million in capital expenditures as part of the modernization of our Young America manufacturing operation in Robbinsville, North Carolina and \$1.8 million as part of our investment in improved systems. Cash used in the prior year period was driven by capital expenditures of \$2.6 million related to the modernization of the Robbinsville facility and the transfer of \$1.6 million into restricted cash to secure letters of credit. These uses in the prior year were partially offset by proceeds of \$1.5 million from sale of assets. Capital expenditures for the remainder of 2012 are anticipated to be \$1.0 million in support of the strategic investment in our Young America manufacturing facility. The \$1.8 million spent in the first nine months of 2012 for our investment in new systems is a part of an estimated \$4.0 million total investment through the end of 2013. We anticipate spending an additional \$600,000 in the fourth quarter and the remainder in 2013 on new systems.

Net cash provided by financing activities was \$2.2 million in the current nine months of 2012 compared to \$1.9 million in the prior year period. In both years, cash was provided from loans against the cash surrender value of insurance policies. These proceeds were used to pay interest due on outstanding policy loans which is shown as a use of cash in operating activities.

In 2011, we evaluated our overall warehousing and distribution requirements for our Stanley Furniture product line and concluded that a distribution warehouse in Asia combined with our Martinsville, Virginia warehouse would have adequate space to service our Stanley Furniture product line. Therefore, in 2011 we began to reduce our usage of the leased facility in Stanleytown, Virginia and took a restructuring charge of \$499,000 against future lease obligations. During the second quarter of 2012, we further reduced our dependence on the Stanleytown warehouse and took an additional restructuring charge of \$474,000. We will continue to evaluate

these requirements and may continue to reduce our usage of the leased facility in Stanleytown which could result in further charges.

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 between \$500,000 and \$750,000 in restructuring charges for severance and relocation cost in the fourth quarter of 2012 and first part of 2013. In addition, we entered into a lease agreement to open a new showroom within the Las Vegas Design Center at 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.

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. Antidumping duties for merchandise entering the U.S. after September 30, 2007 remain with the U.S. Treasury.

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

On March 5, 2012, the Federal Circuit denied the motions for injunction, “without prejudicing the ultimate disposition of these cases.” As a result, we received a CDSOA distribution of \$39.9 million in April 2012. If the Federal Circuit were to reverse the decisions of the Court of International Trade and to 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 company’s share of the Holdback. Based on what we know today, we believe that the chance Customs will seek and be entitled to obtain a return is remote. We 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, 2011, approximately \$9.1 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 \$9.1 million collected by the government as of October 1, 2011 does not change as a result of the annual administrative review process or otherwise, we could receive approximately \$2.7 million in CDSOA funds.

Recently, Customs disclosed that as of April 30, 2012, \$1.8 million in collected duties was potentially available for distribution in 2012 to eligible domestic manufactures of wooden bedroom furniture. Customs noted that the final amounts available for distribution in 2012 could be higher or lower than the preliminary amounts due to liquidations, re-liquidations, protests, or other events affecting entries. This amount, at least in part, may have come from the security held by Customs as of October 1, 2011, but Customs has not updated the amount of duties that remain secured by cash deposits and bonds on un-liquidated entries of wooden bedroom furniture. Assuming our percentage allocation in 2012 is the same as it was for the 2011 distributions and the 2012 preliminary CDSOA amount does not change, we expect to receive approximately \$500,000 in the fourth quarter of 2012.

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

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 2011 Annual Report on Form 10-K, except as noted below.

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.

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, 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, failure or interruption of our information technology infrastructure, 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 return of all or a portion of the 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 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 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.

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 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 to the Registrant's Form 8-K (Commission File No. 0-14938) filed February 3, 2010).
- 31.1 Certification by Glenn Prillaman, our Chief Executive Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.(1)
- 31.2 Certification by Micah S. Goldstein, 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 Glenn Prillaman, our Chief Executive Officer, pursuant to 18 U. S. C. Section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002. (1)
- 32.2 Certification of 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. (1)
- 101 The following financial statements from the Company's Quarterly Report on Form 10-Q for the quarter ended September 29, 2012 formatted in Extensible Business Reporting Language ("XBRL"): (i) consolidated balance sheets, (ii) consolidated statements of income, (iii) condensed consolidated statements of cash flow, and (iv) the notes to the consolidated financial statements.(1) (2)

(1) Filed herewith

(2) 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.

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 16, 2012

STANLEY FURNITURE COMPANY, INC.

By: /s/ Micah S. Goldstein

Micah S. Goldstein

Chief Financial Officer

(Principal Financial and Accounting Officer)

I, Glenn Prillaman, certify that:

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

Date: October 16, 2012

/s/ Glenn Prillaman
Glenn Prillaman
Chief Executive Officer

I, Micah S. Goldstein, 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 16, 2012

/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") Quarterly Report on Form 10-Q for the period ended September 29, 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: October 16, 2012

/s/ Glenn Prillaman
Glenn Prillaman
Chief Executive Officer

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

In connection with the Stanley Furniture Company, Inc. (the "Company") Quarterly Report on Form 10-Q for the period ended September 29, 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: October 16, 2012

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