CULP INC
Form 10-K
July 10, 2008

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 April 27, 2008

Commission File No. 0-12781

CULP, INC.
(Exact name of registrant as specified in its charter)

NORTH CAROLINA	56-1001967
(State or other jurisdiction of incorporation or other organization)	(I.R.S. Employer Identification No.)

1823 Eastchester Drive, High Point, North Carolina	27265
(Address of principal executive offices)	(zip code)

(336) 889-5161
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange On Which Registered
Common Stock, par value $.05/ Share	New York Stock Exchange
Rights for Purchase of Series A Participating Preferred Shares	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES |_| NO |X|

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Securities Exchange Act of 1934. YES |_| NO |X|

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months and (2) has been subject to the filing requirements for at least the past 90 days. YES |X| NO |_|

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K 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. |X|

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

Large Accelerated Filer |_| Accelerated Filer |X| Non-Accelerated Filer |_|

Smaller Reporting Company |_|

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). YES |_| NO |X|

As of April 27, 2008, 12,648,027 shares of common stock were outstanding. As of October 28, 2007, the aggregate market value of the voting stock held by non-affiliates of the registrant on that date was $98,121,298 based on the closing sales price of such stock as quoted on the New York Stock Exchange (NYSE), assuming, for purposes of this report, that all executive officers and directors of the registrant are affiliates.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the company's Proxy Statement to be filed pursuant to Regulation 14A of the Securities and Exchange Commission in connection with its Annual Meeting of Shareholders to be held on September 23, 2008 are incorporated by reference into Part III of this Form 10-K.

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PART I

CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING INFORMATION

Parts I and II of this report contain statements that may be deemed "forward-looking statements" within the meaning of the federal securities laws, including the Private Securities Litigation Reform Act of 1995 (Section 27A of the Securities Act of 1933 and Section 27A of the Securities and Exchange Act of 1934). Such statements are inherently subject to risks and uncertainties. Further, forward-looking statements are intended to speak only as of the date on which they are made. Forward-looking statements are statements that include projections, expectations or beliefs about future events or results or otherwise are not statements of historical fact. Such statements are often but not always characterized by qualifying words such as "expect," "believe," "estimate," "plan" and "project" and their derivatives, and include but are not limited to statements about expectations for the company's future operations or success, sales, gross profit margins, operating income, SG&A or other expenses, and earnings, as well as any statements regarding future economic or industry trends or future developments. Factors that could influence the matters discussed in such statements include the level of housing starts and sales of existing homes, consumer confidence, trends in disposable income, and general economic conditions. Decreases in these economic indicators could have a negative effect on the company's business and prospects. Likewise, increases in interest rates, particularly home mortgage rates, and increases in consumer debt or the general rate of inflation, could affect the company adversely. In addition, changes in consumer preferences for various categories of furniture coverings, as well as changes in costs to produce such products (including import duties and quotas or other import costs) can have significant effect on demand for the company's products. Changes in the value of the U.S. dollar versus other currencies can affect the company's financial results because a significant portion of the company's operations are located outside the United States. Strengthening of the U.S. dollar against other currencies could make the company's products less competitive on the basis of price in markets outside the United States, and strengthening of currencies in Canada and China can have a negative impact on the company's sales of products produced in those countries. Further, economic and political instability in international areas could affect the company's operations or sources of goods in those areas, as well as demand for the company's products in international markets. Finally, unanticipated delays or costs in executing restructuring actions could cause the cumulative effect of restructuring actions to fail to meet the objectives set forth by management. Further information about these factors, as well as other factors that could affect the company's future operations or financial results and the matters discussed in forward-looking statements are included in the "Risk Factors" section of this report in Item 1A.

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PART I

ITEM 1. BUSINESS

Overview

Culp, Inc., manufactures, sources, and markets mattress fabrics (also known as mattress ticking) used for covering mattresses and box springs, and upholstery fabrics primarily for use in production of upholstered furniture (residential and commercial).

Management believes that Culp is the largest producer of mattress fabrics in North America, as measured by total sales, and one of the largest marketers of upholstery fabrics for furniture in North America, again measured by total sales. Our mattress fabrics are used primarily in the production of bedding products, including mattresses, box springs, and mattress sets. Our upholstery fabrics are used in the production of residential and commercial upholstered furniture, sofas, recliners, chairs, loveseats, sectionals, sofa-beds, and office seating. Culp primarily markets fabrics that have broad appeal in the "good" and "better" priced categories of furniture and bedding.

The company has two operating segments - mattress fabrics and upholstery fabrics. The mattress fabric business markets woven and knitted fabrics used by bedding manufacturers. The upholstery fabrics segment markets a variety of products in most categories of fabric used as coverings for furniture.

Total net sales in fiscal 2008 were $254 million. The mattress fabrics segment had net sales of $138 million (54% of total net sales), while the upholstery fabrics segment had net sales of $116 million (46% of total net sales). Mattress fabric sales grew during fiscal 2008, while upholstery sales have declined during a time of continuing rapid changes in the upholstery fabrics industry. In the fourth quarter of fiscal 2007, our total sales of mattress fabrics exceeded sales of upholstery fabrics for the first time, and this trend continued during fiscal 2008. Fiscal 2008 represents the first year that mattress fabric sales exceeded upholstery fabric sales for a full year. This was due in part to the acquisition from International Textile Group completed by our mattress fabrics segment late in fiscal 2007 (see further discussion below).

Culp markets a variety of fabrics in different categories, including fabrics produced at our manufacturing facilities and fabrics produced by other suppliers. The company had nine active manufacturing plants as of the end of fiscal 2008, which are located in North and South Carolina, Quebec, Canada, and Shanghai, China. We also source fabrics from other manufacturers, located primarily in China, Turkey and in the U.S., with almost all of those fabrics being produced specifically for the company and created by Culp designers. We operate distribution centers in North Carolina and Shanghai, China to facilitate distribution of our products. In recent years, the portion of total company sales represented by fabrics produced outside of our U.S. and Canadian facilities has increased significantly, while sales of goods produced in our U.S. manufacturing plants have decreased. This trend is especially strong in the upholstery fabrics segment, where more than half of our sales now consist of fabrics produced in Asia and where we have recently closed a number of U.S. manufacturing plants.

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Fiscal 2008 reflected a continuation of many of the trends we identified at the end of fiscal 2007. We have experienced dramatic changes in both our operating segments since 2000. Significant demand has arisen for certain fabrics not produced in our U.S. plants, and we have moved rapidly to develop sources for the products being demanded by our customers. Seven years ago, we were a much more vertically integrated manufacturer of fabrics, especially in upholstery fabrics, with large amounts of capital committed to U.S.-based manufacturing fixed assets. Today, the company is a more flexible fabric producer and marketer, with a smaller fixed asset base, but also with significantly lower overall sales. With the changes that have been made over the past seven years, however, we believe we now have a platform upon which we can build to take advantage of the opportunities in the bedding and furniture industries.

During fiscal 2008, we integrated the business and assets acquired by our mattress fabrics segment in late fiscal 2007 from International Textile Group (ITG), as ITG exited the mattress fabrics business. This acquisition has allowed us to take advantage of recent capital investments at mattress fabrics facilities that have improved our efficiency and production costs, and to add significantly to the sales and profits of the mattress fabrics segment.

In the upholstery fabrics segment, a significant and growing portion of our fabrics are now produced by other manufacturers, but in most cases the company continues to control important components of the production process, such as design, finishing, quality control and distribution. Microdenier suedes and a variety of other fabrics are now sourced in China through our sourcing, finishing and distribution operation located near Shanghai.

In mattress fabrics, knitted fabrics represent a growing portion of our sales, as consumer demand for this type of mattress panel covering has risen significantly. These fabrics, along with a portion of our damask product line, are sourced from outside providers. We will continue to look to a variety of sources for mattress fabric to remain flexible and preserve our ability to meet our customers' needs by maintaining a proper balance between internally produced and sourced items.

As these shifts in our business have continued, we have dramatically reduced the size and scope of our U.S. upholstery fabrics manufacturing operations over the past several years, with a substantial majority of our products now being sourced in China. In the mattress fabrics business, there have been product shifts to knitted fabrics for top panels of mattresses and woven fabrics for common borders, which is the fabric on the side of the mattress and box spring. These shifts are affecting demand for certain categories of our products. We have made significant changes in our operating assets, product mix and business model to address the challenges and opportunities facing the company. Additional information about trends and developments in each of our business segments is provided in the "Segments" discussion below.

General Information

The company was organized as a North Carolina corporation in 1972 and made its initial public offering in 1983. Since 1997, the company has been listed on the New York Stock Exchange and traded under the symbol "CFI." Our fiscal year is the 52 or 53 week period ending on the Sunday closest to April 30. Our executive offices are located in High Point, North Carolina.

Culp maintains an Internet website at www.culpinc.com. We will make this annual report and our other annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to these reports, available free of charge on our Internet site as soon as reasonably practicable after such material is electronically filed with, or furnished to, the Securities and Exchange Commission. Information included on our website is not incorporated by reference into this annual report.

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Segments

Our two operating segments are mattress fabrics and upholstery fabrics. The following table sets forth certain information for each of our segments.

SEGMENT	Sales by Fiscal Year ($ in Millions) and Percentage of Total Company Sales					
	Fiscal 2008		Fiscal 2007		Fiscal 2006	
Mattress Fabrics	$ 138.1	(54%)	$ 107.8	(43%)	$ 93.7	(36%)
Upholstery Fabrics						
Non-U.S.-Produced	$ 75.9	(30%)	$ 82.4	(33%)	$ 59.2	(23%)
U.S.-Produced	$ 40.0	(16%)	$ 60.3	(24%)	$ 108.2	(41%)
Total Upholstery	$ 115.9	(46%)	$ 142.7	(57%)	$ 167.4	(64%)
Total company	$ 254.0	(100%)	$ 250.5	(100%)	$ 261.1	(100%)

Additional financial information about the company's operating segments can be found in footnote 18 to the Consolidated Financial Statements included in Item 8 of this report.

Mattress Fabrics. The mattress fabrics segment manufactures and markets mattress fabric to bedding manufacturers. These fabrics encompass woven jacquard fabric, knitted fabric and printed fabric to a lesser extent. Culp Home Fashions, as this business is known in the trade, has manufacturing facilities located in Stokesdale, North Carolina, and St. Jerome, Quebec, Canada. Both of these plants manufacture and finish jacquard (damask) fabric, and the Stokesdale plant also produces printed fabric. The Stokesdale plant houses the division offices and finished goods distribution capabilities. Knitted fabric is primarily sourced from two manufacturers who works closely with the company to produce fabrics according to our proprietary design specifications and quality standards. All woven jacquard and knitted fabrics are able to be produced in multiple facilities, (internal or external to the company) providing us with mirrored, reactive capacity.

In recent years, we have taken significant steps to further enhance our competitive position in this segment by consolidating all of our mattress fabrics manufacturing into the Stokesdale and St. Jerome facilities. The company had capital expenditures during the period fiscal 2005 through 2007 totaling approximately $11.0 million, of which $8.0 million was related to a capital project involving the relocation of ticking looms from an upholstery fabric plant to the existing facilities in the U.S. and Canada, along with the purchase of new weaving machines that are faster and more efficient than the equipment they replaced. Additionally, we had a $1.3 million capital project that significantly enhanced our finishing capabilities in this segment. More recently, we initiated a $5.0 million capital project to enhance our weaving and finishing capabilities and further increase our capacity and service performance. This project is expected to be substantially complete by the end of the first quarter of fiscal 2009. These capital investments have enhanced our capacity and capabilities in the mattress fabrics segment and played a significant role in making feasible the ITG acquisition and its integration into our operations, as described below.

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In January 2007, we completed an acquisition in our mattress fabrics business, purchasing certain assets from International Textile Group, Inc. (ITG) related to the mattress fabrics product line of ITG's Burlington House division. ITG had made a decision to exit the mattress fabric business, and we purchased ITG's finished goods inventory, certain proprietary rights, and other assets related to the product line. This acquisition has enhanced our competitive position in the mattress fabrics industry and was a primary factor in the increases in our mattress fabric sales during fiscal 2008.

Upholstery Fabrics. The upholstery fabrics segment markets fabrics for residential and commercial furniture, including jacquard woven fabrics, velvets, microdenier suedes, woven dobbies, knitted fabrics, and piece-dyed woven products. Historically, all of our upholstery fabrics had been produced in our U.S. manufacturing plants. In fiscal year 2007, however, sales of upholstery fabrics made in non-U.S. locations, including our facilities in China, exceeded U.S.-produced sales for the first time. This trend continued in fiscal 2008, with non-U.S. produced upholstery accounting for almost 66% of our upholstery sales for the year (68% in the fourth quarter).

The upholstery segment operates fabric manufacturing facilities in Anderson, South Carolina, and Shanghai, China. We market fabrics produced in these two locations, as well as a variety of upholstery fabrics sourced from third party producers, mostly in China.

As demand for U.S.-produced upholstery significantly declined, we took aggressive steps to reduce our U.S. manufacturing costs, capacity, and selling, general and administrative expenses. Our restructuring actions over the past several years have reduced our U.S. upholstery operations to the one manufacturing plant in South Carolina and one upholstery distribution facility in Burlington, North Carolina. The result of our restructuring actions over the past several years has been a large reduction in capacity and related costs for U.S. production of upholstery fabrics, accompanied by a reduction of 73% in sales of U.S.-produced fabrics since fiscal 2005 (33% from fiscal 2007 to fiscal 2008).

The down-sizing of our U.S. upholstery operations represents the continuation of a longer-term trend that has affected the company and the upholstery fabric business for the past eight years. At the end of fiscal 2000, we had fourteen manufacturing plants in the U.S. for upholstery fabrics, with total sales in the segment of $382 million. The book value of these manufacturing assets in the segment was $92 million at the end of fiscal 2000 and $52 million at the end of fiscal 2004. By comparison, manufacturing assets currently operating in the upholstery fabrics segment (in the U.S.) have a total book value of $1.7 million. Total segment sales for fiscal 2008 were $115.9 million, and of that amount only $40 million represents sales of fabrics produced in the U.S. For additional discussion of restructuring activities in the upholstery fabrics segment, see "Management's Discussion and Analysis of Financial Condition and Results of Operations."

During the same time that we have been reducing our U.S. upholstery operations in response to declining demand for U.S.-produced fabrics, we have been aggressively expanding our operations located in China in response to increasing demand for upholstery products produced in that country. In 2003, we began a strategy to link our strong customer relationships, design expertise and production technology with low cost fabric manufacturers in China in order to deliver enhanced value to our customers throughout the world. The operations near Shanghai began operations in 2004 with a finishing and inspection operation, where goods woven in China by selected outside suppliers are treated with finishing processes and subjected to U.S. quality control measures before being distributed to customers. In subsequent years, a variety of finished goods (with no further finishing needed) began to be sourced through our China

operations, and in fiscal 2006 the operation was expanded to include a facility where upholstery fabrics are cut and sewn into "kits" that are made to the specifications of furniture manufacturing customers in the U.S. Cut and sewn "kit" operations have become an important method for furniture producers to reduce production costs by moving a larger percentage of the labor component of furniture manufacturing to lower cost environments. Other recent developments in our China operations include the introduction of velvet fabric production, expansion of our product development and design capabilities in China, further strengthening of key strategic partnerships with mills, and expanded distribution facilities. In addition, we are now expanding our marketing efforts to sell our China products in countries other than the U.S., including the Chinese local market. Our operations in China now include six facilities devoted to manufacturing and distribution activities.

As our activities and opportunities in China have expanded, our strategy has not changed. The company entered China with the view that we would take advantage of the variety of products and lower cost environment available in China, while still maintaining control of the "value-added" processes such as design, finishing, quality control, and logistics. This strategic approach has allowed us to limit our investment of capital in fixed assets and to lower the costs of our products significantly, while continuing to leverage our design and finishing expertise, industry knowledge and important relationships. In this way, we maintain our ability to provide furniture manufacturers with products from every category of fabric used to cover upholstered furniture, and to meet continually changing consumer preferences.

Overview of Industry and Markets

Culp markets products primarily to manufacturers that operate in three principal markets. The mattress fabrics segment supplies the bedding industry, which produces mattress sets (mattresses, box springs, and foundations). The upholstery fabrics segment supplies the residential and commercial furniture industries. The residential furniture market includes upholstered furniture sold to consumers for household use, including sofas, sleep sofas, chairs, recliners and sectionals. The commercial furniture and fabrics market includes upholstered office seating and modular office systems sold primarily for use in offices and other institutional settings, and commercial textile wall covering. The principal industries into which the company sells products are described below.

Overview of Bedding Industry

The bedding industry has experienced growth in sales in recent years, primarily due to a relatively strong market during these years, as well as higher average selling prices of mattresses. According to the International Sleep Products Association (ISPA), a trade association, the U.S. wholesale bedding industry accounted for an estimated $6.9 billion in sales in 2007, a 1.4% increase over revised numbers for 2006. The industry is comprised of several hundred manufacturers, but the largest four manufacturers accounted for more than 58% of the total wholesale shipments in 2007, while the top fifteen accounted for almost 81%. The bedding industry has averaged approximately 6% annual growth over the past twenty years, with only one year experiencing a decline in revenue (by 0.3% in 2001). It has proven to be a stable and mature industry. This stability is partly due to replacement purchases, which account for an estimated 70% of bedding industry sales. During the first half of 2008, the U.S. mattress retail environment has slowed due to weakened economic conditions brought on by housing declines and higher energy costs.

Unlike the residential furniture industry, which has faced intense competition from imports, the bedding industry has faced limited competition from imports. The primary reasons for this fact include: 1) the short lead times demanded by mattress retailers, 2) the limited inventories carried by retailers, 3) the customized nature of each retailer's product lines, 4) high shipping costs, 5) the relatively low direct labor content in mattresses, and 6) strong brand recognition.

We believe that several important demographic factors are helping to support the bedding industry. In particular, the growth of the aging and affluent segments of the population has a significant impact on the bedding industry. The increasing size of homes and growth in the number of vacation and second homes has played a major role in the demand for bedding in the United States. These trends have been a factor in the size and average selling prices of mattresses being sold in the United States. According to ISPA, while wholesale sales of bedding increased 1.4% in 2007, the number of units sold decreased by 2.1%. Premium and luxury mattresses have been the fastest growing category of bedding in recent years, although there are signs that this trend has begun to slow during the current economic slowdown.

While a majority of bedding sales is traditional innerspring bedding, several specialty bedding producers (primarily foam and air-adjustable mattresses) have recorded significant sales gains in recent years. According to industry statistics, specialty bedding producers, which produce mattresses that do not use inner spring construction, grew their sales by 10.2% in 2007. The specialty bedding segment has provided new growth opportunities for bedding producers and those companies that supply components, including fabric, to them.

Other key trends in the bedding industry include:

- Consumers have become increasingly aware of and are concerned with the health benefits of better sleep. This has caused an increased focus on the quality of bedding products and an apparent willingness on the part of consumers to pay more for bedding. The average selling price of mattress sets has increased in recent years, and the fastest growing category of bedding products is premium priced mattresses.

- Mattress manufacturers are using common SKU's and less expensive fabric for borders, which is the ticking that goes around the side of the mattresses and box springs. Virtually all of these border fabrics are woven damask ticking of the type we manufacture, and this trend has caused significant pricing pressures in this category of mattress fabric.

- The production of flame-resistant materials for bedding is an increasingly important issue for bedding manufacturers. A national standard for flame resistance in bedding became effective July 1, 2007.

- There is increasing popularity of knitted mattress tickings, as opposed to woven and printed tickings. Knitted ticking was initially used primarily on premium mattresses, but these products are now being placed increasingly on mattresses at mid-range retail price points. Knitted fabric is typically used on the top panel of a mattress, while woven ticking remains the predominant fabric on the borders or sides of mattress sets.

- Increasing raw material costs, especially related to steel and foam have pressured mattress fabric profitability in 2008.

Overview of Residential Furniture Industry

The residential furniture industry is a mature industry, with long-term growth rates that have been generally at or below the overall growth rate of the U.S.

economy. The American Home Furnishings Alliance (AHFA), a trade association, recently released revised data regarding the size of the U.S. residential furniture industry. This revised data shows a slight decline in the total value of residential furniture shipments in the U.S. over the past five years, with sales in the past four years remaining between $21.0 and $21.7 billion. Currently, the residential furniture industry has been significantly affected by slow economic conditions, weak housing market, high energy prices, and more substantially by a structural shift to offshore sourcing, primarily from China, which has led to deflation in retail furniture prices.

Key trends and issues facing the residential furniture industry include:

- The sourcing of components and fully assembled furniture from overseas continues to play a major role in the residential furniture industry, with sales of imported furniture growing at a faster rate than the overall industry, although at a slowing pace. According to Furniture/Today, an industry trade publication, imports of residential furniture into the U.S. grew 2% in 2007, following an increase of 7% from 2005 to 2006. By far, the largest source for these imports continues to be China, which now accounts for approximately 55% of total U.S. furniture imports. In past years, a large majority of furniture imports from China were wooden "casegoods," but there has been significant recent growth in imports of upholstered furniture components, including upholstery fabric and "cut and sewn kits" for furniture covers. This trend has been especially strong for leather furniture, and it now extends to other coverings, including microdenier suedes and the more traditional types of fabrics manufactured by the company.

- Imports of upholstery fabric, both in roll and in "kit" form, have increased rapidly in recent years. Fabrics entering the U.S. from China and other low labor cost countries are resulting in increased price competition in the upholstery fabric and upholstered furniture markets.

- Leather and suede upholstered furniture has been gaining market share over the last ten years. This trend has increased over the last five years in large part because selling prices of leather furniture have been declining significantly over this time period. We believe, however, that the rate of increase appears to be leveling off and this trend may be weakening.

- The residential furniture industry has been consolidating at the manufacturing level for several years. The result of this trend is fewer, but larger, customers for marketers of upholstery fabrics.

- In recent years, several of the nation's larger furniture manufacturers have opened retail outlets of their own. As top retailers shift floor space to private label imports, manufacturers are focused on distributing their own products. In addition, furniture marketing by "lifestyle" retailers has increased, which has increased the number of retail outlets for residential furniture but has also increased the reliance on private brands or private labels.

- Increasing raw material costs due to significantly higher energy costs.

Overview of Commercial Furniture Industry

The market for commercial furniture - furniture used in offices and other institutional settings - grew approximately 5.5% from 2006 to 2007, following a 7.4% increase the previous year. Growth during the past four years represents a reversal of a significant decline that had occurred over the three years prior to those. The commercial furniture industry declined significantly from 2001 through 2003, reflecting economic trends affecting businesses, which are the ultimate customers in this industry. According to the Business and Institutional Furniture Manufacturer's Association (BIFMA), a trade association, the commercial furniture market in the U.S. totaled approximately $11.4 billion in 2007 in wholesale shipments by manufacturers. Although higher than 2006, this total still represents a significant decrease from the industry's peak of $13.3 billion in 2000.

Products

As described above, our products include mattress fabrics and upholstery fabrics, which are the company's identified operating segments.

Mattress Fabrics Segment

Mattress fabrics segment sales constituted 54% of sales in fiscal 2008, and 43% in fiscal 2007. The company has emphasized fabrics that have broad appeal at prices generally ranging from $1.35 to $7.50 per yard. The average per yard selling prices for fiscal 2008, 2007, and 2006 were $2.44, $2.35, and $2.26, respectively.

Upholstery Fabrics Segment

Upholstery fabrics segment sales totaled 46% of sales for fiscal 2008, and 57% in fiscal 2007. The company has emphasized fabrics that have broad appeal at "good" and "better" prices, generally ranging from $2.75 to $8.00 per yard. The average per yard selling prices for fiscal 2008, 2007, and 2006 were $4.22, $4.18, and $4.22, respectively.

We market products in all categories of fabric that manufacturers currently use for bedding and furniture. The following table indicates the product lines within each segment, and a brief description of their characteristics.

Culp Fabric Categories by Segment

Mattress Fabrics	
Woven jacquards	Florals and other intricate designs. Woven on complex looms using a variety of synthetic and natural yarns.
Prints	Variety of designs produced economically by screen printing onto a variety of base fabrics, including jacquards, knits, poly/cotton sheeting and non-wovens.
Knitted Ticking	Floral and other intricate designs produced on special-width circular machines utilizing a variety of synthetic and natural yarns. Knitted ticking has inherent stretching properties and spongy softness, and conforms well with layered foam packages.

Upholstery Fabrics

Woven jacquards	Elaborate, complex designs such as florals and tapestries in traditional, transitional and contemporary styles. Woven on intricate looms using a wide variety of synthetic and natural yarns.
Woven dobbies	Fabrics that use straight lines to produce geometric designs such as plaids, stripes and solids in traditional and country styles. Woven on less complicated looms using a variety of weaving constructions and primarily synthetic yarns.
Velvets	Soft fabrics with a plush feel. Produced with synthetic yarns, either by weaving or by "tufting" yarn into a base fabric. Basic designs such as plaids in both traditional and contemporary styles.
Suede fabrics	Fabrics woven or knitted using microdenier polyester yarns, which are piece dyed and finished, usually by sanding. The fabrics are typically plain or small jacquard designs, with some being printed. These are sometimes referred to as microdenier suedes, and some are "leather look" fabrics.

Manufacturing and Sourcing

Mattress Fabrics Segment

Our mattress fabrics segment operates two manufacturing plants, located in Stokesdale, North Carolina and St. Jerome, Quebec, Canada. Over the past four fiscal years, we made capital expenditures of approximately $16 million to consolidate all of our production of woven jacquards, or damask ticking, to these two plants and to modernize the equipment and expand capacity in these facilities. The result has been an increase in manufacturing efficiency and a substantial reduction in operating costs. With this new manufacturing configuration, jacquard ticking is woven at both ticking plants, and printed ticking is produced at the Stokesdale facility. Most finishing and inspection processes for mattress fabrics are conducted at the Stokesdale plant.

In addition to the mattress fabrics we manufacture, the company has important supply arrangements in place that allow us to source mattress fabric from strategic suppliers. A sourcing arrangement with a supplier that has established a manufacturing plant in North Carolina near our U.S. distribution facility allows us to source knitted fabric based on designs created by Culp designers. In addition, a portion of our woven jacquard fabric and knitted fabric is obtained from a supplier located in Turkey, based on designs created by Culp designers, and we are now sourcing certain specialty ticking products (such as suedes and embroidered fabrics) through our China platform.

Upholstery Fabrics Segment

We currently operate one upholstery manufacturing facility in the U.S. and six in China. The U.S. plant is located in Anderson, South Carolina, and mainly produces velvet upholstery fabrics with some production of certain decorative fabrics.

Our upholstery manufacturing facilities in China are all located within the same industrial area near Shanghai. At these plants, we apply strategic value-added finishing processes to fabrics sourced from a limited number of strategic suppliers in China, and we inspect sourced fabric there as well. In addition, the Shanghai operations include facilities where sourced fabric is cut and sewn to provide "kits" that are designed to be placed on specific furniture frames designated by our customers, and we also produce velvet upholstery fabrics at our China facilities.

A large portion of our upholstery fabric products, as well as certain elements of our production processes, are now being sourced from outside suppliers. The development of our facilities in China has provided a base from which to access a variety of products, including some fabrics (such as microdenier suedes) that are not produced anywhere within the U.S. We have found opportunities to develop significant relationships with key overseas suppliers that allow us to source products on a cost effective basis while at the same time limiting our investment of capital in manufacturing assets. The company sources unfinished and finished fabrics from a limited number of strategic suppliers in China who are willing to work with the company to commit significant capacity to our needs while working with our product development team to meet the demands of our customers. We also source a substantial portion of our yarns, both for U.S. and China upholstery operations, through our China facilities. The remainder of our yarn is obtained from other suppliers around the world, as we have eliminated our internal yarn production capabilities.

Over the past several years, we have outsourced in the U.S. our fabric finishing operations, our yarn production, and certain weaving operations, allowing us to obtain those services on a variable basis at a lower unit cost from outside suppliers. As these developments have proceeded, we have reduced the carrying value of our fixed assets committed to U.S. upholstery fabric manufacturing from $32.5 million at the end of fiscal 2005 to $1.7 million at the end of fiscal 2008.

Product Design and Styling

Consumer tastes and preferences related to bedding and upholstered furniture change over time. The use of new fabrics and designs remains an important consideration for manufacturers to distinguish their products at retail and to capitalize on changes in preferred colors, patterns and textures. Culp's success is largely dependent on our ability to market fabrics with appealing designs and patterns.

The process of developing new designs involves maintaining an awareness of broad fashion and color trends both in the United States and internationally. The company has developed an upholstery design and product development team (with staff located in the U.S. and in China) that searches continually for new ideas and for the best sources of raw materials, yarns and fabrics, both domestic and international. The team then develops product offerings using these ideas and materials, taking both fashion trends and cost considerations into account, to offer products designed to meet the needs of furniture manufacturers and ultimately the desires of consumers. Upholstery fabric designs are introduced at major fabric trade conferences that occur twice a year in the United States (June and December).

Mattress fabric designs are not introduced on a scheduled season. More frequently, designs are introduced upon customer request as they plan introduction to their retailers. Additionally, we work closely with our customers on new design introductions around the major markets like High Point and Las Vegas.

Distribution

Mattress Fabrics Segment

All of our shipments of mattress fabrics originate from our manufacturing facility in Stokesdale. Through arrangements with major customers and in accordance with industry practice, we maintain a significant inventory of mattress fabrics at our distribution facility in Stokesdale ("make to stock"), so that products may be shipped to customers with short lead times and on a "just in time" basis.

Upholstery Fabrics Segment

The majority of our upholstery fabrics are marketed on a "make to order" basis and are shipped directly from our distribution facilities in Burlington and Shanghai. In addition, an inventory comprising a limited number of sourced fabric patterns is held at our distribution facilities in Burlington and Shanghai from which our customers can obtain fabrics on a "purchase from stock" basis through a program known as "Culp Express." We have developed a revised marketing strategy for our U.S.-produced upholstery products, providing customers with very quick delivery on target products at key price points. This program, known as "Store House," is aimed at driving higher sales volume per fabric pattern and thus should result in improved manufacturing performance and lower unit costs for our U.S. upholstery operations, while employing a smaller fixed asset base.

Sources and Availability of Raw Materials

Mattress Fabrics Segment

Raw materials account for approximately 70% of mattress ticking production costs. The mattress fabrics segment purchases synthetic yarns (polypropylene, polyester and rayon), rayon staple fiber, certain greige (unfinished) goods, latex adhesives, laminates, dyes and other chemicals. Most of these materials are available from several suppliers, and prices fluctuate based on supply and demand, the general rate of inflation, and particularly on the price of petrochemical products. The mattress fabrics segment has generally not had significant difficulty in obtaining raw materials.

Upholstery Fabrics Segment

Raw materials account for approximately 50%-60% of upholstery fabric manufacturing costs for products the company manufactures. This segment purchases synthetic yarns (polypropylene, polyester, acrylic and rayon), acrylic staple fiber, latex adhesives, dyes and other chemicals from various suppliers.

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The upholstery fabric segment has now outsourced all of its yarn requirements, and thus it has become more dependent upon suppliers for components yarn. In addition, we have outsourced a number of our U.S. upholstery fabric manufacturing services to suppliers, such as extrusion of yarn and upholstery fabric finishing. Most recently, we have outsourced a portion of our decorative upholstery fabric weaving. Although U.S produced fabrics are a decreasing portion of our upholstery business, increased reliance by both our U.S. and China upholstery operations on outside suppliers for basic production needs such as base fabrics, yarns, and finishing services has caused the upholstery fabrics segment to become more vulnerable to price increases, delays, or production interruptions caused by problems within businesses that we do not control.

Both Segments

Many of our basic raw materials are petrochemical products or are produced from such products. For this reason, our material costs are especially sensitive to changes in prices for petrochemicals and the underlying price of oil. Recent increases in market prices for oil have caused significant increases in the raw materials costs for both of our segments.

In addition, the financial condition and performance of a number of U.S.-based yarn suppliers has been severely impacted by the reductions in the overall size of the U.S. textile industry over the last several years. These conditions have increased the risk of business failures or further consolidations among the suppliers to the North American-based portions of our business. We expect this situation to cause additional disruptions and pricing pressures in our supply of certain raw materials, yarns, and textile services obtained in the U.S. as overall demand for textiles produced in the U.S. declines.

Seasonality

Mattress Fabrics Segment

The mattress fabrics business and the bedding industry in general are slightly seasonal, with sales being the highest in late spring and late summer, with another peak in mid-winter.

Upholstery Fabrics Segment

The upholstery fabrics business is somewhat seasonal, with increased sales during our second and fourth fiscal quarters. This seasonality results from one-week closings of our manufacturing facilities, and the facilities of most of our customers in the United States, during our first and third fiscal quarters for the holiday weeks of July 4th and Christmas. This effect is becoming less pronounced as a larger portion of our fabrics are produced or sold in locations outside the United States.

Competition

Competition for the company's products is high and is based primarily on price, design, quality, timing of delivery and service.

Mattress Fabrics Segment

The mattress fabrics market is concentrated in a few relatively large suppliers. We believe our principal mattress fabric competitors are Bekaert Textiles B.V., Blumenthal Print Works, Inc., Global Textile Alliance and several smaller companies producing knitted and other fabric.

Upholstery Fabrics Segment

In the upholstery fabric market, we compete against a large number of companies, ranging from a few large manufacturers comparable in size to the company to small producers, and a growing number of "converters" of fabrics (companies who buy and re-sell, but do not manufacture fabrics). We believe our principal upholstery fabric competitors are Richloom Fabrics, Merrimack Fabrics and Morgan Fabrics, and Specialty Textile, Inc. (or STI). Some of our largest competitors (such as Quaker Fabrics and Joan Fabrics) have went out of business, but they have been replaced by a large number of smaller competitors (both manufacturers and converters).

Until approximately seven years ago, overseas producers of upholstery fabric had not historically been a source of significant competition for the company. Recent trends, however, have shown significant increased competition in U.S. markets by foreign producers of upholstery fabric, furniture components and finished upholstery furniture, as well as increased sales in the U.S. of leather furniture produced overseas (which competes with upholstered furniture for market share). Imports of upholstery fabric from China have dramatically increased. Foreign manufacturers often are able to produce upholstery fabric and other components of furniture with significantly lower raw material and production costs (especially labor) than those of our U.S. operations and other U.S.-based manufacturers. We compete with lower cost foreign goods on the basis of design, quality, reliability and speed of delivery. In addition, as discussed above, we have established operations in China to facilitate the sourcing and marketing of goods produced in China.

The trend in the upholstery fabrics industry to greater overseas competition and the entry of more converters has caused the upholstery fabrics industry to become substantially more fragmented in recent years, with lower barriers to entry. This has resulted in a larger number of competitors selling upholstery fabrics, with an increase in competition based on price.

Environmental and Other Regulations

We are subject to various federal and state laws and regulations, including the Occupational Safety and Health Act ("OSHA") and federal and state environmental laws, as well as similar laws governing our manufacturing facilities in China and Canada. We periodically review our compliance with these laws and regulations in an attempt to minimize the risk of violations.

Our operations involve a variety of materials and processes that are subject to environmental regulation. Under current law, environmental liability can arise from previously owned properties, leased properties and properties owned by third parties, as well as from properties currently owned and leased by the company. Environmental liabilities can also be asserted by adjacent landowners or other third parties in toxic tort litigation.

In addition, under the Comprehensive Environmental Response, Compensation, and Liability Act of 1980, as amended ("CERCLA"), and analogous state statutes, liability can be imposed for the disposal of waste at sites targeted for cleanup by federal and state regulatory authorities. Liability under CERCLA is strict as well as joint and several.

We are periodically involved in environmental claims or litigation and requests for information from environmental regulators. Each of these matters is carefully evaluated, and the company provides for environmental matters based on information presently available. Based on this information, we do not believe that environmental matters will have a material adverse effect on either the company's financial condition or results of operations. However, there can be no assurance that the costs associated with environmental matters will not increase in the future. See the discussion of a current environmental claim against the company below in Item 3 - "Legal Proceedings."

Employees

As of April 27, 2008, we had 1,087 employees, compared to 1,140 at the end of fiscal 2007, and 1,283 at the end of fiscal 2006. The number of employees has been reduced substantially over the past several years in connection with our restructuring initiatives and efforts to reduce U.S. upholstery fabrics manufacturing costs, as well as initiatives to outsource certain operations. The number of employees located in the U.S. has been reduced even more dramatically, while the number of employees in China has increased (see table below).

The hourly employees at our manufacturing facility in Canada (approximately 15% of the company's workforce) are represented by a local, unaffiliated union. The collective bargaining agreement for these employees expires on February 1, 2011. We are not aware of any efforts to organize any more of our employees, and we believe our relations with our employees are good.

The following table illustrates the changes in the location of our workforce and number of employees, as of year-end, over the past five years.

	Number of Employees				
	Fiscal 2008	Fiscal 2007	Fiscal 2006	Fiscal 2005	Fisca
Mattress Fabrics Segment	373	361	351	372	3
Upholstery Fabrics Segment					
United States	230	297	659	1,404	1,
China	481	479	270	109	
Total Upholstery Fabrics Segment	711	776	929	1,513	1,
Unallocated corporate	3	3	3	3	
Total	1,087	1,140	1,283	1,888	2,

Customers and Sales

Mattress Fabrics Segment

Major customers for our mattress fabrics include the leading bedding manufacturers: Sealy, Serta (National Bedding), and Simmons. The loss of one or more of these customers would have a material adverse effect on the company. Our largest customer in the mattress fabrics segment is Sealy Corporation, accounting for approximately 11% of the company's overall sales in fiscal 2008. Our mattress fabrics customers also include many small and medium-size bedding manufacturers.

Upholstery Fabrics Segment

Our major customers for upholstery fabrics are leading manufacturers of upholstered furniture, including Ashley, Bassett, Berkline/Benchcraft, Best Home Furnishings, Flexsteel, Furniture Brands International (Broyhill, Thomasville, and Lane), Klaussner Furniture and La-Z-Boy (La-Z-Boy Residential, Bauhaus, and England). Major customers for the company's fabrics for commercial furniture includes HON Industries. Our largest customer in the upholstery fabrics segment is La-Z-Boy Incorporated, the loss of which would have a material adverse effect on the company. Our sales to La-Z-Boy accounted for approximately 11% of the company's total net sales in fiscal 2008.

The following table sets forth the company's net sales by geographic area by amount and percentage of total net sales for the three most recent fiscal years.

Net Sales by Geographic Area
(dollars in thousands)

	Fiscal 2008		Fiscal 2007		Fiscal 2006	
United States	$ 202,701	79.8%	$ 197,748	78.9%	$ 213,552	81.7
North America (Excluding USA)	18,880	7.4	17,310	6.9	18,944	7.3
Far East and Asia	28,465	11.2	32,683	13.1	28,104	10.8
All other areas	4,000	1.6	2,792	1.1	501	0.2
Subtotal (International)	51,345	20.2	52,785	21.1	47,549	18.3
Total	$ 254,046	100.0%	$ 250,533	100.0%	$ 261,101	100.0

For additional segment information, see note 18 in the consolidated financial statements.

Backlog

Mattress Fabrics Segment

The backlog for mattress fabric is not a reliable predictor of future shipments because the majority of sales are on a just-in-time basis.

Upholstery Fabrics Segment

Although it is difficult to predict the amount of backlog that is "firm," we have reported the portion of the upholstery fabric backlog from customers with confirmed shipping dates within five weeks of the end of the fiscal year. On April 27, 2008, the portion of the upholstery fabric backlog with confirmed shipping dates prior to June 1, 2008 was $8.8 million, all of which are expected to be filled early during fiscal 2009, as compared to $10.9 million as of the end of fiscal 2007 (for confirmed shipping dates prior to June 3, 2007).

ITEM 1A. RISK FACTORS

Our business is subject to risks and uncertainties. In addition to the matters described above under "Cautionary Statement Concerning Forward-Looking Information," set forth below are some of the risks and uncertainties that could cause a material adverse change in our results of operations or financial condition.

Restructuring initiatives create short-term costs that may not be offset by increased savings or efficiencies.

Over the past several years, we have undertaken significant restructuring activities, which have involved closing manufacturing plants, realigning manufacturing assets, and changes in product strategy. These actions are intended to lower manufacturing costs and increase efficiency, but they involve significant costs, including inventory markdowns, the write-off or write-down of assets, severance costs for terminated employees, contract termination costs, equipment moving costs, and similar charges. These charges have caused a decrease in earnings in the short-term. In addition, during the time that restructuring activities are underway, manufacturing inefficiencies are caused by moving equipment, realignment of assets, personnel changes, and by the consolidation process for certain functions. Unanticipated difficulties in restructuring activities or delays in accomplishing our goals could cause the costs of our restructuring initiatives to be greater than anticipated and the results achieved to be significantly lower, which would negatively impact our results of operations and financial condition.

Our sales and profits have been declining in the upholstery fabrics segment.

We may not be able to restore the upholstery fabrics segment to consistent profitability. In that segment, sales are down significantly, and they have been declining rapidly for U.S. produced fabrics. We have undertaken a number of significant restructuring actions in recent years to address our profitability, including (i) closing a number of U.S. manufacturing facilities, (ii) establishing facilities in China to take advantage of a lower cost environment and greater product diversity, and (iii) outsourcing certain production functions in the U.S., including yarn production, finishing of decorative fabrics, and some weaving. The success of our restructuring efforts depends on a number of variables, including our ability to consolidate certain functions, manage manufacturing processes with lower direct involvement, manage a longer supply chain, and similar issues. Current market conditions in the furniture industry are weak, and our sales of upholstery continue to decline. There is no assurance that we will be able to manage our restructuring activities successfully or restore the upholstery fabrics segment to consistent profitability.

Increased reliance on offshore operations and foreign sources of products or raw materials increases the likelihood of disruptions to our supply chain or our ability to deliver products to our customers on a timely basis.

During recent years, we have expanded our operations in China, and in addition we have been purchasing an increasing share of our products and raw materials from offshore sources. At the same time, our domestic manufacturing capacity for the upholstery fabrics segment has been greatly reduced. These changes have caused the company to place greater reliance on a much longer supply chain and on a larger number of suppliers that we do not control, both of which are inherently subject to greater risks of delay or disruption. In addition,

operations and sourcing in foreign areas are subject to the risk of changing local governmental rules, taxes, changes in import rules or customs, potential political unrest, or other threats that could disrupt or increase the costs of operating in foreign areas or sourcing products overseas. Changes in the value of the U.S. dollar versus other currencies can affect the company's financial results because a significant portion of the company's operations are located outside the United States. Strengthening of the U.S. dollar against other currencies can have a negative impact on the company's sales of products produced in those countries. Any of the risks associated with foreign operations and sources could cause unanticipated increases in operating costs or disruptions in business, which could negatively impact our ultimate financial results.

We may have difficulty managing the outsourcing arrangements increasingly being used by the company for products and services.

The company is relying more on outside sources for various products and services, including yarn and other raw materials, greige (unfinished) fabrics, finished fabrics, and services such as weaving and finishing. Increased reliance on outsourcing lowers our capital investment and fixed costs, but it decreases the amount of control that we have over certain elements of our production capacity. Interruptions in our ability to obtain raw materials, other required products or services from our outside suppliers on a timely and cost effective basis, especially if alternative suppliers cannot be immediately obtained, could disrupt our production and damage our financial results.

Further write-offs or write-downs of assets would result in a decrease in our earnings and shareholders' equity.

The company has long-lived assets, consisting mainly of property, plant and equipment and goodwill. SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived," establishes an impairment accounting model for long-lived assets such as property, plant, and equipment and requires the company to assess for impairment whenever events or changes in circumstances indicate that the carrying value of the asset may not be recovered. SFAS No. 142, "Goodwill and Other Intangible Assets," requires that goodwill be tested at least annually for impairment or whenever events or changes in circumstances indicate that the carrying value of the asset may not be recovered. When assets are taken out of service, which has occurred recently on several occasions in connection with our restructuring activities, they must be tested for impairment, which can result in significant write-downs in the value of those assets. Restructuring activities and other tests for impairment have resulted and could in the future result in the write-down of a portion of our long-lived assets and a corresponding reduction in earnings and net worth. In fiscal 2008, the company experienced asset write-downs of property, plant and equipment of $792,000, of which $503,000 related to the upholstery fabrics segment and $289,000 related to the mattress fabrics segment. In addition we reported a net deferred income tax asset of $32.3 million as of April 27, 2008. The valuation of this asset must be tested on a periodic basis against the likelihood of realizing its full value, and our continued ability to carry this asset at its full value depends upon our ability to generate taxable income in the future attributable to U.S. operations.

Changes in the price, availability and quality of raw materials could increase our costs or cause production delays and sales interruptions, which would result in decreased earnings.

We depend upon outside suppliers for most of our raw material needs, and increasingly we rely upon outside suppliers for component materials such as yarn and unfinished fabrics, as well as for certain services such as finishing and weaving. Fluctuations in the price, availability and quality of these goods and services could have a negative effect on our production costs and ability to meet the demands of our customers, which would affect our ability to generate sales and earnings. In many cases, we are not able to pass through increased costs of raw materials or increased production costs to our customers through price increases. In particular, many of our basic raw materials are petrochemical products or are produced from such products. For this reason, our material costs are especially sensitive to changes in prices for petrochemicals and the underlying price of oil. Increases in prices for oil, petrochemical products or other raw materials and services provided by outside suppliers could significantly increase our costs and negatively affect earnings.

Increases in energy costs would increase our operating costs and could adversely affect earnings.

Higher prices for electricity, natural gas and fuel increase our production and shipping costs. A significant shortage, increased prices, or interruptions in the availability of these energy sources would increase the costs of producing and delivering products to our customers, and would be likely to adversely affect our earnings. In many cases, we are not able to pass along the full extent of increases in our production costs to customers through price increases. During fiscal 2008, energy prices increased significantly, in part due to increases in the price of oil and other petrochemical products. Although some price increases were implemented to offset the effect of these increased costs, we were not able to fully recoup these costs, and operating margins were negatively affected. Further increases in energy costs could have a negative effect on our earnings.

Business difficulties or failures of large customers could result in a decrease in our sales and earnings.

We currently have several customers that account for a substantial portion of our sales. In the mattress fabric segment, several large bedding manufacturers have large market shares and comprise a significant portion of our mattress fabric sales, with Sealy Corporation accounting for approximately 11% of consolidated net sales in fiscal 2008. In the upholstery fabrics segment, La-Z-Boy Incorporated accounted for approximately 11% of consolidated net sales during fiscal 2008, and several other large furniture manufacturers comprised a significant portion of sales. A business failure or other significant financial difficulty by one or more of our major customers could cause a significant loss in sales, an adverse effect on our earnings, and difficulty in collection of our trade accounts receivable.

If we are unable to manage our cash effectively, we will not have funds available to repay debt and to maintain the flexibility necessary for successful operation of our business.

Our ability to meet our cash obligations depends on our operating cash flow, access to trade credit, and our ability to borrow under our debt agreements. In addition to the cash needs of operating our business, we have substantial debt repayments that are due over the next several years on our unsecured senior notes (see note 12 to the consolidated financial statements). Our ability to generate cash flow going forward will depend upon our ability to generate profits from our business, and we have not been able to generate earnings on a consistent basis in recent years. If we are not able to generate cash during the coming year, we may not be able to provide the funds needed to operate and maintain our business or to make payments on our debt as they become due.

Further loss of market share due to competition would result in further declines in sales and could result in additional losses or decreases in earnings.

Our business is highly competitive, and in particular the upholstery fabric industry is fragmented and is experiencing an increase in the number of competitors. As a result, we face significant competition from a large number of competitors, both foreign and domestic. We compete with many other manufacturers of fabric, as well as converters who source fabrics from various producers and market them to manufacturers of furniture and bedding. In many cases, these fabrics are sourced from foreign suppliers who have a lower cost structure than the company. The highly competitive nature of our business means we are constantly subject to the risk of losing market share. Our sales have decreased significantly over the past five years due in part to the increased number of competitors in the marketplace, especially foreign sources of fabric. As a result of increased competition, there have been deflationary pressures on the prices for many of our products, which make it more difficult to pass along increased operating costs such as raw materials, energy or labor in the form of price increases and puts downward pressure on our profit margins. Also, the large number of competitors and wide range of product offerings in our business can make it more difficult to differentiate our products through design, styling, finish and other techniques.

If we fail to anticipate and respond to changes in consumer tastes and fashion trends, our sales and earnings may decline.

Demand for various types of upholstery fabrics and mattress coverings change over time due to fashion trends and changing consumer tastes for furniture and bedding. Our success in marketing our fabrics depends upon our ability to anticipate and respond in a timely manner to fashion trends in home furnishings. If we fail to identify and respond to these changes, our sales of these products may decline. In addition, incorrect projections about the demand for certain products could cause the accumulation of excess raw material or finished goods inventory, which could lead to inventory mark-downs and further decreases in earnings.

An economic downturn could result in a decrease in our sales and earnings.

Overall demand for our products depends upon consumer demand for furniture and bedding, which is subject to variations in the general economy. Because purchases of furniture or bedding are discretionary purchases for most individuals and businesses, demand for these products is sometimes more easily influenced by economic trends than demand for other products. Economic downturns can affect consumer spending habits and demand for home furnishings, which reduces the demand for our products and therefore could cause a decrease in our sales and earnings. The recent economic slowdown and increase in energy prices have caused a decrease in consumer spending and demand for home furnishings, including goods that incorporate our products.

We are subject to litigation and environmental regulations that could adversely impact our sales and earnings.

We are, and in the future may be, a party to legal proceedings and claims, including environmental matters, product liability and employment disputes, some of which claim significant damages. We face the continual business risk of exposure to claims that our business operations have caused personal injury or property damage. We maintain insurance against product liability claims and in some cases have indemnification agreements with regard to environmental claims,

but there can be no assurance that these arrangements will continue to be available on acceptable terms or that such arrangements will be adequate for liabilities actually incurred. Given the inherent uncertainty of litigation, there can be no assurance that claims against the company will not have a material adverse impact on our earnings or financial condition. We are also subject to various laws and regulations in our business, including those relating to environmental protection and the discharge of materials into the environment. We could incur substantial costs as a result of noncompliance with or liability for cleanup or other costs or damages under environmental laws or other regulations.

We must comply with a number of governmental regulations applicable to our business, and changes in those regulations could adversely affect our business.

Our products and raw materials are and will continue to be subject to regulation in the United States by various federal, state and local regulatory authorities. In addition, other governments and agencies in other jurisdictions regulate the manufacture, sale and distribution of our products and raw materials. For example, standards for flame resistance of fabrics have been recently adopted on a nationwide basis. Also, rules and restrictions regarding the importation of fabrics and other materials, including custom duties, quotas and other regulations, are continually changing. Environmental laws, labor laws, tax regulations and other regulations also continually affect our business. All of these rules and regulations can and do change from time to time, which can increase our costs or require us to make changes in our manufacturing processes, product mix, sources of products and raw materials, or distribution. Changes in the rules and regulations applicable to our business may negatively impact our sales and earnings.

We must maintain market capitalization and shareholders equity limits for continued listing on the New York Stock Exchange.

Our common stock is currently traded on the New York Stock Exchange (NYSE). Under the NYSE's current listing standards, we are required to have market capitalization or shareholders equity of more than $75 million to maintain compliance with continued listing standards. The company's market capitalization fell below $75 million during fiscal 2006 and parts of fiscal 2007. Our shareholders' equity was below $75 million at the end of fiscal 2006 and during the first half of fiscal 2007. As a result, we were listed during fiscal 2007 as "below compliance" with NYSE listing standards, and we were required to submit a plan regarding our ability to return to and maintain compliance with these standards. If we are not able to maintain compliance with the NYSE standards, our stock will be delisted from trading on the NYSE, resulting in the need to find another market on which our stock can be listed or causing our stock to cease to be traded on an active market, which could result in a reduction in the liquidity for our stock and a reduction in demand for our stock. As of April 27, 2008, our market capitalization over a 30 trading-day period and shareholders' equity exceeded the level required for continued listing on the NYSE. The company was notified by the NYSE during fiscal 2008 that it had been removed from the NYSE "watch list" and is now considered a company in good standing under the NYSE's continuing listing standards.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

The company's headquarters are located in High Point, North Carolina. As of the end of fiscal 2008, the company owned or leased nine active manufacturing and distribution facilities, a corporate headquarters, and a small inactive distribution facility. The following is a list of the company's principal administrative, manufacturing and distribution facilities. The manufacturing facilities and distribution centers are organized by segment.

Location	Principal Use	Approx. Total Area (Sq. Ft.)
o Administrative:		
High Point, North Carolina (5)	Upholstery fabric division offices and corporate headquarters	55,000
o Mattress Fabrics:		
Stokesdale, North Carolina	Manufacturing, distribution, and division offices	230,000
St. Jerome, Quebec, Canada	Manufacturing	202,500
o Upholstery Fabrics:		
Anderson, South Carolina	Manufacturing	99,000
Burlington, North Carolina	Finished goods distribution	132,000
Shanghai, China	Manufacturing and offices	69,000
Shanghai, China	Manufacturing and distribution	100,000
Shanghai, China	Manufacturing and warehousing	90,000
Shanghai, China (3)	Manufacturing and warehousing	139,000
Shanghai, China (4)	Manufacturing and warehousing	101,632
o Inactive:		
Tupelo, Mississippi (2)	Idle	57,000

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(1) Includes all options to renew, except for inactive properties.
(2) Facility was closed in June 2007. Lease expires on December 31, 2008.
(3) Represents two separate facilities under one lease.
(4) Represents new facility dedicated to cut and sew operations.
(5) Effective October 29, 2007, the company adopted a plan to sell its corporate headquarters as the company is only utilizing one-half of the available space and with the sale can lower costs and reduce debt. The company expects that the final sale and disposal of the assets will be completed within a year from the date the plan was adopted and the sales proceeds will be applied against the $6.3 million mortgage balance.

The company believes that its facilities are in good condition, well-maintained and suitable and adequate for present utilization. Due to the continuation of significant restructuring efforts in the upholstery fabrics segment during fiscal 2008, including closing multiple plant locations, determining an accurate measure of capacity in this segment is difficult. In the mattress fabrics segment, however, management has estimated that the company has manufacturing capacity to produce approximately 2% more products (measured in yards) than it sold during fiscal 2008. In addition, the company has the ability to source additional mattress ticking and upholstery fabrics from outside suppliers, further increasing its ultimate output of finished goods.

ITEM 3. LEGAL PROCEEDINGS

A lawsuit was filed against the company and other defendants (Chromatex, Inc., Rossville Industries, Inc., Rossville Companies, Inc. and Rossville Investments, Inc.) on February 5, 2008 in United States District Court for the Middle District of Pennsylvania. The plaintiffs are Alan Shulman, Stanley Siegel, Ruth Cherenson as Personal Representative of Estate of Alan Cherenson, and Adrienne Rolla and M.F. Rolla as Executors of the Estate of Joseph Byrnes. The plaintiffs were partners in a general partnership that formerly owned a manufacturing plant in West Hazleton, Pennsylvania (the "Site"). Approximately two years after this general partnership sold the Site to defendants Chromatex, Inc. and Rossville Industries, Inc. the company leased and operated the Site as part of the company's Rossville/Chromatex division. The lawsuit involves court judgments that have been entered against the plaintiffs and against defendant Chromatex, Inc. requiring them to pay costs incurred by the United States Environmental Protection Agency ("USEPA") responding to environmental contamination at the Site, in amounts approximating $8.6 million. Neither USEPA nor any other governmental authority has asserted any claim against the company on account of these matters. The plaintiffs seek contribution from the company and other defendants and a declaration that the company and the other defendants are responsible for environmental response costs under environmental laws and certain agreements. The company does not believe it has any liability for the matters described in this litigation and intends to defend itself vigorously. In addition, the company has an indemnification agreement with certain other defendants in the litigation pursuant to which the other defendants agreed to indemnify the company for any damages it incurs as a result of the environmental matters that are subject of this litigation and consequently no reserve has been recorded.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

There were no matters submitted to a vote of shareholders during the fourth quarter ended April 27, 2008.

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS, AND ISSUER PURCHASES OF EQUITY SECURITIES

Registrar and Transfer Agent

Computershare Trust Company, N.A.
c/o Computershare Investor Services
Post Office Box 43078
Providence, Rhode Island 02940-3078
(800) 254-5196
(781) 575-2879 (Foreign shareholders) www.computershare.com

Stock Listing

Culp, Inc. common stock is traded on the New York Stock Exchange ("NYSE") under the symbol CFI. As of April 27, 2008, Culp, Inc. had approximately 1,550 shareholders based on the number of holders of record and an estimate of individual participants represented by security position listings.

The company has received notification from the NYSE that it is now considered a "company in good standing" under the NYSE's continued listing standards and will be removed from its "Watch List." The NYSE's decision comes as a result of the company's consistent positive performance with respect to its business plan submitted to the NYSE in September 2006 and its compliance with the NYSE's minimum market capitalization and shareholders' equity standard over the past six quarters. After a twelve month follow up period to ensure continuing compliance, the company will be subject to normal NYSE monitoring procedures.

Analyst Coverage

These analysts cover Culp, Inc.:

Morgan Keegan - Laura Champine, CFA
Raymond, James & Associates - Budd Bugatch, CFA
Value Line - Craig Sirois

Dividends and Share Repurchases

The company has not paid a cash dividend to its shareholders during the past two years, and our current agreements with our lenders prohibit the payment of such dividends. In addition, we have not repurchased any of our common stock during the past two years, and our current agreements with our lenders prohibits such share repurchases.

Performance Comparison

The following graph shows changes over the five-year period ended April 27, 2008 in the value of $100 invested in (1) the common stock of the company, (2) the Hemscott Textile Manufacturing Group Index (formerly named Core Data Textile Manufacturing Group Index) reported by Standard and Poor's, consisting of twenty-nine companies (including the company) in the textile industry, and (3) the Standard & Poor's 500 Index.

The graph assumes an initial investment of $100 at the end of fiscal 2003 and the reinvestment of all dividends during the periods identified.

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See attached table.

Market Information

See Item 6, Selected Financial Data, and Selected Quarterly Data in Item 8, for market information regarding the company's common stock.

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ITEM 6. SELECTED FINANCIAL DATA

(amounts in thousands, except per share amounts)	fiscal 2008	fiscal 2007	fiscal 2006	fiscal 2005
INCOME (LOSS) STATEMENT DATA				
net sales	$ 254,046	250,533	261,101	286,498
cost of sales (6)	220,887	219,328	237,233	260,341

gross profit		33,159	31,205	23,868	26,157
selling, general, and administrative expenses (6)		23,973	27,030	28,954	35,357
goodwill impairment		-	-	-	5,126
restructuring (credit) expense and asset impairment (6)		886	3,534	10,273	10,372
income (loss) from operations		8,300	641	(15,359)	(24,698)
interest expense		2,975	3,781	4,010	3,713
interest income		(254)	(207)	(126)	(134)
early extinguishment of debt		-	-	-	-
other expense		736	68	634	517
income (loss) before income taxes		4,843	(3,001)	(19,877)	(28,794)
income taxes		(542)	(1,685)	(8,081)	(10,942)
net income (loss)	$	5,385	(1,316)	(11,796)	(17,852)
depreciation (7)		5,548	7,849	14,362	18,884
weighted average shares outstanding		12,624	11,922	11,567	11,549
weighted average shares outstanding, assuming dilution		12,765	11,922	11,567	11,549
PER SHARE DATA					
net income (loss) per share - basic	$	0.43	(0.11)	(1.02)	(1.55)
net income (loss) per share - diluted	$	0.42	(0.11)	(1.02)	(1.55)
book value		6.83	6.29	6.39	7.43
BALANCE SHEET DATA					
operating working capital (5)	$	38,368	46,335	44,907	56,471
property, plant and equipment, net		32,939	37,773	44,639	66,032
total assets		148,029	159,946	157,467	176,123
capital expenditures		6,928	4,227	6,470	14,360
long-term debt and lines of credit (1)		21,423	40,753	47,722	50,550
shareholders' equity		86,359	79,077	74,523	85,771
capital employed (3)		102,868	109,661	112,531	131,214
RATIOS & OTHER DATA					
gross profit margin		13.1%	12.5%	9.1%	9.1%
operating income (loss) margin		3.3%	0.3%	(5.9)%	(8.6)%
net income (loss) margin		2.1%	(0.5)%	(4.5)%	(6.2)%
effective income tax rate		(11.2)%	56.1%	40.7%	38.0%
long-term debt to total capital employed ratio (1)		20.8%	37.2%	42.4%	38.5%
operating working capital turnover (5)		5.8	5.3	5.0	4.8
days sales in receivables		37	41	39	35
inventory turnover		5.8	5.7	5.4	5.2
STOCK DATA					
stock price					
high	$	12.30	8.52	5.23	9.10
low		6.12	4.24	3.83	4.20

close	7.53	8.50	4.64	4.70
P/E ratio (2)				
high (4)	29	N.M.	N.M.	N.M.
low (4)	15	N.M.	N.M.	N.M.
daily average trading volume (shares)	38.3	17.8	12.5	21.1

(1) Long-term debt includes long-term and current maturities of long-term debt and lines of cred
(2) P/E ratios based on trailing 12-month net income per share.
(3) Capital employed includes long-term and current maturities of long-term debt, lines of credi equity, offset by cash and cash equivalents.
(4) N.M - Not meaningful
(5) Operating working capital for this calculation is accounts receivable, inventories and offse
(6) The company incurred restructuring and related charges in fiscal 2008, 2007, 2006 and 2005. company's consolidated financial statements
(7) Includes accelerated depreciation of $1.2, $5.0 and $6.0 million for fiscal 2007, 2006 and 2 No accelerated depreciation was recorded in fiscal 2008 and 2004.

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following analysis of the financial condition and results of operations should be read in conjunction with the consolidated financial statements and notes attached thereto.

Overview

The company's fiscal year is the 52 or 53 week period ending on the Sunday closest to April 30. The years ended April 27, 2008, and April 29, 2007, each included 52 weeks. The company's operations are classified into two business segments: mattress fabrics and upholstery fabrics. The mattress fabrics segment primarily manufactures, sources, and sells fabrics to bedding manufacturers. The upholstery fabrics segment sources, manufacturers and sells fabrics primarily to residential and commercial (contract) furniture manufacturers.

The company evaluates the operating performance of its segments based upon income (loss) from operations before restructuring and related charges or credits, certain unallocated corporate expenses, and certain other non-recurring items. Unallocated corporate expenses represent primarily compensation and benefits for certain executive officers and all costs related to being a public company. Segment assets include assets used in the operation of each segment and primarily consist of accounts receivable, inventories, and property, plant and equipment. The mattress fabrics segment also includes in segment assets, assets held for sale, goodwill, and other current and non-current assets associated with the ITG acquisition. The upholstery fabrics segment also includes assets held for sale in segment assets.

The company's net sales for fiscal 2008 increased 1% to $254.0 million, compared with $250.5 million for fiscal 2007. The overall sales increase reflects an increase in mattress fabric sales mostly offset by a decrease in upholstery fabric sales in fiscal 2008. The sales increase in the mattress fabrics segment reflects the incremental sales related to the company's acquisition of ITG's mattress fabrics product line in January 2007 and a shift in the product mix toward knitted fabrics, which have a higher selling price. The sales decline in the upholstery fabrics segment reflects very weak demand industry wide, as well as continued soft demand for U.S. produced upholstery fabrics driven by consumer preference for leather and suede furniture and other imported furniture and fabrics.

The company reported net income of $5.4 million, or $0.42 per share diluted, compared with a net loss of $1.3 million, or $0.11 per share diluted in fiscal 2007. This overall improvement in net income reflects a significant decrease in restructuring and related charges in fiscal 2008 to $2.9 million compared with $8.4 million in fiscal 2007. Also, this overall improvement reflects an increase in operating income in the mattress fabrics segment due to higher sales volume and full plant utilization related to the company's acquisition of ITG' mattress fabrics product line. The results also reflect a decrease in operating income in the upholstery fabrics segment due to the very difficult operating environment for the retail furniture industry, as discretionary consumer spending for furniture continues to be very soft due to a slowing economy, weak housing market and high energy prices.

Results of Operations

The following table sets forth certain items in the company's consolidated statements of net income (loss) as a percentage of net sales.

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	2008	2007	2006
Net sales	100.0%	100.0%	100.0%
Cost of sales	86.9	87.5	90.9
Gross profit	13.1	12.5	9.1
Selling, general and administrative expenses	9.4	10.8	11.1
Restructuring expense	0.3	1.4	3.9
Income (loss) from operations	3.3	0.3	(5.9)
Interest expense, net	1.1	1.4	1.5
Other expense	0.3	0.0	0.2
Income (loss) before income taxes	1.9	(1.2)	(7.6)
Income taxes *	(11.2)	56.1	40.7
Net income (loss)	2.1%	(0.5)%	(4.5)%

* Calculated as a percentage of income (loss) before income taxes.

The following tables set forth the company's sales, gross profit, selling, general, and administrative expenses, and operating income (loss) by segment for the fiscal years ended April 27, 2008, April 29, 2007, and April 30, 2006.

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CULP, INC.
SALES, GROSS PROFIT AND OPERATING INCOME (LOSS) BY SEGMENT
FOR THE TWELVE MONTHS ENDED APRIL 27, 2008 AND APRIL 29, 2007

(Amounts in thousands)

YEARS ENDED

Amounts Percent o

Net Sales by Segment	April 27, 2008		April 29, 2007		% Over (Under)	April 27, 2008
Mattress Fabrics	$ 138,064		107,797		28.1 %	54.3 %
Upholstery Fabrics	115,982		142,736		(18.7)%	45.7 %
Net Sales	$ 254,046		250,533		1.4 %	100.0 %
Gross Profit by Segment						Gross Pr
Mattress Fabrics	$ 22,576		18,610		21.3 %	16.4 %
Upholstery Fabrics	12,829		17,397		(26.3)%	11.1 %
Subtotal	35,405		36,007		(1.7)%	13.9 %
Loss on impairment of equipment	(289)	(1)	-		(100.0)%	(0.1)%
Restructuring related charges	(1,957)	(2)	(4,802)	(4)	(59.2)%	(0.8)%
Gross Profit	$ 33,159		31,205		6.3 %	13.1 %
Selling, General and Administrative expenses by Segment						Percen
Mattress Fabrics	$ 8,457		7,856		7.7 %	6.1 %
Upholstery Fabrics	11,650		15,065		(22.7)%	10.0 %
Unallocated Corporate expenses	3,797		4,051		(6.3)%	1.5 %
Subtotal	23,904		26,972		(11.4)%	9.4 %
Restructuring related charges	69	(2)	58	(4)	19.0 %	0.0 %
Selling, General and Administrative expenses	$ 23,973		27,030		(11.3)%	9.4 %
Operating Income (loss) by Segment						Operating Inco
Mattress Fabrics	$ 14,118		10,754		31.3 %	10.2 %
Upholstery Fabrics	1,180		2,332		(49.4)%	1.0 %
Unallocated corporate expenses	(3,797)		(4,051)		(6.3)%	(1.5)%
Subtotal	11,501		9,035		27.3 %	4.5 %
Loss on impairment of equipment	(289)	(1)	-		(100.0)%	(0.1)%
Restructuring expense and restructuring related charges	(2,912)	(3)	(8,394)	(5)	(65.3)%	(1.1)%
Operating income	$ 8,300		641		N.M.	3.3 %
Depreciation by Segment						

Mattress Fabrics	$ 3,443	3,679	(6.4)%
Upholstery Fabrics	2,105	2,923	(28.0)%
Subtotal	5,548	6,602	(16.0)%
Accelerated Depreciation	-	1,247	(100.0)%
Total Depreciation	$ 5,548	7,849	(29.3)%

(1) The $289 represents impairment losses on older and existing equipment that is being replaced by newer and more efficient equipment. This impairment loss pertains to the mattress fabrics segment.

(2) The $1.9 million restructuring related charge represents $1.0 million for inventory markdowns and $954 for other operating costs associated with closed plant facilities. The $69 restructuring related charge represents other operating costs associated with closed plant facilities.

(3) The $2.9 million represents $1.0 million for inventory markdowns, $1.0 million for other operating costs associated with closed plant facilities, $533 for lease termination and other exit costs, $503 for write-downs of buildings and equipment, $189 for asset movement costs, $23 for employee termination benefits, and a credit of $362 for sales proceeds received on equipment with no carrying value. Of this total charge, $1.9 million was recorded in cost of sales, $69 was recorded in selling, general, and administrative expenses, and $886 was recorded in restrucuturing expense. The total $2.9 restructuring and related charge pertains to the upholstery fabrics segment.

(4) The $4.8 million represents restructuring related charges of $2.4 million for inventory markdowns, $1.2 million for accelerated depreciation, and $1.2 million for other operating costs associated with closed plant facilities. The $58 represents other operating costs associated with closed plant facilities.

(5) The $8.4 million represents restructuring and related charges of $2.4 million for inventory markdowns, $1.5 million for write-downs and buildings and equipment, $1.4 million for asset movement costs, $1.2 million for accelerated depreciation, $1.2 million for other operating costs associated with the closing of plant facilities, $909 for employee termination benefits, $706 for lease termination and other exit costs, and a credit of $930 for sales proceeds received on equipment with no carrying value. Of this total charge, $4.8 million was recorded in cost of sales, $58 was recorded in selling, general, and administrative expenses, and $3.5 million was recorded in restructuring expense. The total $8.4 restructuring and related charge pertains to the upholstery fabrics segment.

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CULP, INC.
SALES, GROSS PROFIT AND OPERATING INCOME (LOSS) BY SEGMENT
FOR THE TWELVE MONTHS ENDED APRIL 29, 2007 AND APRIL 30, 2006

(Amounts in thousands)

	YEARS ENDED				
	Amounts			Percent of To	
Net Sales by Segment	April 29, 2007	April 30, 2006	% Over (Under)	April 29, 2007	A

Mattress Fabrics	$ 107,797		93,688		15.1 %	43.0 %
Upholstery Fabrics	142,736		167,413		(14.7)%	57.0 %
Net Sales	$ 250,533		261,101		(4.0)%	100.0 %
Gross Profit by Segment						Gross Profit
Mattress Fabrics	$ 18,610		13,579		37.0 %	17.3 %
Upholstery Fabrics	17,397		14,909		16.7 %	12.2 %
Subtotal	36,007		28,488		26.4 %	14.4 %
Restructuring related charges	(4,802)	(1)	(4,620)	(4)	3.9 %	(1.9)%
Gross Profit	$ 31,205		23,868		30.7 %	12.5 %
Sales, General and Administrative expenses by Segment						Percent of
Mattress Fabrics	$ 7,856		6,724		16.8 %	7.3 %
Upholstery Fabrics	15,065		15,863		(5.0)%	10.6 %
Unallocated corporate expenses	4,051		3,345		21.1 %	1.6 %
Subtotal	26,972		25,932		4.0 %	10.8 %
Restructuring related charges	58	(2)	3,022	(5)	(98.1)%	0.0 %
Selling, General and Administrative expenses	$ 27,030		28,954		(6.6)%	10.8 %
Operating Income (loss) by Segment						Operating Income
Mattress Fabrics	$ 10,754		6,855		56.9 %	10.0 %
Upholstery Fabrics	2,332		(954)		344.4 %	1.6 %
Unallocated corporate expenses	(4,051)		(3,345)		(21.1)%	(1.6)%
Subtotal	9,035		2,556		253.5 %	3.6 %
Restructuring expense and restructuring related charges	(8,394)	(3)	(17,915)	(6)	(53.1)%	(3.4)%
Operating Income (loss)	$ 641		(15,359)		104.2 %	0.3 %
Depreciation by Segment						
Mattress Fabrics	$ 3,679		3,662		0.5 %	
Upholstery Fabrics	2,923		5,740		(49.1)%	
Subtotal	6,602		9,402		(29.8)%	

Accelerated Depreciation	1,247	4,960	(74.9)%
Total Depreciation	$ 7,849	14,362	(45.3)%

(1) The $4.8 million represents restructuring related charges of $2.4 million for inventory markdowns, $1.2 million for accelerated depreciation, $1.2 million for operating costs associated with the closing of plant facilities.

(2) The $58 represents operating costs associated with the closing of plant facilities.

(3) The $8.4 million represents restructuring and related charges of $2.4 million for inventory markdowns, $1.5 million for write-downs of buildings and equipment, $1.4 million for asset movement costs, $1.2 million for accelerated depreciation, $1.2 million for operating costs associated with the closing of plant facilities, $909 for employee termination benefits, $706 for lease termination and other exit costs, and a credit of $930 for sales proceeds received on equipment with no carrying value. Of this total charge, $4.8 million, $58, and $3.5 million were included in cost of sales, selling, general, and administrative expenses, and restructuring expense, respectively.

(4) The $4.6 million represents restructuring related charges of $2.0 million for inventory markdowns, $1.9 million for accelerated depreciation and $665 for operating costs associated with closing of plant facilities.

(5) The $3.0 million represents accelerated depreciation.

(6) The $17.9 million represents restructuring and related charges of $6.0 million for write-downs of buildings and equipment, $5.0 million for accelerated depreciation, $2.2 million for asset movement costs, $2.0 million for inventory markdowns, $1.7 million for employee termination benefits, $665 for operating costs associated with the closing of plant facilities, and $316 for lease termination and other exit costs. Of this total charge $4.6 million, $3.0 million, and $10.3 million were included in cost of sales, selling, general, and administrative expenses, and restructuring expense, respectively.

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2008 compared with 2007

Restructuring and Related Charges

During fiscal 2008, total restructuring and related charges incurred were $2.9 million, of which $1.0 million related to inventory markdowns, $1.0 million for other operating costs associated with closed plant facilities, $533,000 for lease termination and other exit costs, $503,000 for write-downs of buildings and equipment, $189,000 for asset movement costs, $23,000 for employee termination benefits, and a credit of $362,000 for sales proceeds received on equipment with no carrying value. Of this total charge, $1.9 million was recorded in cost of sales, $69,000 was recorded in selling, general, and administrative expenses, and $866,000 was recorded in restructuring expense in the 2008 Consolidated Statement of Net Income. Of this total charge, $1.4 million and $1.5 million represent cash and non-cash charges, respectively.

During fiscal 2007, total restructuring and related charges incurred were $8.4 million, of which $2.4 million related to inventory markdowns, $1.5 million for write-downs of buildings and equipment, $1.4 million for asset movement costs, $1.2 million for accelerated depreciation, $1.2 million for operating costs associated with closed plant facilities, $909,000 for employee termination benefits, $706,000 for lease termination and other exit costs, and a credit of $930,000 for sales proceeds received on equipment with no carrying value. Of this total charge, $4.8 million was recorded in cost of sales, $58,000 was recorded in selling, general, and administrative expenses, and $3.5 million was recorded in restructuring expense in the 2007 Consolidated Statement of Loss. Of this total charge, $3.3 million and $5.1 million represent cash and non-cash charges, respectively.

A detailed explanation of each of the company's significant restructuring plans for fiscal 2008 and 2007 are presented belo