2004 ANNUAL REPORT

Stanley
Furniture Company, Inc.

CORPORATE PROFILE

Founded in 1924, Stanley Furniture Company, Inc. (Nasdaq: **STLY**) is a leading designer and manufacturer of high-quality residential wood furniture. Focused exclusively on the upper-medium-priced segment, Stanley Furniture's offerings range from traditional to contemporary with fashion-forward designs for rooms throughout the home that have captured ten coveted Pinnacle Awards from the American Society of Furniture Designers. Our blended manufacturing approach, combining production in Virginia and North Carolina with offshore sourcing, emphasizes continuous improvement in quality and customer responsiveness while reducing costs. The shipment of orders to retail stores is among the fastest in the industry. Stanley's products are sold through furniture specialty stores, department stores and furniture store chains. Additional information about Stanley Furniture is available at stanleyfurniture.com.

MISSION

Profitably offer the best product in the Stanley segment and support it with excellent quality and service.

STRATEGY

Position Stanley as a wood resource in the upper-medium residential market segment offering a diversified product line distributed through multiple channels.

CORE BELIEFS

- Style leadership with a value orientation supported by excellent quality and service is the foundation for success.
- Uncompromising integrity in all our dealings will ensure that associates, customers and suppliers are always treated with respect and fairness.
- Superior profitability will assure perpetuation of the Company and the well-being of our stockholders, associates, customers and community neighbors.

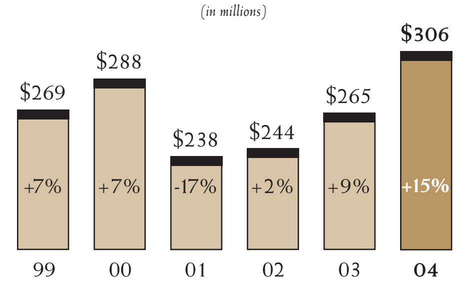
Stanley
Furniture Company, Inc.

FINANCIAL HIGHLIGHTS

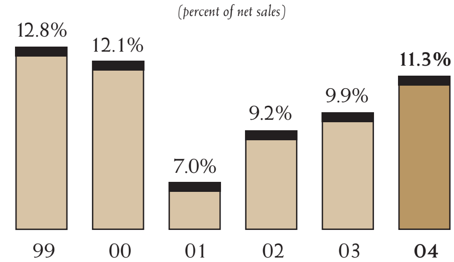
(In thousands, except per share data)	% Increase	2004	2003	2002	2001	2000	1999
			For the Years Ended December 31,				
Sales and earnings:							
Net sales	**15.3%**	**$ 305,815**	$ 265,263	$ 243,547	$ 238,292	$ 287,562	$ 268,585
Operating income	**32.3%**	**34,688**	26,216	22,361	16,661	34,937	34,290
Net income	**37.2%**	**20,789**	15,150	12,571	8,321	19,540	19,213
Per share:							
Net income, diluted	**35.5%**	**$ 3.17**	$ 2.34	$ 1.85	$ 1.21	$ 2.63	$ 2.47
Dividends paid		**0.40**	0.20				
Market price at year end	**42.7%**	**44.95**	31.50	23.25	23.77	24.13	18.38
Financial position at year end:							
Cash		**$ 7,632**	$ 2,509	$ 9,227	$ 1,955	$ 1,825	$ 3,597
Working capital		**88,567**	64,455	62,944	51,271	53,759	38,531
Total assets		**188,888**	164,203	172,485	163,003	179,206	170,522
Total debt		**15,685**	22,700	29,614	37,053	52,169	38,404
Stockholders' equity		**127,265**	102,558	99,687	87,294	79,477	79,573
Total debt as a percentage of total capitalization		**11.0%**	18.1%	22.9%	29.8%	39.6%	32.6%

Moondance™

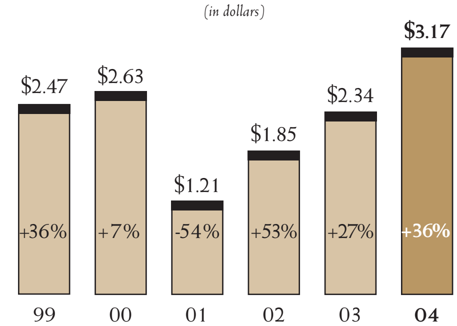
NET SALES TREND
(in millions)



OPERATING MARGIN TREND
(percent of net sales)



EARNINGS PER SHARE TREND
(in dollars)



TO OUR STOCKHOLDERS

A message from our **President & Chief Executive Officer**

We are pleased to report a year of exceptionally strong performance despite inconsistent business conditions and competitive pressures from low cost imports in the wood segment of the furniture industry. Sales increased 15.3%, operating income 32.3%, net income 37.2% and earnings per share 35.5% compared with 2003. This represented significant gains in market share at a time when the industry reported only low, single-digit increases for our competition in the upper-medium segment of residential wood furniture. Our 11.3% operating profit margin continues to rank among the best in the industry. We are extremely pleased with these results during these rapidly changing times.

Fourth quarter sales grew 12.4% and earnings per share improved 22.9%. This marked the highest sales and earnings of any quarter in our company's history and the eleventh consecutive quarter of year-over-year sales growth. Clearly, we enter 2005 with considerable momentum and the expectation of another good year.

An Industry in Transition

Our industry continues to change. The reason, of course, is China. New foreign competition continues to emerge as existing domestic producers struggle to adapt to a rapidly changing and increasingly challenging environment. Today, better than half of all the wood furniture sold in the United States is imported, primarily from China. But it's not just China. Vietnam, Malaysia, Indonesia, Thailand, Brazil and Canada are but a few of the other furniture-producing countries now seen on the competitive landscape.

Albert L. Prillaman (seated) and Jeffrey R. Scheffer

Late last year, the United States Department of Commerce found China to be guilty of dumping and imposed a 6.65% duty on the majority of wood bedroom furniture being imported from China. This ruling improves our competitive position and does not change our strategy of importing certain bedroom items from China. We remain strong proponents of free and fair trade, importing on and off for 20 years and exporting to over 40 countries.

Operating in a Global Economy

So how does a focused, niche player like Stanley Furniture compete or even survive in such a competitive environment? You change. You adapt. Because the future is all about operating in a global economy. For some companies in our industry that has meant closing factories and shifting portions or all of their production offshore. For others, the vertical approach with their own retail stores is the answer. Some have done both. But there is no one answer. You do what works for you.

We believe companies are successful because they develop strategies to satisfy consumer wants and to differentiate themselves from the competition. At Stanley Furniture, this thought is best captured in our Company's mission. "Profitably offer the best product in the Stanley segment and support it with excellent quality and service." Best product, quality and service. This is what we stand for. And this is the value proposition we offer our 2,800 customers comprised of independent furniture stores, regional chains, department stores, designers and international accounts. As such, this is what your management team thinks about and works on each day. While this may sound simple, the challenge is in the execution.

A Product Driven Approach

At the core of our company is a belief that best product is the price of entry in a consumer goods business – without it, not much else matters. Defined as something the consumer wants (as opposed to simply needs) at a price she's willing to pay, best product is determined by both design and price. Blending efficient domestic manufacturing in our highly focused facilities with intelligent outsourcing of certain component parts and finished goods has allowed us to improve the styling and value of our products. This combination gives Stanley Furniture a competitive advantage by offering affordable designs without sacrificing our culture and reputation for high quality and fast delivery. In other words, our products satisfy wants, and our quality and service differentiate Stanley Furniture from the competition. Our market share gains of the last two and a half years provide encouraging evidence that our mission is as relevant today as it has been in the past and that we are executing the strategy well.

But we can do better. Transitioning from a wholly domestic manufacturer to a global producer has required our organization to not only embrace a changing world but totally commit to a new way of doing things. Ramping up our sourcing initiative from nearly zero three years ago to almost 30% today has been a tremendous undertaking and challenge – especially when all sourced items must be made to our specifications and quality standards. Harder yet is ensuring our sourced items ship fast to our customers right along with the products we make in our own factories – on average, an amazing 17 days from receipt of order last year!

Achieving these results has required us to invest in people and processes, and to build buffer stocks of sourced products – a commitment to both inventory and the warehouse space it occupies. However, after more than three years of executing our blended operating strategy and with the ramp-up of our sourcing initiative now nearly complete, we believe the opportunity exists to both leverage expenses and to improve inventory turns by reducing vendor lead time and improving our processes.

A Proven Financial Strategy

Your management is committed to creating stockholder value on an ongoing basis. Since going public in 1993, your company has grown earnings per share at a compounded annual growth rate of 15% and the stock has performed accordingly. At the foundation of our financial strategy is an emphasis on strong cash flow that allows us to invest in the future, repurchase our stock (over $75 million in the last eight years) and pay cash dividends to our stockholders. In 2004 we repaid $7 million of debt, increased cash on hand by $5.1 million and paid cash dividends of $2.5 million. We initiated a cash dividend in 2003, doubled the amount of the dividend last year and recently announced another 20% increase. We fully realize our responsibility to provide you with a return on your investment. As we have said previously, while not ruling out strategic acquisitions, we remain skeptical of the synergies and stockholder benefits of growth through acquisition. We intend to remain a focused, niche player in a fragmented furniture industry.

This track we're on, however, would not be possible were it not for the leadership, vision and wisdom of Albert Prillaman who has served our company for nearly 36 years prior to recently announcing his retirement from active management. Albert leaves quite a legacy, including a culture deeply rooted in continuous improvement. While our people are to be credited for adapting to a changing world, our culture makes it possible. I'm fortunate to have Albert remain as lead director. He will continue to be an invaluable sounding board, source of sage advice, counsel and inspiration.

The best strategy means little without the people to execute it. I am fortunate to be surrounded by a highly talented and dedicated management team and board of directors that is passionately committed to continuing the tradition of superior financial results and creating stockholder value on a sustained basis with uncompromising integrity in all that we do. We appreciate your continued confidence and financial support. We look forward to reporting another year of progress.

Jeffrey R. Scheffer

Jeffrey R. Scheffer
President & Chief Executive Officer

A message from our **Chairman**

We recently announced my retirement from active management at Stanley Furniture after nearly 36 years of service. The Board of Directors and Jeff Scheffer have asked me to stay involved with the company by serving as "lead director" and liaison with the board on oversight matters and key strategic initiatives. I look forward to this new role.

Stanley Furniture has evolved over the years to a premier performer by any measure. This has been achieved by an intense, disciplined focus on executing a mission based on providing the best product, quality and service in our market segment. Since the public offering in 1993, our stock has appreciated more than tenfold, far exceeding the various stock indexes and our peer group. Your management has always accepted the responsibility of creating stockholder value, and I can assure you this viewpoint continues.

As proud as I am of the various accomplishments during my watch, I am most pleased with the succession plan we have completed over the past few years. When Jeff joined the company in the spring of 2001, he brought new skills needed at our company. The goal was to combine these skills with the strengths of Stanley Furniture and better position the company to compete in this new global environment. While this is an ongoing process, Jeff is providing excellent leadership and the results are extremely positive. In addition, Jeff is supported by the most talented management team ever assembled at Stanley Furniture. I expect continued superior performance for some time to come.

Your board is knowledgeable and engaged in our business...and sets very high performance and ethical standards. I look forward to continuing to serve with them. It has been a privilege and a pleasure leading Stanley Furniture over the years. I sincerely appreciate the support of our associates, stockholders, customers, and suppliers.

Albert L. Prillaman

Albert L. Prillaman
Chairman of the Board




STANLEY COLLECTIONS

It takes just the right styling to transform a house into a dream home. Our award-winning bedroom, dining room, home entertainment, home office and accent furniture is at home with young professionals, families and empty nesters who want high quality, function and comfort at affordable prices.

Stanley Collections uses only the finest materials to create exciting, beautifully designed wood furniture inspired by today's lifestyles and homes. Widely recognized as a style and design leader, our furniture collections range from traditional to contemporary.

Stanley Collections create tomorrow's memories of home.

Featuring Santa Barbara™

Slow the pace, and step into the world of Santa Barbara, as generous in spirit as it is in scale. Crafted of highly distressed, aged rogue maple, its rich patina is one usually reserved for hand-rubbed finishes. The collection remains relaxed and comfortable with accents of leather, marble, scrolled iron and etched brass, as well as handcrafted metal hardware warmed by copper undertones.

YOUNG AMERICA®

Infants seem to grow right into teens. But the journey through the infant, preschool, tween and teen years is actually a complicated maze of changing emotions, desires and needs.

Young America® easily adapts to these changes, and grows right along with your children. Not only is Young America furniture built to last through everything your kids can throw at it, it's also built to change as new challenges are thrown at kids.

Young America. Built to last. Built to fit. Built to evolve. Built to Grow.™

Featuring Tranquility

Built to last a lifetime, we've designed the Tranquility collection to take your kids from the crib to college and beyond. It has a progressive, transitional personality that works as the perfect foundation for any style of bedroom, bath or playroom. Its golden maple finish also fits the nursery perfectly, complementing one of the best selling crib finishes in the marketplace today. And, its innovative functionality and impeccable craftsmanship creates value, ensuring these pieces look brand new – even after years of use.

youngAmerica®

A registered trademark of Stanley Furniture Company, Inc.

2004 HONORS AND AWARDS

American Furniture Manufacturers Association Environmental Excellence Award

In recognition of our exceptional environmental leadership within the industry and our ongoing commitment to preserving the environment, Stanley Furniture was recognized by the leading trade association.

Robbinsville Plant Sets All-Time Industry Safety Record

Our associates at the Robbinsville, N.C. plant worked an incredible four million hours without a single lost-time accident, setting a new milestone on September 9, 2004, for safety in the wood furniture industry. Our associates broke the four million hour barrier after breaking the previous industry record of 3.645 million hours in May.

10th Pinnacle Award

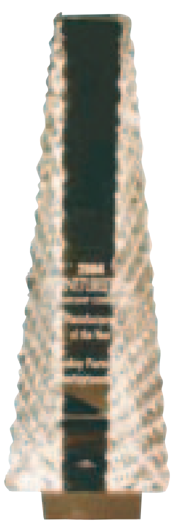
The American Society of Furniture Designers selected the best designs of the year at the Pinnacle Achievement Awards ceremony held during the October 2004 International Home Furnishings market. The Wainwright Ambassadors Leather Cocktail Ottoman won in the Occasional Tables category.

Martinsville Facility Earns Prestigious Environmental Awards

Our Martinsville plant joined just over 300 facilities throughout the nation who have been named a member of the EPA's prestigious National Environmental Performance Track for consistently exceeding environmental regulation requirements.

Martinsville was recognized as an Exemplary Environmental Enterprise (E3) in the Virginia Environmental Excellence Program (VEEP).

Martinsville also received the "2004 Governor's Environmental Excellence Award – Gold," from the Virginia Manufacturing Association and the Office of the Governor at the 9th Annual Governor's Environmental Excellence Awards for Manufacturers in Richmond.



Manufacturer of the Year

We were named "2004 Manufacturer of the Year" for our sales growth and successful blended strategy by FURNITURE/TODAY, an industry trade publication.

Stanley
Furniture Company, Inc.

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, 2004

Commission file number 0-14938

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

Delaware	54-1272589
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

1641 Fairystone Park Highway, Stanleytown, VA 24168
(Address of principal executive offices, Zip Code)

Registrant's telephone number, including area code: (276) 627-2000
Securities registered pursuant to Section 12(b) of the Act: None
Securities registered pursuant to Section 12(g) of the Act:

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

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 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 an accelerated filer (as defined in Exchange Act Rule 12b-2): Yes (x) No ( )

Aggregate market value of the voting and non-voting equity stock held by non-affiliates of the Registrant based on the closing price on June 26, 2004: $270 million

Indicate the number of shares outstanding of each of the Registrant's classes of common stock as of January 28, 2005:

Common Stock, par value $.02 per share	6,415,002
(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 26, 2005 are incorporated by reference into Part III.

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PART I

Item 1. Business

General

We are a leading designer and manufacturer of residential wood furniture exclusively targeted at the upper-medium price range. We offer diversified product lines across all major style and product categories within this price range. This product depth and extensive style selection makes us a complete wood furniture resource for retailers in our price range and allows us to respond more quickly to shifting consumer preferences. We have established a broad distribution network that includes independent furniture stores, department stores and regional furniture chains. To provide our products and support this broad distribution network, we have implemented a blended operating strategy combining efficient and flexible manufacturing processes with offshore sourcing of component parts and finished goods. We emphasize continuous improvement in our manufacturing and sourcing processes to enable us to continue providing competitive advantages to our customers, such as quick delivery, reduced inventory investment, high quality and value.

In 2001, we started to expand our offshore sourcing as we began implementing our blended operating strategy. The increased offshore sourcing created excess capacity in our manufacturing facilities and we closed our former West End, North Carolina facility beginning in late 2001 and realigned production at our Lexington, North Carolina facility in 2003.

Products and Styles

Our product offerings cover all major design categories and include dining room, bedroom, home office, home entertainment, accent tables and youth furniture marketed as Young America®. Recently we began expanding our Young America® offerings to include playroom and infant furniture marketed as Young America Baby™. We believe that the diversity of our product lines enables us to anticipate and respond quickly to changing consumer preferences and provides retailers a complete wood furniture resource in the upper-medium price range. We believe that our products represent good value and that the quality and style of our furniture compare favorably with more premium-priced products.

We provide products in a variety of woods, veneers and finishes. Our products are designed to appeal to a broad range of consumers and cover all major style categories including American and European traditional, contemporary/modern, transitional and cottage designs.

We design and develop new product styles each year to replace discontinued items or styles and, if desired, to expand product lines. Our product design process begins with marketing personnel identifying customer needs and conceptualizing product ideas, which generally consist of a group of related furniture pieces. A variety of sketches are produced, usually by Company designers, from which prototype furniture pieces are built prior to full-scale production. We consult with our marketing personnel, sales representatives and selected customers throughout this process and introduce our new product styles primarily at the fall and spring international furniture markets.

Distribution

We have developed a broad domestic and international customer base and sell our furniture through approximately 50 independent sales representatives to independent furniture retailers, department stores and regional furniture chains. Representative customers in alphabetical order include, Carson Pirie Scott, Dillards, Furnitureland South, Jordan’s, Marshall Fields, Nebraska Furniture Mart, Raymour & Flanigan, Robb & Stucky, Louis Shanks and Rooms To Go Kids. We believe this broad network reduces exposure to regional recessions, and allows us to capitalize on emerging channels of distribution. We offer tailored marketing programs to address each channel of distribution.

The general 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 seven-day furniture market is held in High Point, North Carolina, which is attended by most buyers and is regarded by the industry as the international market. We utilize approximately 63,000 square feet of showroom space at the High Point market to introduce new products, increase sales of our existing products and test ideas for future products.

We sold to approximately 2,800 customers during 2004 and approximately 4% of our sales in 2004 were to international customers. No single customer accounted for more than ten percent of our sales in 2004. No material 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

Our manufacturing strategy combines offshore sourcing with domestic manufacturing. Domestic manufacturing operations complement our product and distribution strategy by emphasizing continuous improvement in quality and customer responsiveness while reducing costs. These manufacturing processes produce smaller, more frequent and cost-effective runs. We focus on identifying and eliminating manufacturing bottlenecks and waste, employing statistical process control and, in turn, adjusting manufacturing schedules on a daily basis, using cellular manufacturing in the production of components and improving our relationships with suppliers by establishing primary supplier relationships. In addition, a key element of our manufacturing processes is to involve all Company personnel, from hourly associates to management, in the improvement of the manufacturing processes by encouraging and responding to ideas to improve quality and to reduce manufacturing lead times. Furthermore, each of our manufacturing facilities is focused on compatible products to improve quality and lower production costs.

We also integrate the sourcing of selected component parts and finished items with our domestic manufacturing operations to further enhance our product and distribution strategy. We acquire selected finished items and component parts from a limited number of offshore suppliers who can meet our quality specifications, production efficiency and scheduling requirements. Approximately 28% of our sales volume in 2004 came from products sourced from six countries with China representing the largest volume. We anticipate this percentage to be about the same in 2005.

We operate manufacturing facilities in North Carolina and Virginia consisting of an aggregate of approximately 3.2 million square feet. We consider our facilities to be generally modern, well-equipped and well-maintained.

We shipped customer orders within 17 days on average during 2004. We schedule production of our various styles based upon actual and anticipated orders. To support our delivery performance, we maintain a higher inventory level of sourced products compared to those we manufacture. Consequently, finished goods inventory levels have increased as the proportion of our sales from sourced products has increased. Since we ship customer orders on average in 17 days, the size of our backlog is not necessarily indicative of our long-term operations. Our backlog of unshipped orders was $20.6 million at December 31, 2004 and $19.6 million at December 31, 2003.

Raw Materials

The principal materials used in manufacturing our products include lumber, veneers, plywood, particle board, hardware, glue, finishing materials, glass products, laminates, fabrics and metals. We use a variety of species of lumber, including cherry, oak, ash, poplar, pine and maple. Our five largest raw material suppliers accounted for approximately 21% of our purchases in 2004. We believe that our sources of supply for these materials are adequate and that we are not dependent on any one supplier.

Competition

We ranked 19th among the largest furniture manufacturers in North America based on 2003 sales, according to *Furniture/Today*, a trade publication. The furniture industry is highly competitive and includes a large number of foreign and domestic manufacturers, none of which dominates the market. In addition, competition has significantly increased from foreign manufacturers in countries such as China which have lower production costs. The markets in which we compete include a large number of relatively small manufacturers; however, certain competitors have substantially greater sales volumes and financial resources compared to us. Competitive factors in the upper-medium price range include style, price, quality, delivery, design, service and durability. We believe that our manufacturing processes, our sourcing strategy, long-standing customer relationships and customer responsiveness, consistent support of existing diverse product lines that are high quality and good value, and our experienced management are competitive advantages.

Associates

At December 31, 2004, we employed approximately 2,600 associates. None of our associates are represented by a labor union. We consider our relationship with our associates to be good.

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, 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 pollution controls. 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 effect 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,” 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 competition in the furniture industry including competition from lower-cost foreign manufacturers, our success in executing a blended strategy of combining offshore sourcing and domestic manufacturing, disruptions in offshore sourcing including those arising from supply or distribution disruptions or changes in political or economic conditions affecting the countries from which we obtain offshore sourcing, international trade policies of the United States and countries from which we obtain sourcing, the cyclical nature of the furniture industry, fluctuations in the price for lumber which is the most significant raw material we use, fluctuations in foreign freight cost, credit exposure to customers, capital costs and general economic conditions. 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. 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. Douglas I. Payne
Telephone: 276-627-2000
Fax: 276-629-5114
Or e-mail your request to: Investor@Stanleyfurniture.com

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. All Company plants 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 extent of utilization of our facilities are difficult to quantify with certainty because maximum capacity and utilization varies periodically depending upon the product being manufactured, the amount of component parts and finished items outsourced and the utilization of the labor force at the facility. In this context, we estimate that our facilities operated at approximately 75% to 80% of capacity in 2004, principally on a one shift basis. We believe available capacity at our facilities together with the integration of selected imported component parts and finished items will be adequate to expand production to meet anticipated product requirements.

Location	Primary Use	Approximate Facility Size (Square Feet)	Owned or Leased
Stanleytown, VA	Manufacturing and Corporate Headquarters	1,721,000	Owned
Martinsville, VA	Manufacturing	300,000	Owned
Lexington, NC	Manufacturing	635,000	Owned
Robbinsville, NC	Manufacturing	540,000	Owned
High Point, NC	Showroom	63,000	Leased

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. Submission of Matters to a Vote of Security Holders

None.

Executive Officers of the Registrant

Our executive officers and their ages as of January 1, 2005 are as follows:

Name	Age	Position
Albert L. Prillaman	59	Chairman
Jeffrey R. Scheffer	49	President and Chief Executive Officer
Douglas I. Payne	46	Executive Vice President – Finance and Administration and Secretary
Philip D. Haney	50	Executive Vice President – Marketing/Sales Stanley Collections
Robert A. Sitler, Jr.	44	Senior Vice President – Operations
R. Glenn Prillaman	33	Senior Vice President – Marketing/Sales Young America®

Albert L. Prillaman has been Chairman of the Board of Directors since September 1988. Mr. Prillaman served as our Chief Executive Officer from December 1985 to December 2002. Mr. Prillaman also served as President from 1985 until April 2001. Prior to 1985, Mr. Prillaman served as our Vice President and President of the Stanley Furniture division of our predecessor since 1983, and in various executive and other capacities with the Stanley Furniture division of our predecessors since 1969. Albert L. Prillaman is the father of R. Glenn Prillaman.

Jeffrey R. Scheffer has been Chief Executive Officer since December 2002. Mr. Scheffer has been President since April 2001. He also served as Chief Operating Officer from April 2001 to December 2002. Prior to his employment with us, Mr. Scheffer served as President of American Drew, a furniture manufacturer, for five years.

Douglas I. Payne has been Executive Vice President – Finance and Administration since April 2001. Mr. Payne previously held the position of Senior Vice President – Finance and Administration since December 1996. He was our Vice President of Finance and Treasurer from September 1993 to December 1996. Prior to that time, Mr. Payne held various financial management positions since his employment by us in 1983. Mr. Payne has been our Secretary since 1988.

Philip D. Haney has been Executive Vice President – Marketing/Sales – Stanley Collections since August 2003. Mr. Haney previously held the position of Executive Vice President – Marketing and Sales since his employment by us in October 2002. Prior to his employment with us, Mr. Haney served as President of Karastan Rug and Home from August 2002 to October 2002 and was Senior Vice President, Marketing and Sales at Karastan from 1998 to August 2002.

Robert A. Sitler, Jr. has been Senior Vice President – Operations since November 2003. Mr. Sitler previously held the position of Vice President – Manufacturing Services since November 2001. Prior to that time, Mr. Sitler held various management positions in credit, manufacturing, human resources, supply management and global sourcing since his employment with us in 1985.

R. Glenn Prillaman has been Senior Vice President – Marketing/Sales – Young America® since August 2003. Mr. Prillaman previously held the position of Vice President – Product Manager since January 2002. Mr. Prillaman held various management positions in product development for Young America® since June 1999. R. Glenn Prillaman is the son of Albert L. Prillaman.

PART II

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

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.

	2004			2003		
	High	Low	Dividends Paid	High	Low	Dividends Paid
First Quarter	**$40.42**	**$31.54**	**$.10**	$25.15	$18.26	$.05
Second Quarter	**45.45**	**38.12**	**.10**	27.42	20.69	.05
Third Quarter	**48.38**	**38.44**	**.10**	33.19	26.18	.05
Fourth Quarter	**47.95**	**41.70**	**.10**	33.08	29.50	.05

As of January 28, 2005, we have approximately 2,900 beneficial stockholders. Our Board of Directors initiated an annual dividend policy of $.20 per share in January 2003 and increased the annual dividend policy to $.40 per share in January 2004 and increased it another 20% to $.48 per share in February 2005. Our dividend policy is subject to review and revision by the Board of Directors and any future payments will depend upon the financial condition, our capital requirements and earnings, as well as other factors the Board of Directors may deem relevant. Our ability to pay dividends and repurchase our common stock is restricted under certain loan covenants. See Note 3 of the Notes to Consolidated Financial Statements.

Issuer Purchases of Equity Securities

The following table represents share repurchase activity for the fourth quarter ending December 31, 2004:

Period	Total number of shares purchased	Average price paid per share	Total number of shares purchased as part of publicly announced plans or programs	Maximum number (or approximate dollar value) of shares that may yet be purchased under the plans or programs (a)
September 26 to October 30, 2004				$10,200,000
October 31 to November 27, 2004	6	$45.01	6	$10,200,000
November 28 to December 31, 2004				$10,200,000
Total	**6**	**$45.01**	**6**	

(a) On October 13, 2003, we announced that our Board of Directors had authorized the use of an additional $10 million to repurchase our common stock, bringing the total amount authorized to repurchase our common stock to $10.2 million. Consequently, we may purchase our common stock, from time to time, either directly or through agents, in the open market, through negotiated purchases or otherwise, at prices and on terms satisfactory to us.

Equity Compensation Plan Information

The following table summarizes our equity compensation plans as of December 31, 2004:

	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	508,700	$26.70	232,002
Equity compensation plans not approved by stockholders[1]	100,000	$27.88	
Total	**608,700**	**$26.89**	**232,002**

[1]Represents a one time option grant to Jeffrey R. Scheffer, in connection with his employment as our President and Chief Operating Officer in April 2001.

Item 6. Selected Financial Data

	Years Ended December 31,				
	2004	2003	2002	2001	2000
	(in thousands, except per share data)				
Income Statement Data:					
Net sales (1)	**$305,815**	$265,263	$243,547	$238,292	$287,562
Cost of sales (1)	**230,174**	203,410	184,967	185,326	218,969
Restructuring and related charges(2)			3,548	2,290	
Gross profit	**75,641**	61,853	55,032	50,676	68,593
Selling, general and administrative expenses	**40,953**	35,637	32,671	30,482	33,656
Unusual charge(3)				2,800	
Restructuring and related charges(2)				733	
Operating income	**34,688**	26,216	22,361	16,661	34,937
Other expense (income), net	**(188)**	(203)	(219)	47	(82)
Interest expense	**2,343**	2,748	3,090	4,007	4,003
Income before income taxes	**32,533**	23,671	19,490	12,607	31,016
Income taxes	**11,744**	8,521	6,919	4,286	11,476
Net income	**$ 20,789**	$ 15,150	$ 12,571	$ 8,321	$ 19,540
Basic Earnings Per Share:					
Net income	**$ 3.31**	$ 2.40	$ 1.90	$ 1.26	$ 2.76
Weighted average shares	**6,287**	6,326	6,609	6,610	7,076
Diluted Earnings Per Share:					
Net income	**$ 3.17**	$ 2.34	$ 1.85	$ 1.21	$ 2.63
Weighted average shares(4)	**6,549**	6,462	6,782	6,900	7,429
Cash dividends paid per share (5)	**$ .40**	$ .20			
Balance Sheet and Other Data:					
Cash	**$ 7,632**	$ 2,509	$ 9,227	$ 1,955	$ 1,825
Inventories	**73,658**	54,638	54,158	49,522	54,423
Working capital	**88,567**	64,455	62,944	51,271	53,759
Total assets	**188,888**	164,203	172,485	163,003	179,206
Long-term debt including current maturities	**15,685**	22,700	29,614	37,053	52,169
Stockholders' equity(4)	**127,265**	102,558	99,687	87,294	79,477
Capital expenditures	**1,718**	1,243	1,037	4,172	6,068
Stock repurchases:					
Shares (6)		566	158	86	869
Total cost (6)		$ 14,788	$ 3,066	$ 1,973	$ 19,754

(1) Amounts reflect the reclassification of shipping revenues to net sales from cost of sales. Reclassifications for the last five years were $6.4 million, $4.6 million, $4.1 million, $4.0 million and $4.5 million, respectively. These reclassifications had no impact on earnings.

(2) We recorded restructuring and related charges in 2002 of $3.6 million (or $.34 per diluted share) and $3.0 million (or $.29 per diluted share) in 2001 for the closure of a manufacturing facility.

(3) In 2001, we recorded a $2.8 million (or $.26 per diluted share) charge to write off amounts due from a major customer.

(4) In 2002, we issued 49,000 shares to the Stanley Retirement Plan.

(5) No dividends were paid on common stock prior to 2003.

(6) During 2004, we repurchased an insignificant number of shares of our common stock.

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

The following discussion should be read in conjunction with the Selected Financial Data and the Consolidated Financial Statements and Notes.

Overview

Over the past few years the residential wood furniture industry has experienced a surge in low cost imported products, primarily from China. Imports have grown dramatically in the past few years and according to industry sources it is estimated that imports now account for over half of all residential wood furniture sold in the United States.

In response to this trend we developed a blended strategy of combining our domestic manufacturing capabilities with an offshore sourcing program and realigned our manufacturing capacity. We incorporate selected imported component parts and finished items in our product line to lower costs, provide design flexibility, and offer a better value to our customers. Sourced products increased to approximately 28% of our sales in 2004 compared to 20% in 2003. We anticipate this percentage to remain about the same in 2005.

The increase in offshore sourcing created excess capacity in our manufacturing facilities which caused us to reduce and realign manufacturing capacity. We closed a manufacturing facility in 2002 (our former West End, North Carolina factory) and reduced operations at another manufacturing facility in 2003. We have realigned production so that each of our current manufacturing facilities is focused on specific product lines of compatible products to improve quality and lower production costs.

These actions reduced our manufacturing capacity by approximately 15% to 20%. We operated at approximately 75% to 80% of this reduced capacity in 2004 compared to 70% to 75% in 2003, resulting in improved operating margins in 2004. We are maintaining our manufacturing capacity at this level to provide protective capacity for improved demand.

We will continue to evaluate our manufacturing capacity needs considering offshore sourcing opportunities, current and anticipated demand for our products, overall market conditions and other factors we consider relevant. Should further capacity reductions become necessary, this could cause asset impairment or other restructuring charges in the future.

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,		
	2004	2003	2002
Net sales	**100.0%**	100.0%	100.0%
Cost of sales	**75.3**	76.7	75.9
Restructuring and related charges			1.5
Gross profit	**24.7**	23.3	22.6
Selling, general and administrative expenses	**13.4**	13.4	13.4
Operating income	**11.3**	9.9	9.2
Other income, net	**.1**		.1
Interest expense	**.8**	1.0	1.3
Income before income taxes	**10.6**	8.9	8.0
Income taxes	**3.8**	3.2	2.8
Net income	**6.8%**	5.7%	5.2%

2004 Compared to 2003

Net sales increased $40.6 million, or 15.3%, in 2004 compared to 2003. The increase was due primarily to higher unit volume and to a lesser extent higher average selling prices. While industry sales trends improved in 2004, we believe most of our growth came from market share gains.

Gross profit margin for 2004 increased to 24.7% from 23.3% in 2003. Higher gross profit margin in 2004 was primarily due to higher production levels at our domestic facilities and savings from sourcing initiatives. Inflation in raw materials, wages, employee benefits, energy costs and tariffs imposed on wooden bedroom furniture imported from China were offset with modest price increases.

Selling, general and administrative expenses as a percentage of net sales were 13.4% for both 2004 and 2003. Selling, general and administrative expenditures increased in 2004 by $5.3 million. This increase resulted from higher selling expenses directly attributable to the increase in sales (including additional warehouse expense), increased bonus expense due to higher earnings and cost incurred to comply with the Sarbanes-Oxley Act of 2002. These increases were partially offset by a $334,000 net reversal of bad debt expense in 2004 due to a reduction in accounts receivable from certain customers experiencing financial difficulties compared to a net reversal of $20,000 in 2003.

As a result of the above, operating income as a percentage of net sales was 11.3% for 2004, compared to 9.9% for 2003.

Interest expense for 2004 decreased primarily due to lower average debt levels.

The effective tax rate for 2004 is 36.1% which is comparable to the 2003 effective tax rate. As a result of the new “American Jobs Creation Act of 2004” which allows for a deduction based on qualified domestic production activities, we expect a modest decline in our effective tax rate as this deduction is phased in over the next six years. Consequently, the 2005 effective tax rate is expected to range from 35.5% to 36.0%.

2003 compared to 2002

Net sales increased $21.7 million, or 8.9%, in 2003 compared to 2002. The increase was due primarily to higher unit volume. We believe this higher unit volume was due to gains in market share resulting from our blended operating strategy that allowed us to offer improved product styling and value to our customers. While industry sales trends improved in the second half of 2003, the industry reported a sales decrease in 2003.

Gross profit margin for 2003 increased to 23.3% from 22.6% in 2002. Lower gross profit margin in 2002 was due primarily to restructuring and related charges resulting from closing a factory to reduce our manufacturing capacity. The gross profit margin for 2003 increased due to savings from sourcing initiatives and the realignment of manufacturing capacity. These savings were mostly offset by transition and start up costs from increased offshore sourcing, lower production levels at our manufacturing facilities and other inflationary costs including wages and employee benefits.

Selling, general and administrative expenses as a percentage of net sales was 13.4% for both 2003 and 2002. Selling, general and administrative expenditures increased $3.0 million in 2003 due primarily to higher sales, expansion of our offshore sourcing program and increased marketing and product development costs. These increases were partially offset by a $780,000 decrease in bad debt expense. We recognized $760,000 of bad debt expense in 2002 compared to a net reversal of $20,000 in 2003 due to a decrease in accounts receivable from certain customers experiencing financial difficulties.

As a result of the above, operating income for 2003 increased to $26.2 million, or 9.9% as a percentage of net sales, from $22.4 million, or 9.2% as a percentage of net sales, in 2002.

Interest expense for 2003 decreased due primarily to lower average debt levels.

Our effective income tax rate for 2003 increased to 36.0% from 35.5% in 2002, due primarily to higher state income taxes resulting from the phase-out of certain state tax credits.

Financial Condition, Liquidity and Capital Resources

Sources of liquidity include cash on hand, cash from operations and amounts available under a $25.0 million credit facility. These sources have been adequate for day-to-day expenditures, debt payments, purchases of our stock, capital expenditures and payment of cash dividends to stockholders. We expect these sources of liquidity to continue to be adequate for the future.

Working capital has increased to support increased sales and due to higher finished goods inventory levels as the proportion of our sales from sourced products has increased. To support our delivery performance, we maintain a higher inventory level of sourced products compared to those we manufacture. We expect future changes in working capital to be more closely aligned with changes in sales.

At December 31, 2004, approximately $10.2 million remains authorized by our Board of Directors to repurchase shares of our common stock. Consequently, we may, from time to time, either directly or through agents, repurchase our common stock in the open market, through negotiated purchases or otherwise, at prices and on terms satisfactory to us. Depending on market prices and other relevant conditions, such purchases may be discontinued at any time. The Board of Directors initiated an annual dividend policy of $.20 per share in January 2003 and doubled the dividend to $.40 per share in January 2004 and increased it another 20% to $.48 per share in February 2005. The aggregate payments for 2005 are expected to be approximately $3.1 million.

Cash generated from operations was $10.5 million in 2004 compared to $14.3 million in 2003 and $16.1 million in 2002. The decrease in 2004 compared to 2003 was due to higher payments to suppliers and employees, partially offset by higher receipts from customers. Payments to suppliers and employees increased

$42.2 million, primarily to fund increased purchases of sourced products, higher production and higher selling and administrative expenses. Cash received from customers increased $37.2 million as a result of higher sales. The decrease in cash generated from operations for 2003 compared to 2002 was due primarily to higher tax payments which was a result of timing of estimated tax payments and higher income.

Net cash used by investing activities was $1.9 million in 2004 compared to $1.3 million and $342,000 in 2003 and 2002, respectively. Capital expenditures in 2004 consisted of normal capital expenditures and software purchases. The expenditures for all three years were primarily for plant and equipment and other assets in the normal course of business. In 2002, we received net proceeds of $695,000 from the sale of real estate at our former West End, North Carolina facility. The decline in capital expenditures for the past 3 years is due to the relocation of a significant portion of the machinery and equipment from our former West End, North Carolina facility to other Company facilities and used in lieu of normal replacements. In 2005, we expect to see the return to more historic levels of capital spending. Consequently, capital expenditures for 2005 are anticipated to range from $4 million to $6 million. Our sales growth, along with an increase in the proportion of sourced goods, has created a need for additional warehouse space. We are currently renting space to accommodate our needs. To partially address the need for additional warehouse space, approximately $700,000 of the 2005 capital expenditures will be used to expand warehouse space and improve the manufacturing flow at one of our facilities. However, since this will not completely alleviate the need for rented warehouse space, we continue to evaluate long-term solutions which could result in additional capital expenditures in 2005.

Net cash used by financing activities was $3.5 million, $19.7 million and $8.5 million in 2004, 2003 and 2002, respectively. In 2004 cash from operations and proceeds from exercise of stock options provided funds for senior debt payments and cash dividends. In 2003 and 2002, cash from operations and proceeds from the exercise of stock options provided cash for purchase and retirement of our common stock and senior debt payments. In 2003, these funds were also used to pay cash dividends.

At December 31, 2004, long-term debt including current maturities was $15.6 million. Debt service requirements are $4.3 million in 2005, $2.9 million both in 2006 and 2007 and $1.4 million in both 2008 and 2009. As of December 31, 2004, approximately $25 million of additional borrowings were available under a revolving credit facility and cash on hand was $7.6 million.

The following table sets forth our contractual cash obligations and other commercial commitments at December 31, 2004:

		Payment due or commitment expiration			
	Total	**Less Than 1 year**	**1-3 years**	**3-5 years**	**Over 5 years**
Contractual cash obligations:					
Long-term debt	**$15,685**	$4,257	$5,714	$2,857	$2,857
Operating leases	**2,821**	701	1,182	938	
Total contractual cash obligations	**$18,506**	$4,958	$6,896	$3,795	$2,857
Other commercial commitments:					
Letters of credit	**$ 4,234**	$4,234			

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.

Allowance for doubtful accounts – We maintain an allowance for doubtful receivables for estimated losses resulting from the inability of trade customers to make required payments. We provide an allowance for specific customer accounts where collection is doubtful and also provide an allowance for other accounts based on historical collection and write-off experience. Judgment is critical because some customers have experienced financial difficulties. As the financial condition of these customers and the related receivable balances change, the level of such allowances will be reevaluated. During 2004, the credit exposure related to certain customer accounts experiencing financial difficulties declined resulting in a decrease in the allowance for doubtful receivables.

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 or net sales value based on current trends. Those items having a net sales value less than cost are written down to their net sales value. This process recognizes projected inventory losses when they become evident rather than at the time they are sold. These reserves were increased in 2004 as a result of higher inventory levels.

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. Depreciation policy reflects judgments on the estimated useful lives of assets.

Tax contingencies – Tax contingencies are recorded to address potential exposures involving tax positions we have taken that could be challenged by taxing authorities. These potential exposures result from the varying applications of statutes, rules, regulations and interpretations. Our tax contingencies contain assumptions based on past experiences and judgments about potential actions by taxing jurisdictions. The ultimate resolution of these matters may be greater or less than the amount that we have accrued.

Pension costs – Our pension expense is developed from actuarial valuations. Inherent in these valuations are key assumptions, including discount rates used to determine the present value of future benefit payments and expected return on plan assets, which are usually updated on an annual basis at the beginning of each year. We consider current market conditions, including changes in interest rates, in making these assumptions. Changes in pension costs may occur in the future due to changes in these assumptions. The key assumptions used in developing 2004 net pension costs were a discount rate of 6.0% and an expected return on plan assets of 6.5% compared to 6.5% for both the discount rate and expected return on plan assets in 2003. In establishing our expected return on plan assets assumption, we review asset allocation considering plan maturity and develop return assumptions based on different asset classes adjusting for plan operating expenses. Actual asset over/under performance compared to expected returns will respectively decrease/increase unrecognized loss. The change in the unrecognized loss will change amortization cost in upcoming periods. A one percentage point change in the expected return assumption in the current year would have resulted in a change in pension expense of $150,000. Net pension cost for 2005 is expected to increase slightly, primarily as a result of a reduction in the discount rate from 6.0% to 5.5%.

Self-Insurance – We are self-insured for certain claims related to medical insurance and workers' compensation. We maintain stop loss coverage with third party insurers to limit our total exposure. The self-insurance liability represents an estimate of the ultimate cost of claims incurred and unpaid as of the balance sheet date. The estimated liability is established based upon analysis of historical data and is reviewed on a quarterly basis to ensure that the liability is appropriate. If actual claims differ from our estimates, our financial results could be impacted.

Tariffs imposed on wooden bedroom furniture imported from China – Tariff expense is based on the most current rates published by the Department of Commerce. These rates are potentially subject to an administrative review process starting approximately one year after the publication date. The final amounts will depend on whether administrative reviews are performed and the outcome of those reviews, if any, on the vendors we purchase from.

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 showroom, warehousing space and certain technology equipment.

New Accounting Standards

In November 2004, the Financial Accounting Standards Board issued Statement of Financial Accounting Standard No. 151, "Inventory Costs". The new Statement amends Accounting Research Bulletin No. 43, Chapter 4, "Inventory Pricing," to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material. This Statement requires that those items be recognized as current-period charges and requires that allocation of fixed production overheads to the cost of conversion be based on the normal capacity of the production facilities. This statement is effective for fiscal years beginning after June 15, 2005. We do not expect adoption of this statement to have a material impact on our financial condition or results of operations.

In December 2004, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 123 (revised 2004), Share-Based Payment. This Statement replaces FASB Statement No. 123 and supersedes APB Opinion No. 25. Statement No. 123(R) will require the fair value of all stock option awards issued to employees to be recorded as an expense over the related vesting period. The Statement also requires the recognition of compensation expense for the fair value of any unvested stock option awards outstanding at the date of adoption. We are evaluating these new rules, but expect no material impact upon adoption relating to outstanding options since a majority of the awards under the existing incentive stock option plan will be fully vested prior to the effective date of the revised rules.

Item 7A. Quantitative and Qualitative Disclosures about Market Risks

Our obligation under the revolving credit facility bears interest at a variable rate; therefore, changes in prevailing interest rates impact our borrowing costs. A one-percentage point fluctuation in market interest rates would not have had a material impact on earnings in 2004.

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, 2004.

Our management's assessment of the effectiveness of our internal control over financial reporting as of December 31, 2004 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which is included herein.

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 and Executive Officers

Information related to our directors is set forth under the caption "Election of Directors" of our proxy statement (the "2005 Proxy Statement") for our annual meeting of shareholders scheduled for April 26, 2005. 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 2005 Proxy Statement and is incorporated herein by reference.

Information relating to the 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 401(h) of Regulation S-K is set forth under the caption "Board and Board Committee Information" of our 2005 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 Company."

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 stanleyfurniture.com.

Item 11. Executive Compensation

Information relating to our executive compensation is set forth under the caption "Compensation of Executive Officers" of our 2005 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 2005 Proxy Statement. Such information is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions

None.

Item 14. Principal Accountant Fees and Services

Our information relating to this item is set forth under the caption "Independent Public Accountants" of our 2005 Proxy Statement. Such information is incorporated herein by reference.

PART IV

Item 15. Exhibits and Financial Statement Schedule

(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, 2004 and 2003
Consolidated Statements of Income for each of the three years in the period ended December 31, 2004
Consolidated Statements of Changes in Stockholders' Equity for each of the three years in the period ended December 31, 2004
Consolidated Statements of Cash Flow for each of the three years in the period ended December 31, 2004
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, 2004

(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-K (Commission File No. 0-19938) for the year ended December 31, 1998).

3.2 By-laws of the Registrant as amended (incorporated by reference to Exhibit 3 to the Registrant's Form 10-Q (Commission File No. 0-14938) for the quarter ended September 27, 2003).

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).

4.2 Note Purchase and Private Shelf Agreement, dated as of June 29, 1995, among the Registrant, The Prudential Insurance Company of America and the affiliates of Prudential who become Purchasers as defined therein (incorporated by reference to Exhibit 4.1 to the Registrant's Form 8-K (Commission File No. 0-14938) filed December 2, 1997).

4.3 Letter Amendment, dated October 14, 1996, to Note Agreements, dated June 29, 1995, between the Registrant and The Prudential Insurance Company of America (incorporated by reference to Exhibit 4.1 to the Registrant's Form 10-Q (Commission File No. 0-14938) for the quarter ended September 29, 1996).

4.4 Letter Amendment, dated June 16, 1997, to Note Agreements, dated June 29, 1995, between the Registrant and The Prudential Insurance Company of America (incorporated by reference to Exhibit 4.1 to the Registrant's Statement on Form 8-K (Commission File No. 0-14938) filed July 9, 1997).

4.5 Amendment, dated as of May 10, 1999, to Note Agreements, dated February 15, 1994 and June 29, 1995, between the Registrant and The Prudential Insurance Company of America (incorporated by reference to Exhibit 4.1 to the Registrant's Form 10-Q (Commission File No. 0-14938) for the quarter ended June 26, 1999).

4.6 Private Shelf Agreement dated as of September 9, 1999, as amended as of April 26, 2001, among the Registrant, The Prudential Insurance Company of America and the affiliates of Prudential who became purchasers as defined therein (incorporated by reference to Exhibit 4.1 to the Registrant's Form 10Q (Commission File No 0-14938) for the quarter ended June 30, 2001).

Pursuant to Regulation S-K, Item 601(b)(4)(iii), instruments evidencing long term debt less than 10% of the Registrant's total assets have been omitted and will be furnished to the Securities and Exchange Commission upon request.

10.1 Employment Agreement made as of January 1, 1991 between Albert L. Prillaman and us (incorporated by reference to Exhibit 10.1 to the Registrant's Form 10-K (Commission File No. 0-14938) for the year ended December 31, 1991).(2)

10.2 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).(2)

10.3 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).(2)

10.4 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).(2)

10.5 1992 Stock Option Plan (incorporated by reference to Registrant's Registration Statement on Form S-8 No. 33-58396).(2)

10.6 1994 Stock Option Plan (incorporated by reference to Exhibit 10.18 to the Registrant's Form 10-K (Commission File No. 0-14938) for the year ended December 31, 1994).(2)

10.7 1994 Executive Loan Plan (incorporated by reference to Exhibit 10.19 to the Registrant's Form 10-K (Commission File No. 0-14938) for the year ended December 31, 1994).(2)

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(2) Management contract or compensatory plan

10.8 Employment Agreement dated as of June 1, 1996, between Douglas I. Payne and the Registrant (incorporated by reference to Exhibit 10.1 to the Registrant's Form 10-Q (Commission File No. 0-14938) for the quarter ended June 30, 1996).(2)

10.9 Amendment No. 1, dated as of October 1, 1996, to the Employment Agreement, dated as of January 1, 1991, between the Registrant and Albert L. Prillaman (incorporated by reference to Exhibit 10.4 to the Registrant's Form 10-Q (Commission File No. 0-14938) for the quarter ended September 29, 1996).(2)

10.10 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).(2)

10.11 Amendment No. 2 to The Stanley Furniture Company, Inc. 1992 Stock Option Plan dated July 1, 2000 (incorporated by reference to Exhibit 10.2 to the Registrant's Form 10-Q (Commission File No. 0-14938) for the quarter ended September 1, 2000).(2)

10.12 Amendment No. 1 to The Stanley Furniture Company, Inc. 1994 Stock Option Plan dated as of July 1, 2000 (incorporated by reference to Exhibit 10.3 to the Registrant's Form 10-Q (Commission File No. 0-14938) for the quarter ended September 1, 2000).(2)

10.13 Employment Agreement made as of April 9, 2001 between Jeffrey R. Scheffer and the Registrant (incorporated by reference to Exhibit 10.1 to the Registrant's Form 10-Q (Commission File No. 0-14938) for the quarter ended June 30, 2001).(2)

10.14 Option Agreement, dated April 30, 2001, between the Registrant and Jeffrey R. Scheffer (incorporated by reference to Exhibit 10.1 to the Registrant's Form 10-Q (Commission File No. 0-14938) for the quarter ended September 29, 2001).(2)

10.15 Agreement, dated April 25, 2002, between Stanley Furniture Company, Inc. and Albert L. Prillaman (incorporated by reference to Exhibit 99.2 to the Registrant's Form 8-K (Commission File No. 0-14938) filed on April 25, 2002).(2)

10.16 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).(2)

10.17 Second Amendment, dated March 1, 2003, to the Employment Agreement, dated January 1, 1991, between the Registrant and Albert L. Prillaman (incorporated by reference to Exhibit 10.1 to the Registrant's Form 10-Q (Commission File No. 0-14938) for the quarter ended March 29, 2003).(2)

10.18 First Amendment, dated March 1, 2003, to the Employment Agreement, dated April 9, 2001, between the Registrant and Jeffrey R. Scheffer (incorporated by reference to Exhibit 10.2 to the Registrant's Form 10-Q (Commission File No. 0-14938) for the quarter ended March 29, 2003).(2)

10.19 Credit Agreement, dated August 29, 2003, between the Registrant and SouthTrust Bank (incorporated by reference to Exhibit 10.1 to the Registrant's Form 10-Q (Commission File No. 0-14938) for the quarter ended September 27, 2003).

10.20 First amendment, dated April 23, 2004, to the revolving credit facility dated August 29, 2003, between the registrant and SouthTrust Bank (incorporated by reference to Exhibit 10.1 to the Registrant's Form 10-Q (Commission File No. 0-14938) for the quarter ended June 26, 2004).

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(2) Management contract or compensatory plan

10.21	2005 Incentive Compensation Award, dated as of December 15, 2004, from the Registrant to Jeffrey R. Scheffer. (2) (1)
10.22	2005 Incentive Compensation Award, dated as of December 15, 2004, from the Registrant to Douglas I. Payne. (2) (1)
10.23	Form of Stock Option Award under 2000 Incentive Plan (ISO). (2) (1)
10.24	Form of Stock Option Award under 2000 Incentive Plan (ISO/NSO). (2) (1)
10.25	Form of Stock Option Award under 2000 Incentive Plan (Directors). (2) (1)
21	List of Subsidiaries(1)
23	Consent of PricewaterhouseCoopers LLP(1)
31.1	Certification by Jeffrey R. Scheffer, 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 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 by Jeffrey R. Scheffer, 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 by 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)

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

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 9, 2005

By: /s/Jeffrey R. Scheffer
Jeffrey R. Scheffer
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.

Signature	Title	Date
/s/Albert L. Prillaman (Albert L. Prillaman)	Chairman and Director	February 9, 2005
/s/Jeffrey R. Scheffer (Jeffrey R. Scheffer)	President and Chief Executive Officer and Director (Principal Executive Officer)	February 9, 2005
/s/Douglas I. Payne (Douglas I. Payne)	Executive Vice President – Finance and Administration and Secretary (Principal Financial and Accounting Officer)	February 9, 2005
/s/Robert G. Culp, III (Robert G. Culp, III)	Director	February 9, 2005
/s/Michael P. Haley (Michael P. Haley)	Director	February 9, 2005
/s/Thomas L. Millner (Thomas L. Millner)	Director	February 9, 2005
/s/T. Scott McIlhenny, Jr. (T. Scott McIlhenny, Jr.)	Director	February 9, 2005

STANLEY FURNITURE COMPANY, INC.
ANNUAL REPORT ON FORM 10-K
FOR THE YEAR ENDED DECEMBER 31, 2004
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Report of Independent Registered Public Accounting Firm

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

We have completed an integrated audit of Stanley Furniture Company, Inc.'s 2004 consolidated financial statements and of its internal control over financial reporting as of December 31, 2004 and audits of its 2003 and 2002 consolidated financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Our opinions, based on our audits, are presented below.

Consolidated financial statements and financial statement schedule

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, 2004 and 2003, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2004 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 present fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

Internal control over financial reporting

Also, in our opinion, management's assessment, included in Management's Report on Internal Control Over Financial Reporting appearing under Item 9A, that the Company maintained effective internal control over financial reporting as of December 31, 2004 based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), is fairly stated, in all material respects, based on those criteria. Furthermore, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2004, based on criteria established in *Internal Control – Integrated Framework* issued by the COSO. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express opinions on management's assessment and on the effectiveness of the Company's internal control over financial reporting based on our audit. We conducted our audit of internal control over financial reporting in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. An audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides 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 7, 2005

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

	December 31, 2004	December 31, 2003
ASSETS		
Current assets:		
Cash	**$ 7,632**	$ 2,509
Accounts receivable, less allowances of $1,961 and $2,546	**36,036**	30,120
Inventories:		
Finished goods	**52,646**	37,815
Work-in-process	**8,449**	7,638
Raw materials	**12,563**	9,185
Total inventories	**73,658**	54,638
Prepaid expenses and other current assets	**1,585**	2,855
Deferred income taxes	**2,414**	2,855
Total current assets	**121,325**	92,977
Property, plant and equipment, net	**51,342**	55,154
Goodwill	**9,072**	9,072
Other assets	**7,149**	7,000
Total assets	**$188,888**	$164,203
LIABILITIES		
Current liabilities:		
Current maturities of long-term debt	**$ 4,257**	$ 7,014
Accounts payable	**16,056**	10,595
Accrued salaries, wages and benefits	**10,573**	9,511
Other accrued expenses	**1,872**	1,402
Total current liabilities	**32,758**	28,522
Long-term debt, exclusive of current maturities	**11,428**	15,686
Deferred income taxes	**10,742**	12,560
Other long-term liabilities	**6,695**	4,877
Total liabilities	**61,623**	61,645
Commitments and Contingencies		
STOCKHOLDERS' EQUITY		
Common stock, $.02 par value, 10,000,000 shares authorized, 6,415,002 and 6,201,047 shares issued and outstanding	**129**	124
Capital in excess of par value	**10,335**	3,819
Retained earnings	**116,952**	98,680
Accumulated other comprehensive loss	**(151)**	(65)
Total stockholders' equity	**127,265**	102,558
Total liabilities and stockholders' equity	**$188,888**	$164,203

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,		
	2004	2003	2002
Net sales	**$305,815**	$265,263	$243,547
Cost of sales	**230,174**	203,410	184,967
Restructuring and related charges (Note 8)			3,548
Gross profit	**75,641**	61,853	55,032
Selling, general and administrative expenses	**40,953**	35,637	32,671
Operating Income	**34,688**	26,216	22,361
Other expense (income), net	**(188)**	(203)	(219)
Interest expense	**2,343**	2,748	3,090
Income before income taxes	**32,533**	23,671	19,490
Income taxes	**11,744**	8,521	6,919
Net income	**$ 20,789**	$ 15,150	$ 12,571
Earnings per share:			
Basic	**$ 3.31**	$ 2.40	$ 1.90
Diluted	**$ 3.17**	$ 2.34	$ 1.85
Weighted average shares outstanding:			
Basic	**6,287**	6,326	6,609
Diluted	**6,549**	6,462	6,782
Cash dividend declared per common share	**$ .40**	$ .20	

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, 2004

(in thousands, except per share data)

	Common Stock Shares	Common Stock Amount	Capital in Excess of Par Value	Stock Option Loans	Retained Earnings	Accumulated Other Comprehensive Loss	Total
Balance at January 1, 2002	6,643	$133	$17,537	$(2,604)	$72,228		$87,294
Net income					12,571		12,571
Purchase and retirement of stock	(158)	(2)	(3,064)				(3,066)
Issuance of stock to Stanley Retirement Plan	49	1	1,179				1,180
Exercise of stock options	121	2	1,199	(72)			1,129
Tax benefit on exercise of stock options			871				871
Stock option loan payments	(86)	(3)	(2,949)	2,660			(292)
Balance at December 31, 2002	6,569	131	14,773	(16)	84,799		99,687
Net Income					15,150		15,150
Minimum pension liability, net of deferred income tax benefit of $40						$ (65)	(65)
Comprehensive income							15,085
Purchase and retirement of stock	(566)	(11)	(14,769)		(8)		(14,788)
Exercise of stock options	198	4	2,345				2,349
Tax benefit on exercise of stock options			1,475				1,475
Stock option loan payments				11			11
Dividends paid, $0.20 per share					(1,261)		(1,261)
Balance at December 31, 2003	6,201	124	3,824	(5)	98,680	(65)	102,558
Net Income					**20,789**		**20,789**
Minimum pension liability, net of deferred income tax benefit of $53						**(86)**	**(86)**
Comprehensive income							**20,703**
Exercise of stock options	**214**	**5**	**5,033**				**5,038**
Tax benefit on exercise of stock options			**1,478**				**1,478**
Stock option loan payments				**5**			**5**
Dividends paid, $0.40 per share					**(2,517)**		**(2,517)**
Balance at December 31, 2004	**6,415**	**$129**	**$10,335**		**$116,952**	**$ (151)**	**$127,265**

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,		
	2004	2003	2002
Cash flows from operating activities:			
Cash received from customers	**$300,429**	$263,211	$239,079
Cash paid to suppliers and employees	**(278,509)**	(236,334)	(217,856)
Interest paid, net	**(2,387)**	(2,793)	(3,155)
Income taxes paid	**(9,061)**	(9,740)	(1,949)
Net cash provided by operating activities	**10,472**	14,344	16,119
Cash flows from investing activities:			
Capital expenditures	**(1,718)**	(1,243)	(1,037)
Other, net	**(135)**	(104)	695
Net cash used by investing activities	**(1,853)**	(1,347)	(342)
Cash flows from financing activities:			
Purchase and retirement of common stock		(14,788)	(3,066)
Repayment of senior notes	**(7,015)**	(6,914)	(6,839)
Dividends paid	**(2,517)**	(1,261)	
Repayment of revolving credit facility			(600)
Proceeds from exercise of stock options	**5,043**	2,360	1,205
Proceeds from insurance policy loans	**993**	888	795
Net cash used by financing activities	**(3,496)**	(19,715)	(8,505)
Net increase (decrease) in cash	**5,123**	(6,718)	7,272
Cash at beginning of year	**2,509**	9,227	1,955
Cash at end of year	**$ 7,632**	$ 2,509	$ 9,227
Reconciliation of net income to net cash provided by operating activities:			
Net income	**$20,789**	$15,150	$12,571
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	**5,524**	5,623	5,724
Amortization	**98**	160	214
Restructuring charge			1,755
Deferred income taxes	**(1,324)**	(463)	2,110
Other, net	**(3)**	2	34
Changes in assets and liabilities:			
Accounts receivable	**(5,916)**	(2,288)	(3,970)
Inventories	**(19,020)**	(480)	(4,636)
Prepaid expenses and other current assets	**1,586**	403	(418)
Accounts payable	**5,461**	(2,791)	1,545
Accrued salaries, wages and benefits	**1,062**	(270)	721
Other accrued expenses	**470**	(977)	544
Other assets	**66**	57	40
Other long-term liabilities	**1,679**	218	(115)
Net cash provided by operating activities	**$10,472**	$14,344	$16,119

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 and manufacturer of wood furniture exclusively targeted at the upper-medium price range of the residential market.

We operate in one business segment. Substantially all revenues result from the sale of residential furniture products. Substantially all trade accounts receivable are due from retailers in this market, which consists of a large number of entities with a broad geographical dispersion.

Revenue Recognition

Sales are recognized when products are shipped to customers. Shipping revenues have historically been netted against related expenses in cost of sales. We have reclassified these revenues to net sales increasing net sales by $6.4 million, $4.6 million and $4.1 million in 2004, 2003 and 2002, respectively, and resulting in no impact on earnings. Costs to warehouse and prepare goods for shipping to customers are expensed and recorded in selling, general and administrative expenses and amounted to $5.0 million, $3.4 million and $2.8 million in 2004, 2003 and 2002, respectively.

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 economic lives of the related products of five years. Unamortized cost at December 31, 2004 and 2003 was $241,000 and $189,000, respectively.

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.

Fair Value of Financial Instruments

The fair value of our long-term debt is estimated using discounted cash flow analysis based on the incremental borrowing rates currently available to us for loans with similar terms and maturities. At December 31, 2004, the fair value is not materially different than our carrying value. The fair value of trade receivables, trade payables and letters of credit approximate the carrying amount because of the short maturity of these instruments.

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

Pension Plans

Our funding policy is to contribute to all qualified plans annually an amount equal to the normal cost and a portion of the unfunded liability, but not to exceed the maximum amount that can be deducted for federal income tax purposes.

Earnings per Common Share

Basic earnings per share is computed based on the average number of common shares outstanding. Diluted earnings per share reflects the increase in average common shares outstanding that would result from the assumed exercise of outstanding stock options, calculated using the treasury stock method.

Stock Options

We apply Accounting Principles Board Opinion No. 25 in accounting for stock options and disclose the fair value of options granted as permitted by Statement of Financial Accounting Standards No. 123. No stock-based employee compensation cost is reflected in net income, as all options granted under those plans had an exercise price equal to the market value of the common stock at date of grant and the number of shares awarded was fixed at the grant date.

The estimated per share weighted-average fair value of stock options granted during 2004, 2003 and 2002 was $15.11, $11.45 and $14.36, respectively, on the date of grant. A risk-free interest rate of 4.0%, 3.9% and 4.0% for 2004, 2003 and 2002, respectively, a volatility rate of 30% to 50% with an expected life of 8 to 10 years and a dividend yield of approximately 1%, was assumed in estimating the fair value.

The following table summarizes the pro forma effects assuming compensation cost for such awards had been recorded based upon the estimated fair value (in thousands, except per share data):

	2004	2003	2002
Net income as reported	**$20,789**	$15,150	$12,571
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	**1,801**	1,618	1,783
Pro forma net income	**$18,988**	$13,532	$10,788
Earnings per share:			
Basic – as reported	**$ 3.31**	$ 2.40	$ 1.90
Basic – pro forma	**$ 3.02**	$ 2.14	$ 1.63
Diluted – as reported	**$ 3.17**	$ 2.34	$ 1.85
Diluted – pro forma	**$ 2.94**	$ 2.11	$ 1.60

Goodwill

On January 1, 2002, we adopted Statement of Financial Accounting Standard No. 142, (“SFAS 142”), “Goodwill and Other Tangible Assets”. In accordance with SFAS 142, we discontinued goodwill amortization and tested goodwill of $9.1 million for impairment as of December 31, 2004 and 2003 determining that no impairment loss was necessary. We will continue to test goodwill for impairment at least annually.

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

Tariffs imposed on wooden bedroom furniture imported from China

Tariff expense is based on the most current rates published by the Department of Commerce. These rates are potentially subject to an administrative review process starting approximately one year after the publication date. The final amounts will depend on whether administrative reviews are performed and the outcome of those reviews, if any, on the vendors we purchase from.

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 years)	(in thousands) 2004	2003
Land and buildings	20 to 50	**$ 38,775**	$ 38,606
Machinery and equipment	5 to 12	**74,846**	74,550
Office furniture and equipment	3 to 10	**2,386**	1,846
Property, plant and equipment, at cost		**116,007**	115,002
Less accumulated depreciation		**64,665**	59,848
Property, plant and equipment, net		**$ 51,342**	$ 55,154

3. **Debt**

	(in thousands) 2004	2003
7.28% Senior notes due through March 15, 2004		$ 4,286
7.57% Senior note due through June 30, 2005	**$ 1,400**	2,700
7.43% Senior notes due through November 18, 2007	**4,285**	5,714
6.94% Senior notes due through May 3, 2011	**10,000**	10,000
Total	**15,685**	22,700
Less current maturities	**4,257**	7,014
Long-term debt, exclusive of current maturities	**$11,428**	$15,686

At December 31, 2004, no borrowings were outstanding under a revolving credit facility that provides for maximum borrowings of $25.0 million and matures in August 2006. Interest is payable monthly at the reserve adjusted LIBOR plus .50% per annum (2.90% on December 31, 2004) or, at our option, prime minus 1.0% (4.25% on December 31, 2004). We utilize letters of credit to collateralize certain insurance policies and inventory purchases. Outstanding letters of credit at December 31, 2004, were $4.2 million.

The above loan agreements require us to maintain certain financial covenants. Our ability to pay dividends with respect to our common stock and to repurchase our common stock is restricted to $25.0 million plus 50% of our consolidated net earnings, adjusted for net cash proceeds received by us from the sale of our stock and the amount of payments for redemption, purchase or other acquisition of our capital stock, subsequent to January 1, 1999. At December 31, 2004, these covenants limit funds available to pay dividends and repurchase our common stock to $36.2 million.

Annual principal requirements are $4.3 million in 2005, $2.9 million in both 2006 and 2007 and $1.4 million in both 2008 and 2009.

4. Income Taxes

The provision for income taxes consists of (in thousands):

	2004	2003	2002
Current:			
Federal	**$10,943**	$8,190	$4,515
State	**1,005**	794	294
Total current	**11,948**	8,984	4,809
Deferred:			
Federal	**(177)**	(400)	1,973
State	**(27)**	(63)	137
Total deferred	**(204)**	(463)	2,110
Income taxes	**$11,744**	$8,521	$6,919

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

	2004	2003	2002
Federal statutory rate	**35.0%**	35.0%	35.0%
State tax, net of federal benefit	**2.5**	2.6	2.8
State tax credits and adjustments	**(1.0)**	(1.0)	(1.6)
Life insurance	**(.9)**	(1.0)	(1.1)
Other, net	**.5**	.4	.4
Effective income tax rate	**36.1%**	36.0%	35.5%

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

	2004	2003
Current deferred tax assets (liabilities):		
Accounts receivable	**$ 750**	$ 961
Employee benefits	**1,676**	1,847
Other accrued expenses	**(12)**	47
Net current deferred tax asset	**$ 2,414**	$ 2,855
Noncurrent deferred tax liabilities:		
Property, plant and equipment	**$10,522**	$11,799
Employee benefits	**220**	761
Net noncurrent deferred tax liability	**$10,742**	$12,560

5. Stockholders' Equity

For the three years ending December 31, 2004, we have used $17.9 million of cash to purchase 724,000 shares of our common stock on the open market at an average price of $24.66. At December 31, 2004, approximately $10.2 million remains under the current Board of Directors authorization to repurchase shares of our common stock.

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, 2004. The Board of Directors is authorized to issue such stock in series and to fix the designation, powers, preferences, rights, limitations and restrictions with respect to any series of such shares. Such "blank check" preferred stock may rank prior to common stock as to dividend rights, liquidation preferences or both, may have full or limited voting rights and may be convertible into shares of common stock.

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

	2004	2003	2002
Weighted average shares outstanding for basic calculation	**6,287**	6,326	6,609
Effect of stock options	**262**	136	173
Weighted average shares outstanding for diluted calculation	**6,549**	6,462	6,782

6. Employee Stock Plans

Our stock option plans provide for the granting of stock options up to an aggregate of 2,500,000 shares of common stock to key employees. The exercise price may not be less than the fair market value of our common stock on the grant date. Granted options generally vest 20% annually. At December 31, 2004, 227,000 shares were available for grant.

Activity for the three years ended December 31, 2004 follows:

	Number of shares	Weighted-Average Exercise Price
Outstanding at January 1, 2002	1,210,512	$22.07
Lapsed	(62,000)	26.18
Exercised	(120,756)	9.88
Granted	45,000	26.48
Outstanding at December 31, 2002	1,072,756	20.73
Lapsed	(60,000)	26.33
Exercised	(197,756)	11.88
Granted	4,000	21.90
Outstanding at December 31, 2003	819,000	25.95
Exercised	**(214,300)**	**23.51**
Granted	**4,000**	**39.00**
Outstanding at December 31, 2004	**608,700**	**$26.89**

The average life of outstanding options at December 31, 2004 is 5.8 years. Stock options exercisable at December 31, 2004 are 503,700 shares with a weighted-average exercise price of $26.77 per share.

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. The total plan cost, including employer contributions, was $1.7 million in 2004, $1.5 million in 2003 and $1.4 million in 2002.

Pension Plans

Benefits do not accrue under our pension plans after 1995. The financial status of the plans at December 31 follows (in thousands):

	2004		2003	
	Stanley Retirement Plan	**Supple-Mental Plan**	Stanley Retirement Plan	Supple-mental Plan
Change in benefit obligation:				
Beginning benefit obligation	**$14,571**	**$1,891**	$14,915	$1,750
Interest cost	**861**	**112**	917	112
Actuarial loss	**1,436**	**139**	332	111
Benefits paid	**(1,266)**	**(86)**	(1,957)	(82)
Settlement cost			364	
Ending benefit obligation	**15,602**	**2,056**	14,571	1,891
Change in plan assets:				
Beginning fair value of plan assets	**15,117**		14,949	
Actual return on plan assets	**1,615**		2,125	
Employer contributions	**300**	**86**		82
Benefits paid	**(1,266)**	**(86)**	(1,957)	(82)
Ending fair value of plan assets	**15,766**		15,117	
Funded status	**163**	**(2,056)**	546	(1,891)
Unrecognized loss	**5,895**	**244**	5,938	105
Net amount recognized	**$ 6,058**	**$(1,812)**	$ 6,484	$(1,786)
Amount recognized in the consolidated balance sheet:				
Prepaid (accrued) benefit cost	**$ 6,058**	**$(2,056)**	$6,484	$(1,891)
Accumulated other comprehensive loss		**244**		105
Net amount recognized	**$ 6,058**	**$(1,812)**	$6,484	$(1,786)

We made a cash contribution of $300,000 to the Stanley Retirement Plan in 2004 and no contributions were made in 2003.

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

We maintain an investment policy for the management of the assets of The Stanley Retirement Plan. The objective of this policy is to build a structured portfolio designed to achieve the most desirable balance between investment return and asset protection by investing in equities of high quality companies and in high quality fixed income securities which are broadly balanced and represent all market sectors. The investment structure provides the necessary liquidity for payment of retirement benefits. The target allocation and the actual allocation for assets of The Stanley Retirement Plan at December 31, 2004 and December 31, 2003, the measurement date, are as follows:

	Target Allocation	Percentage of Assets	
		2004	2003
Equity	**30 to 90%**	**58.3%**	54.6%
Fixed income	**30 to 60%**	**26.2**	35.0
Other	**3 to 25%**	**15.5**	10.4
Total		**100.0%**	100.0%

At December 31, 2003, the Stanley Retirement Plan assets included Company stock with a fair value of $1.1 million. No Stanley stock was owned by the plan at December 31, 2004.

The benefit obligation of the Supplemental Plan, a nonqualified plan, exceeded the accrued benefit cost at December 31, 2004. The net accrued benefit cost of the Supplemental Plan includes a minimum pension liability of $244,000 and $105,000 at December 31, 2004 and 2003, respectively.

Components of pension cost follow (in thousands):

	2004	2003	2002
Interest cost	**$973**	$1,028	$1,152
Expected return on plan assets	**(967)**	(958)	(1,117)
Net amortization and deferral	**460**	573	307
Net cost	**466**	643	342
Settlement expense	**372**	682	1,674
Total expense	**$838**	$1,325	$2,016

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

	2004	2003	2002
Discount rate for funded status	**5.50%**	6.00%	6.50%
Discount rate for pension cost	**6.00%**	6.50%	7.25%
Return on assets	**6.50%**	6.50%	7.50%

Estimated future benefit payments are $1.3 million in 2005, $1.1 million in 2006, $1.5 million in 2007, $1.2 million in 2008, $1.4 million in 2009 and a total of $7.6 million from 2010 through 2014.

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

Our pension expense is developed from actuarial valuations. Interest rates used in these valuations are key assumptions, including discount rates used in determining the present value of future benefit payments and expected return on plan assets, which are reviewed and updated on an annual basis at the beginning of each year. We are required to consider current market conditions, including changes in interest rates, in making assumptions. In establishing our expected return on assets assumption, we review asset allocation considering plan maturity and develop return assumptions based on different asset classes adjusting for plan operating expenses. The return assumptions are established after reviewing historical returns of broader market indexes, as well as historical performance of the investments of The Stanley Retirement Plan.

Postretirement Benefits Other Than Pensions

We provide 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):

	2004	2003
Change in benefit obligation:		
Beginning benefit obligation	**$ 3,233**	$ 3,137
Service cost	**67**	58
Interest cost	**174**	187
Actuarial (gain) loss	**(203)**	78
Plan participants' contributions	**142**	171
Benefits paid	**(302)**	(398)
Ending benefit obligation	**3,111**	3,233
Change in plan assets:		
Beginning fair value of plan assets		
Employer contributions	**160**	227
Plan participants' contributions	**142**	171
Benefits paid	**(302)**	(398)
Ending fair value of plan assets		
Funded status	**(3,111)**	(3,233)
Unrecognized net loss	**868**	1,111
Unrecognized transition obligation	**1,044**	1,174
Accrued benefit cost	**$(1,199)**	$ (948)

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

	2004	2003	2002
Service cost	**$ 67**	$ 58	$ 48
Interest cost	**174**	187	211
Amortization of transition obligation	**130**	130	130
Amortization of net actuarial loss	**40**	53	47
Net periodic postretirement benefit cost	**$411**	$428	$436

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

The weighted-average discount rates used in determining the actuarial present value of the projected benefit obligation were 5.5% in 2004, 6.0% in 2003 and 6.5% in 2002.

Assumed health care cost trend rates at December 31:

	2004	2003	2002
Health care cost assumed trend rate for next year	**10.0%**	8.5%	9.0%
Rate that the cost trend rate gradually declines to	**5.5%**	5.0%	5.0%
Year that the rate reaches the rate it is assumed to remain at	**2010**	2011	2011

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, 2004, by approximately $147,000 and the annual postretirement benefit cost by approximately $18,000.

Estimated future benefit payments are $290,000 in 2005, $280,000 in 2006, $270,000 in 2007, $265,000 in 2008, $270,000 in 2009 and a total of $1,330,000 from 2010 through 2014.

Since the postretirement benefits other than pension do not cover any benefits after age 65, the Medicare Prescription Drug Act will have no impact on the benefits provided under this plan.

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. The accrued liabilities relating to this plan of $1.7 million and $1.6 million at December 31, 2004 and 2003, respectively, are included in accrued salaries, wages and benefits and other long-term liabilities. The cash surrender value, net of policy loans, is included in other assets. Policy loan interest of $1.0 million, $911,000 and $789,000 was charged to interest expense in 2004, 2003 and 2002, respectively.

8. **Restructuring and Related Charges**

Manufacturing operations at our former West End, North Carolina facility were phased out during 2002, including the sale of real estate. The remaining restructuring accrual at December 31, 2004 of $178,000 consists of a lease obligation.

9. **Commitments and Contingencies**

We lease warehouse space, showroom space and certain technology equipment. Rental expenses charged to operations were $2.3 million, $1.3 million and $1.2 million in 2004, 2003 and 2002, respectively. Future minimum lease payments are approximately as follows: 2005 - $701,000; 2006 - $614,000; 2007 - $568,000; 2008 - $512,000 and 2009 – $426,000.

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.

10. New Accounting Standards

In November 2004, the Financial Accounting Standards Board issued Statement of Financial Accounting Standard No. 151, "Inventory Costs". The new Statement amends Accounting Research Bulletin No. 43, Chapter 4, "Inventory Pricing," to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material. This Statement requires that those items be recognized as current-period charges and requires that allocation of fixed production overheads to the cost of conversion be based on the normal capacity of the production facilities. This statement is effective for fiscal years beginning after June 15, 2005. The adoption of this statement is not expected to have a material impact on our financial condition or results of operations.

In December 2004, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 123 (revised 2004), Share-Based Payment. This Statement replaces FASB Statement No. 123 and supersedes APB Opinion No. 25. Statement No. 123(R) will require the fair value of all stock option awards issued to employees of the Company to be recorded as an expense over the related vesting period. The Statement also requires the recognition of compensation expense for the fair value of any unvested stock option awards outstanding at the date of adoption over the remaining vesting period. We are evaluating these new rules, but expect no material impact upon adoption relating to outstanding options since a majority of the awards under the existing incentive stock option plan will be fully vested prior to the effective date of the revised rules.

11. Quarterly Results of Operations (Unaudited)

(in thousands, except per share data)

2004 Quarters:	**First**	**Second**	**Third**	**Fourth**
Net Sales (1)	**$71,520**	**$72,223**	**$78,803**	**$83,269**
Gross profit	**17,221**	**18,246**	**19,414**	**20,760**
Net income	**4,607**	**5,211**	**5,285**	**5,686**
Net income per share:				
Basic	**$ .74**	**$ .83**	**$ .84**	**$ .89**
Diluted	**.71**	**.80**	**.81**	**.86**
Dividend paid per share	**.10**	**.10**	**.10**	**.10**
2003 Quarters:				
Net sales(1)	$62,348	$62,503	$66,360	$74,052
Gross profit	14,622	14,565	15,641	17,025
Net income	3,466	3,536	3,716	4,432
Net income per share:				
Basic	$ .53	$ .54	$ .61	$ .72
Diluted	.52	.53	.59	.70
Dividend paid per share	.05	.05	.05	.05

(1) Amounts reflect the reclassification of shipping revenues to net sales from cost of sales. Amounts reclassified to net sales for 2004 quarters were $1,298, $1,502, $1,628 and $1,933, respectively, and $1,049, $1,094, $1,134 and $1,345, respectively, in 2003 quarters. These reclassifications had no impact on earnings.

DIRECTORS, OFFICERS AND STOCKHOLDER INFORMATION

DIRECTORS AND OFFICERS

Albert L. Prillaman
Chairman of the Board

Robert G. Culp, III (A.C.N.)
Director
Chairman and Chief Executive Officer, Culp, Inc.

Michael P. Haley (A.C.N.)
Director
Chairman, MW Manufacturers Inc.
Senior Vice President, Sales & Marketing,
Ply Gem Industries, Inc.

Philip D. Haney
Executive Vice President – Marketing & Sales
Stanley Collections

T. Scott McIlhenny, Jr. (A.C.N.)
Director
Chief Operating Officer, Northstar Travel Media, LLC

Thomas L. Millner (A.C.N.)
Director
President and Chief Executive Officer,
Remington Arms Company, Inc.

Douglas I. Payne
Executive Vice President –
Finance and Administration, and Secretary

R. Glenn Prillaman
Senior Vice President – Marketing & Sales
Young America®

Jeffrey R. Scheffer
Director
President and Chief Executive Officer

Robert A. Sitler
Senior Vice President – Operations

Board Committees:
A - Audit
C - Compensation and Benefits
N - Corporate Governance and Nominating

STOCKHOLDER INFORMATION

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Independent Accountants
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Richmond, VA 23219

Stock Listing
Nasdaq Stock Market
Symbol - **STLY**

Corporate Headquarters
Stanley Furniture Company, Inc.
1641 Fairystone Park Highway
P. O. Box 30
Stanleytown, VA 24168
Tel: 276.627.2000
Email: investor@stanleyfurniture.com

Web site
stanleyfurniture.com

Annual Meeting
April 26, 2005, 11:00 a.m.
Stanley Furniture Company, Inc.
1641 Fairystone Park Highway
Stanleytown, VA 24168

Investor Information
For a free copy of the Annual Report on Form 10-K as filed with the Securities and Exchange Commission or other information about Stanley Furniture Company, please visit our web site or contact Doug Payne at the above address.

HISTORICAL FINANCIAL DATA

(in thousands, except per share and employee data)	2004	2003	2002	2001	2000	1999	1998	1997 [4]	1996 [4]	1995 [4]
	Years Ended December 31,									
Income statement:										
Net sales [1]	**$305,815**	$ 265,263	$ 243,547	$ 238,292	$ 287,562	$ 268,585	$ 250,875	$ 214,964	$ 204,629	$ 176,194
Cost of sales [1]	**230,174**	203,410	184,967	185,326	218,969	200,499	190,435	162,512	156,056	139,636
Restructuring charge [2]			3,548	2,290						
Gross profit	**75,641**	61,853	55,032	50,676	68,593	68,086	60,440	52,452	48,573	36,558
Selling, general and administrative expenses	**40,953**	35,637	32,671	30,482	33,656	33,796	32,496	29,949	30,403	26,318
Unusual charge [3]				2,800						
Restructuring charge [2]				733						
Operating income	**34,688**	26,216	22,361	16,661	34,937	34,290	27,944	22,503	18,170	10,240
Other expense (income)	**(188)**	(203)	(219)	47	(82)	388	411	276	616	433
Interest expense	**2,343**	2,748	3,090	4,007	4,003	3,478	4,164	3,538	3,344	3,534
Income before income taxes	**32,533**	23,671	19,490	12,607	31,016	30,424	23,369	18,689	14,210	6,273
Income taxes	**11,744**	8,521	6,919	4,286	11,476	11,211	8,886	7,102	5,470	2,384
Net income	**$ 20,789**	$ 15,150	$ 12,571	$ 8,321	$ 19,540	$ 19,213	$ 14,483	$ 11,587	$ 8,740	$ 3,889
Basic earnings per share	**$ 3.31**	$ 2.40	$ 1.90	$ 1.26	$ 2.76	$ 2.70	$ 2.07	$ 1.38	$ 0.92	$ 0.41
Diluted earnings per share	**$ 3.17**	$ 2.34	$ 1.85	$ 1.21	$ 2.63	$ 2.47	$ 1.82	$ 1.25	$ 0.88	$ 0.41
Dividends paid per share [3]	**$ 0.40**	$ 0.20								
Income statement ratios and other data:										
Gross profit as a percent of net sales	**24.7%**	23.3%	22.6%	21.3%	23.9%	25.3%	24.1%	24.4%	23.7%	20.7%
Operating income as a percent of net sales	**11.3%**	9.9%	9.2%	7.0%	12.1%	12.8%	11.1%	10.5%	8.9%	5.8%
Net income as a percent of net sales	**6.8%**	5.7%	5.2%	3.5%	6.8%	7.2%	5.8%	5.4%	4.3%	2.2%
Income taxes as a percentage of pretax income	**36.1%**	36.0%	35.5%	34.0%	37.0%	36.8%	38.0%	38.0%	38.5%	38.0%
Depreciation and amortization	**$ 5,622**	$ 5,783	$ 7,693	$ 8,455	$ 8,141	$ 6,347	$ 5,775	$ 5,432	$ 5,200	$ 4,919
Balance sheet and other data:										
Cash	**$ 7,632**	$ 2,509	$ 9,227	$ 1,955	$ 1,825	$ 3,597	$ 6,791	$ 756	$ 8,126	$ 298
Inventories	**73,658**	54,638	54,158	49,522	54,423	43,580	46,514	45,730	40,239	40,167
Working capital	**88,567**	64,455	62,944	51,271	53,759	38,531	44,408	41,440	46,225	42,422
Total assets	**188,888**	164,203	172,485	163,003	179,206	170,522	154,374	143,225	141,510	134,551
Long-term debt including current maturities	**15,685**	22,700	29,614	37,053	52,169	38,404	43,539	52,577	39,350	41,067
Stockholders' equity [5]	**127,265**	102,558	99,687	87,294	79,477	79,573	62,368	48,247	61,617	54,739
Capital expenditures [6]	**$ 1,718**	$ 1,243	$ 1,037	$ 4,172	$ 6,068	$ 25,566	$ 6,680	$ 4,076	$ 3,599	$ 14,225
Ratio of total debt to total capitalization [7]	**11.0%**	18.1%	22.9%	29.8%	39.6%	32.6%	41.1%	52.1%	39.0%	42.9%
Employees	**2,600**	2,500	2,600	3,050	3,350	3,100	2,875	2,800	2,700	2,700
Stock repurchases:										
Shares [8]		566	158	86	869	227	315	2,326	300	
Total cost [8]		$ 14,788	$ 3,066	$ 1,973	$ 19,754	$ 4,708	$ 5,553	$ 25,330	$ 2,268	
Closing stock price	**$ 44.95**	$ 31.50	$ 23.25	$ 23.77	$ 24.13	$ 18.38	$ 18.25	$ 13.94	$ 9.94	$ 4.00

[1] Amounts reflect the reclassification of shipping revenues to net sales from cost of sales. Reclassifications for the last ten years were $6.4 million, $4.6 million, $4.1 million, $4.0 million, $4.5 million, $3.9 million, $3.5 million, $3.1 million, $2.7 million and $2.0 million respectively. These reclassifications had no impact on earnings.

[2] We recorded restructuring and related charges in 2002 of $3.6 million, or $.34 per diluted share and $3.0 million, or $.29 per diluted share in 2001 for the closure of the former West End, North Carolina facility.

[3] In 2001, we recorded a $2.8 million, or $.26 per diluted share charge to write off amounts due from a major customer.

[4] Amounts have been retroactively adjusted to reflect the two-for-one stock split, distributed in the form of a stock dividend, on May 15, 1998.

[5] No dividends were paid on the common stock prior to 2003.

[6] In 1999, we spent $10 million on expansion projects at existing facilities and $15 million to purchase and equip a new facility.

[7] Total capitalization includes total debt and stockholders' equity.

[8] During 2004 we repurchased an insignificant number of shares of our common stock.

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