CULP INC
Form 10-K
July 12, 2012

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 29, 2012

Commission File No. 1-12597

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

NORTH CAROLINA (State or other jurisdiction of incorporation or other organization)	56-1001967 (I.R.S. Employer Identification No.)
1823 Eastchester Drive, High Point, North Carolina (Address of principal executive offices)	27265 (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

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 o 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 o 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 o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

YES x NO o

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 o	Accelerated Filer x	Non-Accelerated Filer o
	Smaller Reporting Company o	

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

As of April 29, 2012, 12,702,806 shares of common stock were outstanding. As of October 30, 2011, the aggregate market value of the voting stock held by non-affiliates of the registrant on that date was $87,350,477 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 registrant'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 18, 2012 are incorporated by reference into Part III of this Form 10-K.

CULP, INC.
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CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING INFORMATION

Parts I and II of this report contain "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 n limited to statements about expectations for the company's future operations, production levels, sales, gross profit margins, operating income, SG&A or other expenses, earnings, other performance measures, 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 our 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. Changes in consumer tastes or preferences toward products not produced by us could erode demand for our products. Changes in the value of the U.S. dollar versus other currencies could affect our financial results because a significant portion of our operations are located outside the United States. Strengthening of the U.S. dollar against other currencies could make our 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 our sales in the U.S. of products produced in those places. Also, economic and political instability in international areas could affect our operations or sources of goods in those areas, as well as demand for our products in international markets. Further information about these factors, as well as other factors that could affect our 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.

PART 1

ITEM 1. BUSINESS

Overview

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

We believe 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. We have two operating segments — mattress fabrics and upholstery fabrics. The mattress fabric business markets fabrics that are used primarily in the production of bedding products, including mattresses, box springs, and mattress sets. The upholstery fabric business markets a variety of fabric products that 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.

Culp markets a variety of fabrics in different categories to its global customer base, including fabrics produced at our manufacturing facilities and fabrics produced by other suppliers. We had twelve active manufacturing plants and distribution facilities as of the end of fiscal 2012, which are located in North and South Carolina; Quebec, Canada; Shanghai, China; and Poznan, Poland. We also source fabrics from other manufacturers, located primarily in China and Turkey, with almost all of those fabrics being produced specifically for Culp and created by Culp designers. We operate distribution centers in North Carolina, and Shanghai, China, to facilitate distribution of our products, and early last year we opened a new distribution facility in Poznan, Poland. In recent years, the portion of total company sales represented by fabrics produced outside of the U.S. and Canada has increased, while sales of goods produced in the U.S. have decreased. This trend is due primarily to the upholstery fabrics segment, where more than 85% of our sales now consist of fabrics produced in China.

Total net sales in fiscal 2012 were $254.4 million. The mattress fabrics segment had net sales of $145.5 million (57.2% of total net sales), while the upholstery fabrics segment had net sales of $108.9 million (42.8% of total net sales).

During fiscal 2011, our business was affected by continued weak business conditions, especially slow sales of home furnishings. In addition, both segments were significantly affected by higher raw material prices during the year, which led to an overall decline in profit margins. In spite of these conditions, the company had an overall increase in sales of five percent compared to the prior year, as well as higher pre-tax and net income.

Weak business conditions and slow sales of home furnishings, especially during the first half of the fiscal year, continued to affect our business during fiscal 2012. However, industry demand improved somewhat compared to the prior year, and we also had more positive responses from customers to innovative designs and new products introduced during the year. Sales increased in both our business segments, increasing 19% in mattress fabrics and 15% in upholstery fabrics. These sales levels represent our third consecutive year of increased revenues, and our fiscal 2012 net sales were the highest level in the past six years.

During fiscal 2012, both segments continued to build upon strategic initiatives and structural changes they made over the last several years. The platforms created through these changes allowed for a sharp focus on product innovation and introduction of new designs to drive sales growth and keep current with home furnishing trends.

The mattress fabrics segment has invested $57 million over an eight year period in significant capital expenditures and acquisitions. These expenditures provided increased manufacturing capacity and more efficient equipment for this segment, as well as two successful acquisitions. Most recently, this segment announced a new joint marketing agreement to market sewn mattress covers, which will include establishment of a small production facility.

The upholstery fabrics segment underwent major changes over the past decade, transforming from a primarily U.S.-based manufacturing operation with large amounts of fixed assets to a more flexible variable cost model, with most fabrics sourced in China, while still maintaining control over the value-added components of fabric production such as design, finishing, quality control and distribution. These changes involved a multi-year restructuring process that ended in fiscal 2009, during which time our upholstery fabric sales declined considerably. The trend of declining upholstery sales has reversed, and sales in this segment have now increased for each of the past three fiscal years. Since the end of the multi-year restructuring, we have focused on product development and marketing, including the exploration of new markets. A part of this effort has been the establishment of a new marketing and distribution operation in Poland, known as Culp Europe, which accounted for about three percent of upholstery sales last year.

Additional information about trends and developments in each of our business segments is provided in the “Segments” discussion below.

General Information

Culp, Inc. was organized as a North Carolina corporation in 1972 and made its initial public offering in 1983. Since 1997, our stock 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.culp.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.

Segments

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

Sales by Fiscal Year ($ in Millions) and Percentage of Total Company Sales

Segment	Fiscal 2012	Fiscal 2011	Fiscal 2010
Mattress Fabrics	$145.5 (57%)	$122.4 (56%)	$114.8 (56%)
Upholstery Fabrics			
Non-U.S.-Produced	$95.5 (38%)	$81.2 (37%)	$77.3 (37%)
U.S.-Produced	$13.4 (5%)	$13.2 (6%)	$14.3 (7%)
Total Upholstery	$108.9 (43%)	$94.4 (44%)	$91.6 (44%)
Total company	$254.4 (100%)	$216.8 (100%)	$206.4 (100%)

Additional financial information about our operating segments can be found in Note 18 to the Consolidated Financial Statements included in Item 8 of this report.

Mattress Fabrics. The mattress fabrics segment, known as Culp Home Fashions in the industry, manufactures and markets mattress fabric to bedding manufacturers. These fabrics encompass woven jacquard fabric, knitted fabric and some upholstery type fabrics. Culp Home Fashions has manufacturing facilities located in Stokesdale and High Point, North Carolina, and St. Jerome, Quebec, Canada. The Stokesdale and St. Jerome plants manufacture jacquard (damask) fabric. The Stokesdale plant also finishes jacquard and knit fabric, and houses the division offices and finished goods distribution capabilities. In fiscal 2009, a third manufacturing plant facility was added when we acquired the knitted mattress fabrics business of Bodet & Horst USA, including its manufacturing facilities in High Point. We have also maintained flexibility in our supply of the major categories of mattress fabrics. Almost all woven jacquard and knitted fabrics can be produced in multiple facilities, (internal or external to the company) providing us with mirrored, reactive capacity involving state-of-the-art capabilities across plant facilities.

Culp Home Fashions had capital expenditures during the period fiscal 2005 through 2012 totaling approximately $38 million, which primarily provided for the purchase of faster and more efficient weaving machines as well as increased knit machine capacity. These capital expenditures also provided high technology finishing equipment for woven and knitted fabric. With most of these modernization and expansion projects completed, we expect lower capital expenditures in the near term for this segment.

The Bodet & Horst USA, LP acquisition in fiscal 2009 was another step to enhance and secure our competitive position, as we invested $11.4 million to purchase the manufacturing operation that had been serving as our primary source of knitted mattress fabric. The completion of this acquisition not only secured our supply of knitted mattress fabrics, but allowed for improved supply logistics, greater control of product development, and accelerated responsiveness to our customers. Since the acquisition, we made further investments in knitting machines and finishing equipment, increasing our internal production capacity substantially.

Our recently announced joint marketing agreement for the production and marketing of sewn mattress covers represents a further step in our efforts to respond to industry demands. The CHF division has established a new venture to be known as Culp-Lava Applied Sewn Solutions, which is a joint marketing effort with A. Lava & Son Co. of Chicago, a leading provider of mattress covers. We are establishing a small manufacturing operation near our current plants in North Carolina, which will involve leased space and a limited capital investment in equipment, to produce and market sewn mattress covers, a growing product category in the bedding industry. Teaming with A. Lava & Son allows us to have two mirrored manufacturing facilities and great flexibility in meeting demand from bedding producers for mattress covers.

Upholstery Fabrics. The upholstery fabrics segment markets a wide variety of fabrics for residential and commercial furniture customers. The upholstery fabrics 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. In each of the past two fiscal years, sales of non-U.S. produced upholstery accounted for more than 85% of our upholstery fabric sales.

Demand for U.S.-produced upholstery declined significantly over the past decade, and we took aggressive steps to reduce our U.S. manufacturing costs, capacity, and selling, general and administrative expenses. These restructuring actions reduced our U.S. upholstery operations to the one manufacturing plant in South Carolina and one upholstery distribution facility in Burlington, North Carolina.

During the time that U.S. upholstery operations were being reduced, we established operations in China and gradually expanded them over time to include a variety of activities. The facilities near Shanghai now include fabric sourcing, finishing, quality control and inspection operations, as well as a plant where sourced fabrics are cut and sewn into "kits" made to specifications of furniture manufacturing customers. More recent developments in our China operations include expansion of our product development and design capabilities in China and further strengthening of key strategic partnerships with mills. We also expanded our marketing efforts to sell our China products in countries other than the U.S., including the Chinese local market.

We established a new subsidiary during fiscal 2011 called Culp Europe, which is a marketing and distribution operation based in Poland, in an area with a high concentration of furniture suppliers. This operation targets furniture manufacturers in the European market. We view this market as a significant long-term opportunity for growth, with high living standards, fashion conscious consumers, and short replacement cycles for upholstered furniture. Culp Europe accounted for approximately 3% for our upholstery sales in fiscal 2012.

Over the past decade, we have moved our upholstery business from one that relied on a large fixed capital base that is difficult to adjust to a more flexible and scalable marketer of upholstery fabrics that meets changing levels of customer demand and tastes for various products. At the same time, we have maintained control of the most important "value added" aspects of our business, 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.

Even as economic conditions and furniture demand remained relatively weak during fiscal 2012, our upholstery fabrics sales increased for the third consecutive year. These gains reversed a ten year trend of declining upholstery sales that ended with fiscal 2009, as we substantially overhauled our operating model. We believe our increased sales in the upholstery fabrics segment were achieved primarily through implementation of a business strategy that included: 1) innovation in a low-cost environment, 2) speed to market execution, 3) consistent quality, 4) reliable service and lead times, and 5) increased recognition of and reliance on the Culp brand. A return to profitability in upholstery fabrics has been achieved through development of a unique business model that has enabled the upholstery segment to execute a strategy that we believe is clearly differentiated from competitors. In this way, we have maintained our ability to provide furniture manufacturers with products from every category of fabric used to cover upholstered furniture, and to meet continually changing demand levels and 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 furniture industry and, to a lesser extent, the commercial furniture industry. The residential furniture market includes upholstered furniture sold to consumers for household use, including sofas, sofa-beds, chairs, recliners, loveseats, sectionals, and office seating. 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. Currently the vast majority of our products are sold to manufacturers for end use in the U.S., and thus the discussions below are focused on U.S. markets.

Overview of Bedding Industry

In calendar 2010 and 2011, the bedding industry experienced gains in both dollar and unit sales, reversing a recent trend of declining sales over several years prior to that. According to the International Sleep Products Association (ISPA), a trade association, the U.S. wholesale bedding industry increased dollar sales by 7.7% to 6.3 billion in 2011. Unit volume sales increased only slightly (0.2%) in 2011 compared to 2010, having experienced a 6.2% increase the previous year after four years of declines. Specialty bedding manufacturers, which produce mattresses that do not use inner spring construction, now account for about 30% of bedding dollar sales, but only 14% of the unit volume in the industry. This category of bedding, which has a higher average selling price, has continued to increase its share of total bedding sales, according to industry statistics. ISPA also reported that overall average unit prices in the bedding industry increased 7.5% in 2011, reversing a trend of declines in the prior two years.

The bedding industry is comprised of several hundred manufacturers, but the largest five manufacturers accounted for more than 70% of total wholesale shipments in 2011, while the top fifteen accounted for approximately 86%. Until recently, the industry has been mature and stable, generally experiencing slow and steady growth in sales. However, during the past few years sales have been more unpredictable, as the economic downturn caused two years of sales declines, followed by a return to growth in 2010. On a long-term basis, the stability of this market has been due in part to replacement purchases, which account for the majority of bedding industry sales.

Unlike the residential furniture industry, which has faced intense competition from imports, the U.S. bedding industry has largely remained a North American based business with limited competition from imports. Imports of bedding into the U.S. have increased in recent years, but imports still represent only a small fraction of total U.S. bedding sales. The primary reasons for this fact include: 1) the short lead times demanded by mattress manufacturers and retailers due to their quick service delivery model, 2) the limited inventories carried by manufacturers and retailers requires “just-in-time” delivery of product, 3) the customized nature of each manufacturer and retailer’s product lines, 4) high shipping and import duty costs, 5) the relatively low direct labor content in mattresses, and 6) strong brand recognition and importance.

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 upgrade their bedding.

While mattress fabrics serve the functional purpose of providing a soft and durable cover, there is a growing emphasis on the design knitted or woven into the fabrics to appeal to the customer's visual attraction and perceived value of the mattress on the retail floor. Mattress fabric design efforts are based on current trends in home decor and fashion.

Growth in non-traditional sources for retail mattress sales is now an important factor in home furnishings sales. These outlets, such as wholesale warehouse clubs and the internet, have the potential to increase overall consumption of goods due to convenience and high traffic volume which in turn result in higher turnover of product.

Increased popularity of knitted fabric has continued. Knitted fabric was initially used primarily on premium mattresses, but these products are now being placed increasingly on mattresses at mid-range retail price points.

Overview of Residential Furniture Industry

The residential furniture industry was severely affected by the global economic downturn and experienced significant declines in sales for 2008 and 2009 due to lower consumer spending and a very weak housing market. U.S. sales of residential furniture rebounded during the past two years and equaled $15.1 billion in 2011. This level represents a 4.4% increase from 2010, but is still far below sales levels experienced in the years prior to 2008. According to data published by the American Home Furnishings Alliance (AHFA), a trade association, before 2008 the residential furniture industry was mature and more stable, with generally modest yearly changes in sales levels that were at or below the overall growth rate of the U.S. economy. However, shipments declined by 14.8% in 2008 compared to the prior year, and in 2009 retail furniture shipments dropped 18.1% compared to 2008. Although industry sales appeared to have stabilized over the past two years, overall weak demand for residential furniture has continued to affect the industry, creating significant challenges for suppliers to the residential furniture industry.

Other important 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. By far, the largest source for these imports continues to be China, which now accounts for approximately 56% of total U.S. furniture imports.

Imports of upholstery fabric, both in roll and in "kit" form, have increased 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 to twelve years. This trend has increased over the last seven years in large part because selling prices of leather furniture have been declining significantly over this time period.

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.

Overview of Commercial Furniture Industry

The market for commercial furniture - furniture used in offices and other institutional settings - grew approximately 13% from 2010 to 2011, following a 5.8% increase the previous year. The increases in 2010 and 2011 reflect 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 $9.4 billion in 2011 in wholesale shipments by manufacturers, an increase from the $8.3 billion total for 2010. However, this total 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 about 56-57% of our total net sales in each of the past three fiscal years. The company has emphasized fabrics that have broad appeal at prices generally ranging from $1.29 to $10.99 per yard.

Upholstery Fabrics Segment

Upholstery fabrics segment sales totaled 43-44% of our sales for each of the past three fiscal years. The company has emphasized fabrics that have broad appeal at "good" and "better" prices, generally ranging from $4.25 to $5.25 per yard.

Culp Fabric Categories by Segment

We market products in most 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.

Mattress Fabrics

Woven jacquards	Various patterns and intricate designs. Woven on complex looms using a variety of synthetic and natural yarns.
Upholstery-type	Suedes, pile and embroidered fabrics, and other specialty type products are sourced to offer diversity for higher end mattresses.
Knitted Fabric	Various patterns and intricate designs produced on special-width circular knit machines utilizing a variety of synthetic and natural yarns. Knitted mattress fabrics have inherent stretching properties and spongy softness, which 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, by weaving 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 three manufacturing plants, located in Stokesdale, North Carolina; High Point, North Carolina and St. Jerome, Quebec, Canada. Over the past eight fiscal years, we made capital expenditures of approximately $38 million to consolidate all of our production of woven jacquards, or damask fabric, to these plants and to modernize the equipment, enhance and provide finishing capabilities and expand capacity in each of these facilities. The result has been an increase in manufacturing efficiency and reductions in operating costs. Jacquard mattress fabric is woven at the Stokesdale and St. Jerome plants, and knitted fabrics are produced at the High Point facility. Most finishing and inspection processes for mattress fabrics are conducted at the Stokesdale plant.

In addition to the mattress fabrics we manufacture, we have important supply arrangements in place that allow us to source mattress fabric from strategic suppliers. 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 sourcing certain converted fabric products (such as suedes, pile fabrics and embroidered fabrics) through our China platform.

We recently announced a new joint marketing arrangement with a producer of sewn mattress covers for bedding. This effort will result in the establishment of an additional manufacturing facility to produce and market sewn mattress covers.

Upholstery Fabrics Segment

We currently operate one upholstery manufacturing facility in the U.S. and three 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 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.

A large portion of our upholstery fabric products, as well as certain elements of our production processes, are 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 certain 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. We source unfinished and finished fabrics from a limited number of strategic suppliers in China who are willing to commit significant capacity to meet 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.

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.

Mattress Fabrics Segment

Design is an increasingly important element of producing mattress fabrics. Price point delineation is accomplished through fabric quality as well as variation in design. Additionally, consumers are drawn to the mattress that is most visually appealing when walking into a retail showroom. Fibers also play an important part in design. For example, rayon, organic cotton and other special fibers are incorporated into the design process to allow the retailer to offer consumers additional benefits related to their sleeping experience. Similarly, many fabrics contain special production finishes that enhance fabric performance. Mattress fabric designs are not introduced on a scheduled season. Designs are typically introduced upon the request of customer as they plan introduction to their retailers. Additionally, we work closely with our customers on new design offerings around the major furniture markets such as High Point and Las Vegas.

Upholstery Fabrics Segment

The company has developed an upholstery fabrics design and product development team (with staff located in the U.S. and in China) with focus on designing for value primarily on body cloths, while promoting style leadership with pillow fabrics and color. The team searches continually for new ideas and for the best sources of raw materials, yarns and fabrics, utilizing a China supply network. Using these design elements, they develop product offerings using ideas and materials which take 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). In recent years we have become more aggressive in registering copyrights for popular fabric patterns and taking steps to discourage the illegal copying of our proprietary designs.

Distribution

Mattress Fabrics Segment

All of our shipments of mattress fabrics originate from our manufacturing facility in Stokesdale, North Carolina. 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. Also, we are now beginning to distribute upholstery fabrics from our new facilities in Poznan, Poland. In addition to “make to order” distribution, an inventory comprising of a limited number of fabric patterns is held at our distribution facilities in Burlington and Shanghai from which our customers can obtain quick delivery of fabrics through a program known as “Culp Express.” We also have a marketing strategy for our U.S.-produced upholstery products, providing customers with very quick delivery on target products at key price points. Beginning in fiscal 2010 and continuing through fiscal 2012, market share opportunities have been expanded through strategic selling partnerships.

Sources and Availability of Raw Materials

Mattress Fabrics Segment

Raw materials account for approximately 60%-70% of mattress fabric production costs. The mattress fabrics segment purchases synthetic yarns (polypropylene, polyester and rayon), 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, although increases in raw material prices materially affected our profitability during the past two fiscal years.

Upholstery Fabrics Segment

Raw materials account for approximately 65% 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.

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. Significant increases in raw material prices had a negative effect on our upholstery fabrics profits during the past two fiscal years.

Both Segments

Many of our basic raw materials are petrochemical products or are produced from such products. For this reason, our material costs can be sensitive to changes in prices for petrochemicals and the underlying price of oil. Additionally, basic raw material prices recently have been greatly affected recently by general worldwide demand, especially fiber demand from China.

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.

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Upholstery Fabrics Segment

The upholstery fabrics business is somewhat seasonal, with increased sales during our first and fourth fiscal quarters. Sales also tend to be lower in our second fiscal quarter.

Competition

Competition for our 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., 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, Morgan Fabrics, and Specialty Textile, Inc. (or STI), plus a large number of smaller competitors (both manufacturers and converters).

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.

The U.S. Congress is currently considering legislation to address climate change that is intended to reduce overall green house gas emissions, including carbon dioxide. In addition, the U.S. Environmental Protection Agency has made a determination that green house gas emissions may be a threat to human health and the environment. International agreements may also result in new regulations on green house gas emissions. It is uncertain if, when, and in what form, a mandatory carbon dioxide emissions reduction program may be enacted either through legislation or regulation. However, if enacted, this type of program could materially increase our operating costs, including costs of raw materials, transportation and electricity. It is difficult to predict the extent to which any new rules or regulations would impact our business, but we would expect the effect on our operations to be similar to that for other manufacturers, particularly those in our industry.

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 29, 2012, we had 1,114 employees, compared to 1,149 at the end of fiscal 2011. Overall, our total number of employees has remained fairly steady over the past five years, with increases in the mattress fabrics segment and decreases in the upholstery segment during that period.

The hourly employees at our manufacturing facility in Canada (approximately 14% of the company's workforce) are represented by a local, unaffiliated union. The collective bargaining agreement for these employees expires on February 1, 2014. 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 fiscal years.

	Number of Employees				
	Fiscal 2012	Fiscal 2011	Fiscal 2010	Fiscal 2009	Fiscal 2008
Mattress Fabrics Segment	492	466	439	420	373
Upholstery Fabrics Segment					
United States	113	130	125	119	230
China	497	543	537	504	481
Poland	8	6	-	-	-
Total Upholstery Fabrics Segment	618	679	662	623	711
Unallocated corporate	4	4	4	4	3
Total	1,114	1,149	1,105	1,047	1,087

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 two largest customers in the mattress fabrics segment are (1) the parent company of Serta and Simmons (controlled by Ares Management, LLC and Ontario Teachers&apos), accounting for approximately 12% of the company's overall sales in fiscal 2012, and (2) Sealy, Inc., accounting for approximately 10% of our overall sales last year. The loss of either of these customers would have a material adverse effect on the company. 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, Best Home Furnishings, Flexsteel, Furniture Brands International (Broyhill and Lane), Klaussner Furniture, La-Z-Boy (La-Z-Boy Residential, Bauhaus, and England) Man Wah Furniture and Southern Motion. Major customers for the company's fabrics for commercial furniture include 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 13% of the company's total net sales in fiscal 2012.

The following table sets forth our 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 2012		Fiscal 2011		Fiscal 2010	
United States	$ 200,394	78.8 %	$ 168,212	77.5 %	$ 160,360	77.7 %
North America (Excluding USA)	10,417	4.1	10,505	4.8	11,654	5.6
Far East and Asia	38,279	15.0	36,587	17.0	31,856	15.4
All other areas	5,353	2.1	1,502	0.7	2,546	1.2
Subtotal (International)	54,049	21.2	48,594	22.5	46,056	22.3
Total	$ 254,443	100.00 %	$ 216,806	100.0 %	$ 206,416	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 29, 2012 the portion of the upholstery fabric backlog with confirmed shipping dates prior to June 3, 2012 was $12.2 million, all of which are expected to be filled early during fiscal 2013, as compared to $8.0 million as of the end of fiscal 2011 (for confirmed shipping dates prior to June 5, 2011).

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.

Continued economic weakness could negatively affect 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 can cause a decrease in our sales and earnings. Continuing weak economic conditions have caused a decrease in consumer spending and demand for home furnishings, including goods that incorporate our products. If these conditions persist, our business will be negatively affected.

It has been difficult to maintain and increase sales levels in the upholstery fabrics segment.

Although sales have stabilized in recent years for our upholstery fabrics segment, we experienced declines in sales for this business for many years prior to the last three fiscal years. Increased competition and fragmentation of the upholstery fabrics business, including a dramatic shift to imported fabrics and resulting price deflation for upholstery fabrics, have led to a significant reduction in the size of our upholstery business. Opportunities for growth and profitability gains for this segment are encouraging, but there is no assurance that we will be able to maintain or consistently grow this business in the future.

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.

We now rely significantly on operations in distant locations, particularly 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 us 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 our financial results because a significant portion of our operations are located outside the United States. Strengthening of the U.S. dollar against other currencies can have a negative impact on our 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 for products and services.

We rely 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 or 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. ASC Topic 360 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. ASC Topic 350 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. 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. Although no significant write-downs were experienced in the past three fiscal years, there is no assurance that future write-downs of fixed assets or goodwill will not occur if business conditions deteriorate.

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 market prices for certain fibers and yarns had a material adverse impact on our profit margins during fiscal 2011 and 2012. Although some of our raw material costs have recently begun to stabilize, higher raw material prices can have a negative effect on our profits in the future.

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. Energy costs have varied significantly during recent fiscal years, and remain a volatile element of our costs. 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 fabrics segment, several large bedding manufacturers have large market shares and comprise a significant portion of our mattress fabric sales, with the parent company of Serta (National Bedding) and Simmons accounting for approximately 12% of consolidated net sales, and Sealy, Inc. accounting for approximately 10% of net sales, in fiscal 2012. In the upholstery fabrics segment, La-Z-Boy Incorporated accounted for approximately 13% of consolidated net sales during fiscal 2012, 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.

Loss of market share due to competition would result in declines in sales and could result in 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 of upholstery fabrics have decreased significantly over the past ten fiscal 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 changes 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.

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 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.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Our headquarters are located in High Point, North Carolina. As of the end of fiscal 2012, we owned or leased twelve active manufacturing and distribution facilities and our corporate headquarters. The following is a list of our principal administrative, manufacturing and distribution facilities. The manufacturing facilities and distribution centers are organized by segment.

Location	Principal Use	Approx. Total Area (Sq. Ft.)	Expiration of Lease (1)
Administrative:			
High Point, North Carolina	Upholstery fabric division offices and corporate headquarters	29,812	2025
Mattress Fabrics:			
Stokesdale, North Carolina	Manufacturing, distribution, and division offices	230,000	Owned
Stokesdale, North Carolina (2)	Warehouse	30,800	-
High Point, North Carolina (2)	Manufacturing	63,522	-
High Point, North Carolina	Warehouse and offices	65,886	2014
St. Jerome, Quebec, Canada	Manufacturing	202,500	Owned
Upholstery Fabrics:			
Anderson, South Carolina	Manufacturing	99,000	Owned
Burlington, North Carolina	Finished goods distribution	67,330	2012
Shanghai, China	Manufacturing and offices	69,000	2013
Shanghai, China	Manufacturing and warehousing	90,000	2015
Shanghai, China	Manufacturing and warehousing	101,632	2013
Shanghai, China	Warehouse	12,917	2013
Poznan, Poland	Finished goods distribution	26,160	2015

(1) Includes all options to renew.
(2) This lease agreement is currently on a month to month basis.

We believe that our facilities are in good condition, well-maintained and suitable and adequate for present utilization. In the upholstery fabrics segment, we have the ability to source upholstery fabric from outside suppliers to meet current and expected demand trends and further increase our output of finished goods. This ability to source upholstery fabric is part of our long-term strategy to have a low-cost platform that is scalable, but not capital intensive. In the mattress fabrics segment, management has estimated that it is currently performing at near capacity. In response, we had capital expenditures of $17.2 million in fiscal 2012, 2011 and 2010 for modernizing and expanding our woven and knit capacities. Also, we have the ability to source additional mattress fabric from outside suppliers to further increase our ultimate output of finished goods.

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ITEM 3. LEGAL PROCEEDINGS

A lawsuit was filed against us 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., we leased and operated the Site as part of our 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, plus unspecified future environmental costs. We understand that the USEPA’s costs now exceed $13 million, but are not expected to increase significantly in the future. Neither USEPA nor any other governmental authority has asserted any claim against us on account of these matters. The plaintiffs seek contribution from us 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 plaintiffs also assert that we tortiously interfered with contracts between them and other defendants in the case and diverted assets to prevent the plaintiffs from being paid monies owed to them. We do not believe we have any liability for the matters described in this litigation and intend to defend ourselves vigorously. In addition, we have an indemnification agreement with certain other defendants in the litigation pursuant to which the other defendants agreed to indemnify us for any damages we incur as a result of the environmental matters that are the subject of this litigation, although it is unclear whether the indemnitors have significant assets at this time. Since the loss is not probable and cannot be estimated, no reserve has been recorded.

ITEM 4. MINE SAFETY DISCLOSURE

Not applicable.

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/investor

Stock Listing

Culp, Inc. common stock is traded on the New York Stock Exchange ("NYSE") under the symbol CFI. As of April 29, 2012, Culp, Inc. had approximately 1,775 shareholders based on the number of holders of record and an estimate of individual participants represented by security position listings.

Analyst Coverage

These analysts cover Culp, Inc.:

Raymond, James & Associates - Budd Bugatch, CFA

Value Line – Craig Sirois

Sidoti & Company, LLC – Steve Shaw

Dividends and Share Repurchases; Sales of Unregistered Securities

Share Repurchases

ISSUER PURCHASES OF EQUITY SECURITIES

	(a)	(b)	(c)	(d)
Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (1) (2)
January 30, 2012 to March 4, 2012	-	$ -	-	$1,617,983
March 5, 2012 to April 1, 2012	-	$ -	-	$1,617,983

April 2, 2012 to April 29, 2012	-	$ -	-	$1,617,983
Total	-	$ -	-	$1,617,983

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(1) On June 16, 2011, our board of directors authorized the expenditure of $5.0 million for the repurchase of our common stock. On August 29, 2011, our board of directors authorized the expenditure of an additional $2.0 million (a cumulative total of $7.0 million) for the repurchase of our common stock. The amounts determined in column (d) above are based on the cumulative authorized amount of $7.0 million as of August 29, 2011.

(2) On June 13, 2012, we announced that our board of directors approved a new authorization for us to acquire up to $5.0 million of our common stock. This action replaces the authorization to acquire up to $7.0 million of our common stock noted in footnote 1 above.

Dividends

We did not pay any cash dividends during fiscal 2012, 2011, and 2010.

On June 13, 2012, we announced that our board of directors approved the payment of a quarterly cash dividend of $0.03 per share, to be paid on or about July 16, 2012, to shareholders of record as of the close of business on July 2, 2012. We anticipate paying a cash dividend each quarter, with expected payment dates in October, January, April, and July. Future dividend payments are subject to board approval and may be adjusted at the board's discretion as business needs or market conditions change.

Sales of Unregistered Securties

There were no sales of unregistered securities during fiscal 2012, 2011, or 2010.

Performance Comparison

The following graph shows changes over the five fiscal years ending April 29, 2012 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 twelve 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 2007 and the reinvestment of all dividends during the periods identified.

Market Information

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

ITEM 6. SELECTED FINANCIAL DATA

(amounts in thousands)	fiscal 2012	fiscal 2011	fiscal 2010	fiscal 2009	fiscal 2008	percent change 2012/2011
INCOME (LOSS) STATEMENT DATA						
net sales	$254,443	216,806	206,416	203,938	254,046	17.4 %
cost of sales (5)	214,711	179,966	167,639	179,286	220,887	19.3
gross profit	39,732	36,840	38,777	24,652	33,159	7.9
selling, general, and administrative expenses (5)	25,026	21,069	22,805	19,751	23,973	18.8
restructuring expense (credit) (5)	-	28	(370)	9,471	886	(100.0)
income (loss) from operations	14,706	15,743	16,342	(4,570)	8,300	(6.6)
interest expense	780	881	1,314	2,359	2,975	(11.5)
interest income	(508)	(240)	(116)	(89)	(254)	111.7
other expense	236	40	828	43	736	490.0
income (loss) before income taxes	14,198	15,062	14,316	(6,883)	4,843	(5.7)
income taxes	902	(1,102)	1,128	31,959	(542)	N.M.
net income (loss)	$13,296	16,164	13,188	(38,842)	5,385	(17.7)
depreciation (6)	$4,865	4,372	4,010	6,712	5,548	11.3
weighted average shares outstanding	12,711	12,959	12,709	12,651	12,624	(1.9)
weighted average shares outstanding, assuming dilution	12,866	13,218	13,057	12,651	12,765	(2.7)
PER SHARE DATA						
net income (loss) per share - basic	$1.05	1.25	1.04	(3.07)	0.43	(16.1)
net income (loss) per share - diluted	1.03	1.22	1.01	(3.07)	0.42	(15.5)
book value	$7.00	6.06	4.83	3.76	6.83	15.5
BALANCE SHEET DATA						
operating working capital (4)	$30,596	23,921	22,979	23,503	38,368	27.9 %
property, plant and equipment, net	31,279	30,296	28,403	24,253	32,939	3.2
total assets	144,716	130,051	112,598	95,294	148,029	11.3
capital expenditures	5,919	6,302	7,397	3,160	6,928	(6.1)
long-term debt, current maturities of long-term debt and line of credit (1)	10,012	11,547	11,687	16,368	21,423	(13.3)
shareholders' equity	89,000	80,341	63,047	48,031	86,359	10.8
capital employed (3)	67,887	62,521	57,296	56,659	75,036	8.6
RATIOS & OTHER DATA						
gross profit margin	15.6 %	17.0 %	18.8 %	12.1 %	13.1 %	
operating income (loss) margin	5.8 %	7.3 %	7.9 %	(2.2)%	3.3 %	
net income (loss) margin	5.2 %	7.5 %	6.4 %	(19.0)%	2.1 %	

effective income tax rate	6.4 %	(7.3)%	7.9 %	(464.3)%	(11.2)%
debt to total capital employed ratio (1)	14.7 %	18.5 %	20.4 %	28.9 %	28.6 %
operating working capital turnover (4)	8.9	8.8	9.0	6.4	5.8
days sales in receivables	36	34	35	32	37
inventory turnover	6.6	6.6	6.7	6.0	5.8
STOCK DATA					
stock price					
high	$11.81	14.10	16.98	7.91	12.30
low	7.05	6.56	3.50	1.30	6.12
close	11.05	10.08	11.94	4.40	7.53
P/E ratio (2)					
high	11	12	17	N.M.	29
low	7	5	3	N.M.	15
daily average trading volume (shares)	30.6	58.0	80.1	19.2	38.3

(1) Debt includes long-term and current maturities of long-term debt and line of credit.

(2) P/E ratios based on trailing 12-month net income per share.

(3) Capital employed represents long-term and current maturities of long-term debt, lines of credit, current and noncurrent deferred income tax liabilities, current and long-term income taxes payable, stockholders' equity, offset by cash and cash equivalents, short-term investments, current and noncurrent deferred income tax assets, and income taxes receivable.

(4) Operating working capital for this calculation is accounts receivable and inventories, offset by accounts payable-trade and capital expenditures.

(5) The company incurred restructuring and related charges (credits) in fiscal 2008 through 2011. See note 2 of the company's consolidated financial statements.

(6) Includes accelerated depreciation of $2.1 in fiscal 2009. No accelerated depreciation was recorded in fiscal 2012, 2011, 2010, and 2008.

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.

General

Our fiscal year is the 52 or 53 week period ending on the Sunday closest to April 30. Fiscal 2012, 2011 and 2010 each included 52 weeks. Our operations are classified into two business segments: mattress fabrics and upholstery fabrics. The mattress fabrics segment 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.

We evaluate the operating performance of our segments based upon income from operations before restructuring and related charges (credits), certain unallocated corporate expenses, and other non-recurring items. Cost of sales in both segments include costs to manufacture or source our products, including costs such as raw material and finished goods purchases, direct and indirect labor, overhead and incoming freight charges. Unallocated corporate expenses primarily represent 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 non-compete agreements associated with certain acquisitions. The upholstery fabrics segment also includes assets held for sale in segment assets.

Executive Summary

Net sales were $254.4 million in fiscal 2012, an increase of 17.4%, compared with $216.8 million for fiscal 2011. Also, net sales were $75.7 million in the fourth quarter of fiscal 2012, an increase of 25.4%, compared with $60.4 million in the fourth quarter of fiscal 2011. The $75.7 million reported in the fourth quarter of fiscal 2012 is the highest quarterly net sales level in eight years. These results reflect improved industry demand and the benefits of our outstanding design capabilities and lean global manufacturing platform.

Income before income taxes was $14.2 million in fiscal 2012, a decrease of 5.7% compared with $15.1 million in fiscal 2011. Despite the increase in net sales, income before income taxes declined primarily because of significant increases in raw material costs in both business segments and higher selling, general, and administrative expenses (SG&A). To help partially offset the increased raw material costs, we implemented price increases in both business segments. While the increased raw material costs affected our operating margins for the full fiscal year for 2012, raw material prices stabilized in the fourth quarter of fiscal 2012.

SG&A was higher in fiscal 2012 compared to fiscal 2011 due to start-up expenses associated with our Culp Europe operations and an increase in incentive compensation accruals reflecting stronger financial results in relation to pre-established performance targets. SG&A as a percent of net sales was 9.8% and 9.7% in fiscal 2012 and 2011, respectively.

We reported net income of $13.3 million, or $1.03 per diluted share, in fiscal 2012 compared with net income of $16.2 million, or $1.22 per diluted share, in fiscal 2011. Net income for fiscal 2012 included income tax expense of $902,000 and net income for fiscal 2011 included an income tax benefit of $1.1 million. The income tax expense of $902,000 in fiscal 2012 includes an income tax benefit of $4.8 million for the reduction of our valuation allowance against our U.S. net deferred tax assets. The income tax benefit of $1.1 million in fiscal 2011 includes an income tax benefit of $6.4 million for the reduction of our valuations allowances against our U.S. and China net deferred tax assets.

At April 29, 2012, our cash and cash equivalents and short-term investments totaled $31.0 million compared with $30.9 million at May 1, 2011. Our cash and cash equivalents and short-term investments remained unchanged despite common stock repurchases of $5.4 million, capital expenditures of $5.9 million, long-term debt payments of $2.4 million, and working capital spending of $6.9 million to meet increasing business needs. Our cash and cash equivalents and short-term investments of $31.0 million exceeded our total debt (current maturities of long-term debt, long-term debt, and line of credit) of $10.0 million. Our next scheduled significant principal payment of $2.2 million is due August 2012.

During fiscal 2012, our board of directors authorized the expenditure of up to $7.0 million for the repurchase of shares of our common stock. Under the common stock repurchase program, shares may be purchased from time to time in open market transactions, block trades, and through plans established under the Securities Exchange Act Rule 10b5-1. The amount of shares purchased and the timing of such purchases is based on working capital requirements, market and general business conditions and other factors including alternative investment opportunities. Since the initial authorization of this program on June 16, 2011, we repurchased approximately 624,000 shares of our common stock at a cost of $5.4 million through April 29, 2012.

On June 13, 2012, we announced that our board of directors approved a new authorization to repurchase up to $5.0 million of our common stock. This action replaces the authorization to acquire up to $7.0 million of our common stock noted above.

On June 13, 2012, we announced that our board of directors approved the payment of a quarterly cash dividend of $0.03 per share to be paid on or about July 16, 2012, to shareholders of record as of the close of business on July 2, 2012. Our last dividend payment was over eleven years ago. We anticipate paying a cash dividend each quarter, with expected payment dates in October, January, April, and July. Future dividend payments are subject to board approval and may be adjusted at the board’s discretion as business needs or market conditions change.

Results of Operations

The following table sets forth certain items in our consolidated statements of net income as a percentage of net sales.

	Fiscal 2012		Fiscal 2011		Fiscal 2010	
Net sales	100.0	%	100.0	%	100.0	%
Cost of sales	84.4		83.0		81.2	
Gross profit	15.6		17.0		18.8	
Selling, general and administrative expenses	9.8		9.7		11.0	
Restructuring expense (credit)	0.0		0.0		(0.2	)
Income from operations	5.8		7.3		7.9	
Interest expense, net	0.1		0.3		0.5	
Other expense	0.1		0.0		0.4	
Income before income taxes	5.6		6.9		6.9	
Income taxes *	6.4		(7.3	)	7.9	
Net income	5.2	%	7.5	%	6.4	%

* Calculated as a percentage of income before income taxes.

The tables on the following two pages set forth the company’s statements of operations by segment for the fiscal years ended April 29, 2012, May 1, 2011, and May 2, 2010.

CULP, INC.
STATEMENTS OF OPERATIONS BY SEGMENT
FOR THE TWELVE MONTHS ENDED APRIL 29, 2012 AND MAY 1, 2011

(Amounts in thousands)

	TWELVE MONTHS ENDED (UNAUDITED)				
	Amounts			Percent of Total Sales	
Net Sales by Segment	April 29, 2012	May 1, 2011	% Over (Under)	April 29, 2012	May 1, 2011
Mattress Fabrics	$ 145,519	122,431	18.9 %	57.2 %	56.5 %
Upholstery Fabrics	108,924	94,375	15.4 %	42.8 %	43.5 %
Net Sales	$ 254,443	216,806	17.4 %	100.0 %	100.0 %
Gross Profit by Segment				Gross Profit Margin	
Mattress Fabrics	$ 24,825	23,248	6.8 %	17.1 %	19.0 %
Upholstery Fabrics	14,984	13,592	10.2 %	13.8 %	14.4 %
Subtotal	39,809	36,840	8.1 %	15.6 %	17.0 %
Other non-recurring charges	(77) (1)	-	100.0 %	(0.0) %	0.0 %
Gross Profit	39,732	36,840	7.9 %	15.6 %	17.0 %
Selling, General and Administrative expenses by Segment				Percent of Sales	
Mattress Fabrics	$ 9,061	7,875	15.1 %	6.2 %	6.4 %
Upholstery Fabrics	11,453	9,233	24.0 %	10.5 %	9.8 %
Unallocated Corporate expenses	4,512	3,961	13.9 %	1.8 %	1.8 %
Subtotal	25,026	21,069	18.8 %	9.8 %	9.7 %
Operating Income (loss) by Segment				Operating Income (Loss) Margin	
Mattress Fabrics	$ 15,764	15,373	2.5 %	10.8 %	12.6 %
Upholstery Fabrics	3,531	4,359	(19.0) %	3.2 %	4.6 %
Unallocated corporate expenses	(4,512)	(3,961)	13.9 %	(1.8) %	(1.8) %
Subtotal	14,783	15,771	(6.3) %	5.8 %	7.3 %

Other non-recurring charges	(77) (1)	(28) (2)	175.0 %	(0.0) %	(0.0) %
Operating income	$ 14,706	15,743	(6.6) %	5.8 %	7.3 %
Depreciation by Segment					
Mattress Fabrics	$ 4,275	3,820	11.9 %		
Upholstery Fabrics	590	552	6.9 %		
Subtotal	4,865	4,372	11.3 %		

Notes:

(1)The $77 represents employee termination benefits associated with our Anderson, SC plant facility.

(2)This $28 represents an impairment charge of $28 related to equipment associated with the upholstery fabrics segment that is classified as held for sale, a charge of $24 for lease termination and other exit costs, offset by a credit of $14 for employee termination benefits, and a credit of $10 for sales proceeds received on equipment with no carrying value.

CULP, INC.
STATEMENTS OF OPERATIONS BY SEGMENT
FOR THE TWELVE MONTHS ENDED MAY 1, 2011 AND MAY 2, 2010

(Amounts in thousands)

	TWELVE MONTHS ENDED (UNAUDITED)				
	Amounts			Percent of Total Sales	
Net Sales by Segment	May 1, 2011	May 2, 2010	% Over (Under)	May 1, 2011	May 2, 2010
Mattress Fabrics	$ 122,431	114,848	6.6 %	56.5 %	55.6 %
Upholstery Fabrics	94,375	91,568	3.1 %	43.5 %	44.4 %
Net Sales	$ 216,806	206,416	5.0 %	100.0 %	100.0 %
Gross Profit by Segment				Gross Profit Margin	
Mattress Fabrics	$ 23,248	23,652	(1.7) %	19.0 %	20.6 %
Upholstery Fabrics	13,592	15,183	(10.5) %	14.4 %	16.6 %
Subtotal	36,840	38,835	(5.1) %	17.0 %	18.8 %
Restructuring related charges	-	(58) (2)	(100.0) %	0.0 %	(0.0) %
Gross Profit	$ 36,840	38,777	(5.0) %	17.0 %	18.8 %
Selling, General and Administrative expenses by Segment				Percent of Sales	
Mattress Fabrics	$ 7,875	8,178	(3.7) %	6.4 %	7.1 %
Upholstery Fabrics	9,233	9,227	0.1 %	9.8 %	10.1 %
Unallocated Corporate expenses	3,961	5,400	(26.6) %	1.8 %	2.6 %
Subtotal	$ 21,069	22,805	(7.6) %	9.7 %	11.0 %
Operating Income (loss) by Segment				Operating Income (Loss) Margin	
Mattress Fabrics	$ 15,373	15,474	(0.7) %	12.6 %	13.5 %
Upholstery Fabrics	4,359	5,956	(26.8) %	4.6 %	6.5 %
Unallocated corporate expenses	(3,961)	(5,400)	(26.6) %	(1.8) %	(2.6) %
Subtotal	15,771	16,030	(1.6) %	7.3 %	7.8 %

Restructuring and related (charges) credit	(28)	(1)	312	(3)	N.M.	(4)	(0.0) %	0.2 %
Operating income	$ 15,743		16,342		(3.7) %		7.3 %	7.9 %

Depreciation by Segment

Mattress Fabrics	$ 3,820	3,458	10.5 %
Upholstery Fabrics	552	552	0.0 %
Subtotal	$ 4,372	4,010	9.0 %

Notes:

(1)This $28 represents an impairment charge of $28 related to equipment associated with the upholstery fabrics segment that is classified as held for sale, and a charge of $24 for lease termination and other exit costs, offset by a credit of $14 for employee termination benefits, and a credit of $10 for sales proceeds received on equipment with no carrying value.

(2)The $58 represents a restructuring related charge of $108 for other operating costs associated with closed plant facilities, offset by a credit of $50 for the sale of inventory previously reserved for.

(3)The $312 restructuring credit of $186 for employee termination benefits, a credit of $170 for sales proceeds received on equipment with no carrying value, a credit of $50 fo the sale of inventory previously reserved for, a credit of $14 for lease termination and other exit costs, offset by a charge of $108 for other operating costs associated with closed plant facilities.

(4)N.M. - Not meaningful.

2012 compared with 2011

Segment Analysis

Mattress Fabrics Segment

Net Sales

Net sales were $145.5 million for fiscal 2012, an increase of 19% compared with $122.4 million for fiscal 2011. The $145.5 million in net sales represents the highest annual net sales in our history. Also, net sales were $43.4 million in the fourth quarter of fiscal 2012, an increase of 23% compared with $35.2 million in the fourth quarter of fiscal 2011. This increase in net sales was primarily due to improved industry demand and our sales and marketing initiatives. We have been able to respond to this increased demand as we are benefitting from our recent investments in production facilities that have expanded our internal capacity. The bedding industry is evolving into a more decorative business with increased product diversity and growing consumer demand for better bedding and a higher quality mattress fabric. Our expanded manufacturing platform has allowed us to better serve our customers by providing them with a diverse product line in all major product categories. This product diversity, along with our design capabilities, has created additional sales opportunities with customers who are leading suppliers in the bedding industry. As a result, we experienced sales gains across all major product categories in fiscal 2012 compared to fiscal 2011. The increase in net sales also reflects price increases we implemented starting in the fourth quarter of fiscal 2011 to partially offset the increased raw material costs noted below.

Sales and Marketing Initiatives

In order to expand our product offerings and keep pace with the changing customer demand trends within the bedding industry, we entered into a joint product development, sales and marketing agreement with A. Lava & Son Co. (Lava) on May 21, 2012. This agreement forms a new business named Culp-Lava Applied Sewn Solutions and will provide us the opportunity to enter the business of designing, producing, and marketing sewn mattress covers. As we enter the business of sewn mattress covers, we will be able to leverage our design capabilities and expand our product offerings from mattress fabrics to finished covers. In connection with this agreement, Lava will provide us with technical assistance and know-how for the start-up of the business and will work with us on the design, sales and marketing of sewn mattress covers.

As part of the agreement, the new business will be fully funded and 100% owned by us. We plan to establish a manufacturing facility located in the Southeastern U.S. that will be selected by us. As a result, we will have two mirrored manufacturing facilities to better serve our customer base and meet current and expected demand trends in the bedding industry. We will have responsibility for all operating control of the new business, including capital expenditures and production and operating costs. We are projecting capital expenditures to start the business to be approximately $500,000 for fiscal 2013, as sewn products are a different business than our current normal operations and do not require large investments in plant and equipment. Lava is not required to invest capital into the Company.

We are expecting production to start in the second quarter of fiscal 2013 with approximately 35 employees. Our plan is to let the market dictate our growth strategy and we feel it is important to enter this business gradually to protect our investment as we learn what types of products and volume meet demand trends.

Gross Profit and Operating Income

Gross profit was $24.8 million in fiscal 2012, or 17% of net sales, compared with $23.2 million, or 19% of net sales, in fiscal 2011. SG&A expenses for fiscal 2012 were $9.1 million compared with $7.9 million for fiscal 2011. Operating income was $15.8 million in fiscal 2012, an increase of 2.5% compared with $15.4 million in fiscal 2011. Operating margins were 10.8% and 12.6% of net sales for fiscal 2012 and 2011, respectively.

Our gross profit and operating margins for fiscal 2012 were affected by higher raw material costs and customer pricing pressure that started in fiscal 2011 and continued through most of fiscal 2012. As a result, we implemented customer price increases starting in the fourth quarter of fiscal 2011. In addition, operating margins were affected by increased SG&A expenses due to increased incentive compensation expense, which reflects stronger financial results in relation to pre-established performance targets. While the increased raw material costs affected our gross profit and operating margins for the full fiscal year for 2012, raw material prices stabilized in the fourth quarter of fiscal 2012.

Segment Assets

Segment assets consist of accounts receivable, inventory, assets held for sale, non-compete agreements associated with certain acquisitions, goodwill, and property, plant and equipment. As of April 29, 2012, accounts receivable and inventory totaled $29.9 million, compared to $25.5 million at May 1, 2011. This change reflects the net sales increase in the fourth quarter of fiscal 2012 noted above.

At April 29, 2012, and May 1, 2011, property, plant and equipment totaled $29.2 million and $28.6 million, respectively. The $29.2 million represents property, plant, and equipment located in the U.S. of $21.2 million and located in Canada of $8.0 million. The $28.6 million represents property, plant, and equipment located in the U.S. of $20.0 million and located in Canada of $8.6 million. The increase in this segment's property, plant, and equipment balance at April 29, 2012 compared with May 1, 2011, is primarily due to fiscal 2012 capital spending of $4.9 million offset by depreciation expense of $4.3 million.

At April 29, 2012, and May 1, 2011, the carrying value of the segment's goodwill was $11.5 million. At April 29, 2012, and May 1, 2011, the carrying values of our non-compete agreements were $333,000 and $480,000, respectively. The decrease in the carrying values of the non-compete agreements during fiscal 2012 primarily represents amortization expense. At April 29, 2012 and May 1, 2011, assets held for sale totaled $15,000.

Upholstery Fabrics Segment

Net Sales

Upholstery fabric net sales (which include both fabric and cut and sewn kits) were $108.9 million in fiscal 2012, compared with $94.4 million in fiscal 2011, an increase of 15%. Also, upholstery fabric net sales were $32.3 million in the fourth quarter of fiscal 2012, an increase of 28% compared with $25.2 million in the fourth quarter of fiscal 2011. The $32.3 million reported in the fourth quarter of fiscal 2012 was the highest quarterly net sales total in five fiscal years. This increase in net sales reflects improved industry demand and customer response to our designs and new product introductions. In addition, this increase in net sales is also reflects price increases we implemented starting in the fourth quarter of fiscal 2011 which continued in fiscal 2012 to partially offset increased raw material costs.

Net sales of upholstery fabric produced outside our U.S. manufacturing operations were 88% of total upholstery fabric net sales in fiscal 2012, of which 85% and 3% were generated from our operations located in China and Poland, respectively. Net sales of upholstery fabric produced outside our U.S. manufacturing operations were 86% of total upholstery fabric net sales in fiscal 2011, of which primarily all of these net sales were generated from our operations located in China. Net sales of upholstery fabrics produced outside our U.S. manufacturing operations were $95.5 million in fiscal 2012, of which $92.5 million and $3.0 million were generated from our operations located in China and Poland, respectively. Net sales of upholstery fabrics produced outside our U.S. manufacturing operations were $81.2 million in fiscal 2011, of which primarily all of these net sales were generated from our operations located in China.

Net sales of U.S.-produced upholstery fabrics were $13.4 million or 12% of total upholstery fabric net sales in fiscal 2012 compared with $13.2 million or 14% of total upholstery fabric net sales in fiscal 2011.

Our increase in net sales was primarily driven by growth of our China produced fabrics, as this platform has played a significant role in our global development in fiscal 2012, with increased net sales to key customers located in the U.S., the local China market, and other international customers.

In the third quarter of fiscal 2011, we established a wholly-owned subsidiary called Culp Europe in Poland, and we continued to make progress in the development of this operation in fiscal 2012. We have been encouraged by the initial response from several of the largest furniture manufacturers and retailers in Europe. During fiscal 2012, Culp Europe accounted for 3% of our total upholstery fabric net sales, and we expect this percentage to increase further over the next fiscal year. While we experienced a small operating loss for this operation during fiscal 2012 due to start-up costs, we expect this subsidiary to be more profitable in fiscal 2013.

Also, we are pleased with the sales and profit improvement during the fourth quarter of fiscal 2012 from our U.S. operation, with increased demand for both velvet and woven texture fabrics. We have struggled for several years with declining sales and low profitability with this operation. However, we felt it was strategically important to keep one U.S. upholstery fabric operation. Our actions in the second quarter of fiscal 2012 to align our U.S. capacity with expected demand and increase prices had a favorable impact on profitability. We reported net sales of $4.1 million in the fourth quarter of fiscal 2012 from our U.S. operation, an increase of 44% from $2.9 million in the second quarter of fiscal 2012. We are also encouraged by new placements with our U.S. produced fabrics and are expecting future sales growth and profitability in the first quarter of fiscal 2013. We are cautiously optimistic about our long-term prospects with this operation.

Gross Profit and Operating Income

Gross profit was $15.0 million in fiscal 2012, or 13.8% of net sales, compared with $13.6 million, or 14.4% of net sales, in fiscal 2011. SG&A expenses were $11.5 million, or 10.5% of net sales in fiscal 2012 compared with $9.2 million, or 9.8% in fiscal 2011. Operating income was $3.5 million in fiscal 2012, a decrease of 19% compared with $4.4 million in fiscal 2011. Operating margins were 3.2% and 4.6% of net sales for fiscal 2012 and 2011, respectively.

Our gross profit and operating margins were affected by higher raw material costs. As a result, we implemented customer price increases starting in the fourth quarter of fiscal 2011 which continued in fiscal 2012. In addition, our gross profit and operating margins were affected by lower profitability in our U.S. velvet product line in the first half of fiscal 2012. In response, we aligned our U.S. capacity with expected demand and increased prices. As a result of these actions, our U.S. upholstery operation returned to profitability during the third quarter and continued to be profitable through the fourth quarter of fiscal 2012.

In addition, operating margins were affected by increased SG&A expenses due to start-up expenses associated with our Culp Europe operation and an increase in incentive compensation accruals reflecting stronger financial results in relation to pre-established performance targets.

While our gross profit and operating margins for the full fiscal year for fiscal 2012 declined, our gross profit margins increased to 16% in the fourth quarter of fiscal 2012 from 13% for the third quarter of fiscal 2012. In addition, operating margins increased to 5.5% in the fourth quarter of fiscal 2012 from 2.9% in the third quarter of fiscal 2012. These increases in gross profit and operating margins in the fourth quarter of fiscal 2012 are primarily due to the increase in net sales and actions taken with our U.S. upholstery fabric operation noted above, as well as the stabilization of raw material price increases in the fourth quarter of fiscal 2012.

Segment Assets

Segment assets consist of accounts receivable, inventory, property, plant and equipment, and assets held for sale.

As of April 29, 2012, and May 1, 2011, accounts receivable and inventory totaled $31.5 million and $23.5 million, respectively. There were no assets classified as held for sale at April 29, 2012. At May 1, 2011, assets held for sale totaled $60,000.

At April 29, 2012, property, plant, and equipment totaled $1.1 million compared with $967,000 at May 1, 2011. The $1.1 million at April 29, 2012, represents property, plant, and equipment located in the U.S. of $837,000, located in China of $183,000, and located in Poland of $104,000. The $967,000 at May 1, 2011, represents property, plant, and equipment located in the U.S. of $727,000, located in China of $184,000, and located in Poland of $56,000.

Other Income Statement Categories

Selling, General and Administrative Expenses – SG&A expenses for the company as a whole were $25.0 million for fiscal 2012 compared with $21.1 million for fiscal 2011, an increase of 19%. This increase primarily pertains to start-up expenses associated with our Culp Europe operations that did not significantly occur until fiscal 2012 and increased incentive compensation expense, which reflects stronger financial results in relation to pre-established performance targets. SG&A as a percent of net sales was 9.8% and 9.7% in fiscal 2012 and 2011, respectively.

Interest Expense (Income) -- Interest expense was $780,000 for fiscal 2012 compared with $881,000 for fiscal 2011. This trend reflects lower outstanding balances on our long-term debt.

Interest income was $508,000 in fiscal 2012 compared with $240,000 for fiscal 2011. Our increase in interest income is primarily due to a higher rate of return on increased short-term investment balances throughout fiscal 2012 compared to fiscal 2011

Other Expense – Other expense was $236,000 for fiscal 2012 compared with $40,000 for fiscal 2011. This increase reflects fluctuations in the foreign exchange rate for our subsidiaries domiciled in Canada, China, and Poland. We have been able to reduce these expenses through maintenance of a natural hedge by keeping a balance of our assets and liabilities denominated in Canadian dollars during fiscal 2012. Although we will continue to try to maintain this natural hedge, there is no assurance that we will be able to continue to do so in future reporting periods.

Income Taxes

Significant judgment is required in determining the provision for income taxes. During the ordinary course of business, there are many transactions and calculations for which the ultimate tax determination is uncertain. We account for income taxes using the asset and liability approach as prescribed by ASC Topic 740, "Income Taxes." This approach requires recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the consolidated financial statements or income tax returns. Using the enacted tax rates in effect for the fiscal year in which differences are expected to reverse, deferred tax assets and liabilities are determined based on the differences between financial reporting and tax basis of an asset or liability. If a change in the effective tax rate to be applied to a timing difference is determined to be appropriate, it will affect the provision for income taxes during the period that the determination is made.

Effective Income Tax Rate

We recorded income tax expense of $902,000, or 6.4% of income before income tax expense, in fiscal 2012 compared with an income tax benefit of $1.1 million or 7.3% of income before income tax expense, in fiscal 2011. The income tax expense for fiscal 2012 is different from the amount obtained by applying our statutory rate of 34% to income before income taxes for the following reasons:

The income tax rate was reduced by 26% or an income tax benefit of $3.7 million was recorded for the reduction in the valuation allowance recorded against our net deferred tax assets associated with our U.S. operations. This income tax benefit of $3.7 million represents a $4.2 million income tax benefit pertaining to a change in judgment about the future realization of our U.S. net deferred tax assets, offset by an income tax charge of $477,000 associated with the realization of our U.S. loss carryforwards from fiscal 2012 pre-tax income.

The income tax rate was reduced by 9% for taxable income subject to lower statutory income rates in foreign jurisdictions compared with the statutory income tax rate of 34% for the United States.

The income tax rate increased 6% for an increase in unrecognized tax benefits.

The income tax rate increased 1.4% for non-deductible stock-based compensation expense and other miscellaneous items.

The income tax benefit for fiscal 2011 is different from the amount obtained by applying our statutory rate of 34% to income before income taxes for the following reasons:

The income tax rate was reduced by 42% or an income tax benefit of $6.4 million was recorded for the reduction in the valuation allowance recorded against our net deferred tax assets associated with our U.S. and China operations. This income tax benefit of $6.4 million represents a $2.8 million realization of U.S. loss carryforwards associated with fiscal 2011 pre-tax income from our U.S. operations, a $2.3 million adjustment pertaining to a change in judgment about the future realization of our U.S. net deferred tax assets, and a $1.3 million adjustment pertaining to a change in judgment about the future realization of our China net deferred tax assets.

The income tax rate was reduced by 7% for taxable income subject to lower statutory income rates in foreign jurisdictions compared with the statutory income tax rate of 34% for the United States.

The income tax rate was reduced by 2% for adjustments made to our Canadian deferred tax liabilities associated with our election to file our Canadian income tax returns in U.S. dollars commencing with our fiscal 2011 tax year. Our Canadian income tax returns were filed in Canadian dollars for fiscal years prior to fiscal 2011. This adjustment totaled $315,000 and represented a discrete event in which the full tax effects were recorded in the first quarter and the full year of fiscal 2011.

The income tax rate increased 9% for an increase in unrecognized tax benefits.

The income tax rate increased 0.7% for non-deductible stock-based compensation expense and other miscellaneous items.

Deferred Income Taxes – Valuation Allowance

Summary

In accordance with ASC Topic 740, we evaluate our deferred income taxes to determine if a valuation allowance is required. ASC Topic 740 requires that companies assess whether a valuation allowance should be established based on the consideration of all available evidence using a “more likely than not” standard with significant weight being given to evidence that can be objectively verified. Since the company operates in multiple jurisdictions, we assess the need for a valuation allowance on a jurisdiction-by-jurisdiction basis, taking into account the effects of local tax law. Based on this assessment, we recorded a partial valuation allowance of $12.8 million and $16.4 million against our net deferred tax assets associated with our U.S. operations at April 29, 2012 and May 1, 2011, respectively. At April 29, 2012 and May 1, 2011, no valuation allowance was recorded against our net deferred tax assets associated with our operations located in China and Poland.

United States

Our net deferred tax asset regarding our U.S. operations primarily pertain to incurring significant U.S. pre-tax losses during previous years, with U.S. loss carryforwards totaling $59.9 million and $60.0 million at April 29, 2012 and May 1, 2011, respectively.

Fiscal 2011

Due to the favorable results of our multi-year restructuring process in our upholstery fabric operations and key acquisitions and capital investments made for our mattress fabric segment, on a cumulative three-year basis ending May 1, 2011, our U.S. operations earned a pre-tax income of $4.2 million. In addition, our U.S. operations reported a pre-tax income over fiscal years 2011 and 2010 totaling $8.2 million. We believe that fiscal years 2011 and 2010 are a more indicative measure of future pre-tax income as these fiscal years reflect operating performance after the cost savings of the profit-improvement and restructuring plans were realized and the full operational effects of the acquisitions associated with the company’s mattress fabric operations located in the U.S.

Although the financial results of our U.S. operations improved, the significant uncertainty in the overall economic climate made it very difficult to forecast medium and long-term financial results associated with our U.S. operations. Based on these economic conditions, we believed it was too uncertain to project pre-tax income associated with our U.S. operations after fiscal 2012.

Based on this significant positive and negative evidence, we recorded a partial valuation allowance of $16.4 million against our net deferred tax assets associated with our U.S. operations that was expected to reverse beyond fiscal 2012 and we recognized an income tax benefit of $2.3 million in the fourth quarter of fiscal 2011 for the reduction in this valuation allowance for projected U.S. taxable income in fiscal 2012 that was expected to reduce our U.S. loss carryforwards.

Fiscal 2012

This improvement in the U.S. operations' financial results continued through fiscal 2012. Our U.S. operations earned a cumulative pretax income through the second quarter of fiscal 2012 and fiscal years 2011 and 2010 totaling $10.0 million. This continued earnings improvement from our U.S. operations was driven by our mattress fabrics operations (which primarily resides in the U.S.). During the second quarter of fiscal 2012, our mattress fabrics operations had net sales totaling $35.2 million compared with $28.3 million in the second quarter of fiscal 2011. In addition, our mattress fabrics operations had operating income totaling $3.8 million in the second quarter of fiscal 2012 compared with $3.3 million in the second quarter of fiscal 2011. These improved results in the second quarter of fiscal 2012, which were better than expected, can be attributed to increased sales from our sales and marketing initiatives and new programs with customers who are leading suppliers in the bedding industry. Collectively these developments increased our confidence in forecasting U.S. taxable income through fiscal 2014 in the second quarter of fiscal 2012.

Although our U.S. operations' financial results continued to improve through the second quarter of fiscal 2012, the significant uncertainty in the overall economic climate also continued. As a result, to forecast medium and long-term financial results associated with our U.S. operations remained difficult. Since it will take a significant period of time for our U.S. operations to realize its U.S. net deferred income tax assets based on earned and forecasted U.S. pre-tax income levels, we believe it was too uncertain to project U.S. pre-tax income levels associated with our U.S. operations after fiscal 2014 that support a "more likely than not" assertion at the end of our second quarter of fiscal 2012.

These trends continued through the fourth quarter of fiscal 2012 and, as a result, we maintain our position that we can forecast U.S. taxable income through fiscal 2014. Our mattress fabric operations had net sales totaling $145.5 million in fiscal 2012 compared with $122.4 million in fiscal 2011. In addition our mattress fabric operations reported operating income of $15.8 million in fiscal 2012 compared with $15.4 million in fiscal 2011.

Based on this positive and negative evidence noted above, we recorded a partial valuation allowance of $12.8 million at April 29, 2012, against the net deferred tax assets associated with our U.S. operations that are expected to reverse beyond fiscal 2014. Accordingly, we recognized an income tax benefit of $4.4 million in the second quarter of fiscal 2012 for the reduction in this valuation allowance for estimated U.S. taxable income in fiscal years 2013 and 2014 that is expected reduce our U.S. loss carryfowards. In the fourth quarter of fiscal 2012, we booked an income tax charge of $211,000 due to a change in our estimate of U.S. taxable income in fiscal years 2013 and 2014 that was made in the second quarter of fiscal 2012.

China

Our net deferred tax asset regarding our China operations primarily pertains to the book versus tax basis difference associated with our China operation’s fixed assets. This book versus tax basis difference resulted from our impairment losses and fixed asset write-downs associated with our September 2008 upholstery fabrics restructuring plan. In order for this net deferred tax asset to have been realized, our China operations must have had sufficient pre-tax income levels to utilize its tax over book depreciation expense. During fiscal 2011, management assessed both positive and negative evidence and concluded that there was sufficient positive evidence that our net deferred tax assets regarding our China operations will more likely than not be realized. Due to the favorable results from our restructuring activities and profit improvement plan initiated in the second quarter of fiscal 2009, our China operations became profitable, reporting pre-tax income of $7.9 million in fiscal 2011 and fiscal 2010. In addition, our China operations earned pre-tax income of $10.2 million over a cumulative three-year period ending May 1, 2011. As a result of the improvement of our China operations’ pre-tax income levels that have been demonstrated over a cumulative period of three years, there was sufficient positive evidence that our China operations can provide sufficient pre-tax income levels to utilize its tax over book depreciation expense. Based on this significant positive evidence, we do not have a valuation allowance against our China net deferred tax assets at April 29, 2012 and May 1, 2011, respectively. During fiscal 2011 we recognized an income tax benefit of $1.3 million to reduce the valuation allowance of $1.3 million recorded at May 2, 2010 (the beginning of fiscal 2011).

Income Taxes Paid

Although we reported income tax expense of $902,000 in fiscal 2012 and an income tax benefit of $1.1 million in fiscal 2011, we pay income taxes associated with our subsidiaries in China and Canada. We had income tax payments of $2.4 million and $1.2 million in fiscal 2012 and 2011, respectively.

2011 compared with 2010

Segment Analysis

Mattress Fabrics Segment

Net Sales

Net sales were $122.4 million for fiscal 2011, an increase of 6.6% compared with $114.8 million for fiscal 2010. Also, we reported net sales of $35.2 million in the fourth quarter of fiscal 2011, an increase of 5.3% compared with $33.4 million in the fourth quarter of fiscal 2010. These results reflected favorable growth trends during fiscal 2011 as a result of a stronger competitive position and small price increases we implemented in the fourth quarter of fiscal 2011 to partially offset increased raw material costs and customer pricing pressure.

Gross Profit and Operating Income

Gross profit was $23.2 million in fiscal 2011, or 19% of net sales, compared with $23.7 million, or 20.6% of net sales, in fiscal 2010. SG&A expenses for fiscal 2011were $7.9 million compared with $8.2 million for fiscal 2010. Operating income was $15.3 million in fiscal 2011, a decrease of 0.7% compared with $15.5 million in fiscal 2010. Operating margins were 12.6% and 13.5% of net sales for fiscal 2011 and 2010, respectively.

Although net sales increased 6.6% in fiscal 2011 compared with fiscal 2010, gross profit and operating income decreased by 1.7% and 0.7%, respectively. This trend in profitability was primarily due to increased competitive pricing pressure and higher raw material costs that started in the second quarter of fiscal 2011.

Segment Assets

Segment assets consist of accounts receivable, inventory, assets held for sale, non-compete agreements associated with certain acquisitions, goodwill, and property, plant and equipment. As of May 1, 2011, accounts receivable and inventory totaled $25.5 million, compared to $22.3 million at May 2, 2010. This was a product of the net sales increase in the fourth quarter of fiscal 2011 noted above.

At May 1, 2011, and May 2, 2010, property, plant and equipment totaled $28.6 million and $26.7 million, respectively. The $28.6 million represents property, plant, and equipment located in the U.S. of $20.0 million and located in Canada of $8.6 million. The $26.7 million represented property, plant, and equipment located in the U.S. of $18.8 million and located in Canada of $7.9 million. The increase in this segment's property, plant, and equipment balance at May 1, 2011 compared with May 2, 2010, was primarily due to fiscal 2011 capital spending of $5.7 million offset by depreciation expense of $3.8 million.

At May 1, 2011, and May 2, 2010, the carrying value of the segment's goodwill was $11.5 million. At May 1, 2011, and May 2, 2010, the carrying value of our non-compete agreements were $480,000 and $843,000, respectively. The decrease in the carrying values of the non-compete agreements during fiscal 2011 primarily represented amortization expense. At May 1, 2011, and May 2, 2010, assets held for sale totaled $15,000 and $34,000, respectively.

Upholstery Fabrics Segment

Net Sales

Upholstery fabric net sales (which include both fabric and cut and sewn kits) were $94.4 million in fiscal 2011, compared with $91.6 million in fiscal 2010, an increase of 3.1%. Also, we reported net sales of $25.2 million in the fourth quarter of fiscal 2011, an increase of 5.7% compared with $23.8 million in the fourth quarter of fiscal 2010. This increase in net sales reflected favorable growth trends during fiscal 2011 as a result of a stronger competitive position and price increases we implemented in the fourth quarter of fiscal 2011 that were used to partially offset increased raw material costs, and a significant increase in the provision for returns, allowances, and discounts in fiscal 2010 that did not recur in fiscal 2011.

Our upholstery fabric net sales continued to be driven by our operations located in China, accounting for 86% and 84% of total upholstery fabric net sales in fiscal 2011 and 2010, respectively. Net sales of upholstery fabrics produced outside our U.S. manufacturing operations were $81.2 million in fiscal 2011, an increase of 5% from $77.3 million in fiscal 2010. Net sales of U.S.-produced upholstery fabrics were $13.2 million in fiscal 2011, a decrease of 8% from $14.3 million in fiscal 2010. These trends reflected our continued shift toward production outside our U.S. manufacturing operations and are the result of our long-term strategy to build a wholly-owned and low-cost business located in China that is scalable, and not capital intensive.

Gross Profit and Operating Income

Gross profit was $13.6 million in fiscal 2011, or 14.4% of net sales, compared with $15.2 million, or 16.6% of net sales, in fiscal 2010. SG&A expenses were $9.2 million for both fiscal 2011 and 2010. Operating income was $4.4 million in fiscal 2011, a decrease of 27% compared with $6.0 million in fiscal 2010. Operating margins were 4.6% and 6.5% of net sales for fiscal 2011 and 2010, respectively.

Although net sales increased 3.1% in fiscal 2011 compared with fiscal 2010, gross profit and operating income decreased by 11% and 27%, respectively. This trend in profitability was primarily due to higher raw material costs which started to increase in the second quarter of fiscal 2011 and weaker operating performance of our one remaining U.S. facility as compared to the prior year. Our one remaining U.S. facility experienced weaker performance in fiscal 2011 due to the higher raw material costs as mentioned above and a decrease in net sales of 8%.

Segment Assets

Segment assets consist of accounts receivable, inventory, property, plant and equipment, and assets held for sale.

As of May 1, 2011, and May 2, 2010, accounts receivable and inventory totaled $23.5 million. At May 1, 2011, assets held for sale totaled $60,000 compared with $89,000 at May 2, 2010.

At May 1, 2011, property, plant, and equipment totaled $967,000 compared with $989,000 at May 2, 2010. The $967,000 at May 1, 2011, represented property, plant, and equipment located in the U.S. of $727,000, located in China of $184,000, and located in Poland of $56,000. The $989,000 at May 2, 2010, represented property, plant, and equipment of $887,000 and $102,000 located in the U.S. and China, respectively.

Other Income Statement Categories

Selling, General and Administrative Expenses – SG&A expenses for the company as a whole were $21.1 million for fiscal 2011 compared with $22.8 million for fiscal 2010, a decrease of 8%. This decrease primarily reflected (i) a decrease in stock-based compensation expense reflecting a decrease in stock-based awards and the company's stock price, (ii) a decrease in incentive bonus accruals reflecting weaker financial results in relation to pre-established performance targets, and (iii) a decrease in bad debt expense reflecting management's assessment of estimated credit exposures within its accounts receivable portfolio.

Interest Expense (Income) -- Interest expense was $881,000 for fiscal 2011 compared with $1.3 million for fiscal 2010. This trend reflected lower outstanding balances on our long-term debt.

Interest income was $240,000 in fiscal 2011 compared with $116,000 for fiscal 2010. Our increase in interest income was primarily due to higher cash and cash equivalent and short-term investment balances during fiscal 2011 compared with fiscal 2010, and a higher rate of return in fiscal 2011 on short-term investment purchases that did not commence until the third quarter of fiscal 2010.

Other Expense – Other expense was $40,000 for fiscal 2011 compared with $828,000 for fiscal 2010. This decrease reflected fluctuations in the foreign exchange rate for our subsidiaries domiciled in Canada and China and our ability to maintain a natural hedge by keeping a balance of our assets and liabilities denominated in Canadian dollars during fiscal 2011.

Income Taxes

We recorded an income tax benefit of $1.1 million, or 7.3% of income before income tax expense, in fiscal 2011 compared with income tax expense of $1.1 million, or 7.9% of income before income tax expense, in fiscal 2010. The income tax benefit for fiscal 2011 is different from the amount obtained by applying our statutory rate of 34% to income before income taxes for the following reasons:

The income tax rate was reduced by 42% or an income tax benefit of $6.4 million was recorded for the reduction in the valuation allowance recorded against our net deferred tax assets associated with our U.S. and China operations. This income tax benefit of $6.4 million represents a $2.8 million realization of U.S. loss carryforwards associated with fiscal 2011 pre-tax income from our U.S. operations, a $2.3 million adjustment pertaining to a change in judgment about the future realization of our U.S. net deferred tax assets, and a $1.3 million adjustment pertaining to a change in judgment about the future realization of our China net deferred tax assets.

The income tax rate was reduced by 7% for taxable income subject to lower statutory income rates in foreign jurisdictions compared with the statutory income tax rate of 34% for the United States.

The income tax rate was reduced by 2% for adjustments made to our Canadian deferred tax liabilities associated with our election to file our Canadian income tax returns in U.S. dollars commencing with our fiscal 2011 tax year. Our Canadian income tax returns were filed in Canadian dollars for fiscal years prior to fiscal 2011. This adjustment totaled $315,000 and represented a discrete event in which the full tax effects were recorded in the first quarter and the full year of fiscal 2011.

The income tax rate increased 9% for an increase in unrecognized tax benefits.

The income tax rate increased 0.7% for non-deductible stock-based compensation expense and other miscellaneous items.

Income tax expense for fiscal 2010 is different from the amount obtained by applying our statutory rate of 34% to income before income taxes for the following reasons:

The income tax rate was reduced by 33% for the reduction in the valuation allowance recorded against substantially all of our net deferred tax assets associated with our U.S. and China operations. This reduction in our valuation allowance was primarily due to U.S. taxable income generated by the repatriation of undistributed earnings from our subsidiaries located in China and the resulting usage of U.S. net operating loss carryforwards. Also, this reduction pertains to the realization on and projected realization of deferred tax assets created from tax versus book depreciation associated with the company's China operations.

The income tax rate was reduced by 12% for the tax effects of foreign exchange losses on U.S. denominated account balances in which income taxes are paid in Canadian dollars. In fiscal 2010 the Canadian foreign exchange rate in relation to the U.S. dollar was very volatile due to changes in oil prices and global economic conditions. In order to mitigate our exposure to the Canadian foreign exchange rate in relation to the U.S. dollar and its impact on our income tax provision, we elected to file our Canadian tax returns in U.S. dollars commencing with our fiscal 2011 tax year.

The income tax rate was reduced by 6% for taxable income subject to lower statutory income rates in foreign jurisdictions compared with the statutory income tax rate of 34% for the United States.

The income tax rate increased 12% for the recording of a deferred tax liability for estimated U.S. income taxes that were paid upon repatriation of undistributed earnings from the company's subsidiaries located in China.

The income tax rate increased 10% for an increase in unrecognized tax benefits.

The income tax rate increased 2.9% for non-deductible stock-based compensation expense and other miscellaneous items.

Handling Costs

The company records warehousing costs in selling, general and administrative expenses. These costs were $2.6 million, $2.4 million, and $2.2 million in fiscal 2012, 2011, and 2010, respectively. Warehousing costs include the operating expenses of our various finished goods distribution centers, such as personnel costs, utilities, building rent and material handling equipment, and lease expense. Had these costs been included in cost of sales, gross profit would have been $37.1 million or 14.6%, in fiscal 2012, $34.4 million, or 15.9%, in fiscal 2011, and $36.6 million, or 17.7%, in fiscal 2010.

Liquidity and Capital Resources

Liquidity

Our sources of liquidity include cash and cash equivalents, short-term investments, cash flow from operations, and amounts available under our unsecured revolving credit lines. These sources have been adequate for day-to-day operations and capital expenditures. We believe our present cash and cash equivalents and short-term investment balance of $31.0 million at April 29, 2012, cash flow from operations, and current availability under our unsecured revolving credit lines will be sufficient to fund our business needs and fiscal 2013 contractual obligations (see commitments table below).

We have maintained a strong financial position during fiscal 2012. Our cash and cash equivalents and short-term investments totaled $31.0 million at April 29, 2012, compared with $30.9 million at May 1, 2011. We were able to maintain a comparable cash and cash equivalents and short-term investment balance at the end of fiscal 2012 compared with the end of fiscal 2011, despite common stock repurchases of $5.4 million, capital expenditures of $5.9 million, long-term debt payments of $2.4 million, and working capital spending of $6.9 million to meet increasing business needs.

Our cash and cash equivalents and short-term investment balance of $31.0 million exceeded our total debt (current maturities of long-term debt, long-term debt, and line of credit) of $10.0 million at the end of fiscal 2012 and represents 35% of shareholders' equity. Our next major scheduled long-term debt principal payment of $2.2 million is due August 2012. As of April 29, 2012, our lines of credit approximating $16.0 million had an outstanding balance of $889,000. All of our long-term debt and line of credit agreements are unsecured.

We are currently planning for capital expenditures of $5.5 million in fiscal 2013, which primarily pertain to our mattress fabrics segment.

During fiscal 2012, our board of directors authorized the expenditure of up to $7.0 million for the repurchase of shares of our common stock. Under the common stock repurchase program, shares may be purchased from time to time in open market transactions, block trades, and through plans established under the Securities Exchange Act Rule 10b5-1. The amount of shares purchased and the timing of such purchases is based on working capital requirements, market and general business conditions and other factors including alternative investment opportunities. Since the initial authorization of this program on June 16, 2011, we repurchased approximately 624,000 shares of our common stock at a cost of $5.4 million through April 29, 2012.

On June 13, 2012, we announced that our board of directors approved a new authorization to repurchase up to $5.0 million of our common stock. This action replaces the authorization to acquire up to $7.0 million of our common stock noted above.

On June 13, 2012, we announced that our board of directors approved the payment of a quarterly cash dividend of $0.03 per share to be paid on or about July 16, 2012, to shareholders of record as of the close of business on July 2, 2012. Our last dividend payment was over eleven years ago. We anticipate paying a cash dividend each quarter, with expected payment dates in October, January, April, and July. Future dividend payments are subject to board approval and may be adjusted at the board's discretion as business needs or market conditions change.

Our cash and cash equivalents and short-term investment balance may be adversely affected by factors beyond our control, such as weakening industry demand and delays in receipt of payment on accounts receivable.

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Working Capital

Accounts receivable at April 29, 2012, were $25.1 million, an increase of 24% compared with $20.2 million, at May 1, 2011. This increase primarily reflects increased business volume in both our business segments for fiscal 2012 compared with fiscal 2011. Days' sales in receivables were 29 days and 30 days during the fourth quarters of fiscal 2012 and 2011, respectively.

Inventories at April 29, 2012 were $36.4 million, an increase of 27%, compared with $28.7 million at May 1, 2011. This increase primarily reflects increased business volume in both our business segments for fiscal 2012 compared with fiscal 2011. Inventory turns were 6.6 for fiscal 2012 and 2011, respectively.

Accounts payable-trade as of April 29, 2012, were $30.7 million, an increase of 23%, compared with $24.9 million at May 1, 2011. This increase primarily reflects increased business volume and inventory purchases in both our business segments for fiscal 2012 compared with fiscal 2011.

Operating working capital (comprised of accounts receivable and inventories, less accounts payable –trade and capital expenditures) was $30.6 million at April 29, 2012, compared with $23.9 million at May 1, 2011. Operating working capital turnover was 8.9 in fiscal 2012 compared to 8.8 in fiscal 2011.

Financing Arrangements

Unsecured Term Notes

In connection with the Bodet & Horst acquisition during fiscal 2009, we entered into a note agreement dated August 11, 2008. This agreement provided for the issuance of $11.0 million of unsecured term notes with a fixed interest rate of 8.01% and a term of seven years. Principal payments of $2.2 million per year are due on the notes beginning August 11, 2011. The principal payments are payable over an average term of 3.3 years through August 11, 2015. Any principal prepayments will be assessed a penalty as defined in the agreement. The agreement contains customary financial and other covenants as defined in the agreement.

We made our first principal payment of $2.2 million associated with this note agreement on August 11, 2011.

Government of Quebec Loan

We have an agreement with the Government of Quebec for a term loan that is non-interest bearing and is payable in 48 equal monthly installments (denominated in Canadian dollars) that commenced on December 1, 2009. The proceeds were used to partially finance capital expenditures at our Rayonese facility located in Quebec, Canada.

Revolving Credit Agreement –United States

At May 1, 2011, we had an unsecured Amended and Restated Credit Agreement that provided for a revolving loan commitment of $6.5 million, including letters of credit up to $3.0 million. This agreement was set to expire August 15, 2012. On August 25, 2011, we entered into a seventeenth amendment to the Amended and Restated Credit Agreement, amending the agreement effective May 1, 2011 (end of our fiscal 2011). This amendment extends the expiration date of the line of credit through August 25, 2013, increasing the revolving loan commitment from $6.5 million to $10.0 million, and decreases the capital expenditure limit for fiscal years 2012 and 2013 from $10.0 million to $6.0 million. On January 17, 2012, and in connection with the Culp Europe Credit Agreement discussed below, we entered into an eighteenth amendment to decrease our revolving loan commitment from $10.0 million to $7.6 million.

The amended agreement provides for a pricing matrix to determine the interest rate payable on loans made under the agreement (applicable interest rate of 2.24% at April 29, 2012). As of April 29, 2012, there were no outstanding letters of credit under this agreement. As of April 29, 2012 and May 1, 2011, there were no borrowings outstanding under the agreement.

Revolving Credit Agreement - China

We have an unsecured credit agreement for our Chinese operations that provides for a line of credit up to 40 million RMB (approximately $6.4 million USD at April 29, 2012). This agreement expires on September 2, 2012 and has an interest rate determined by the Chinese government. There were no borrowings under this agreement as of April 29, 2012 and May 1, 2011.

Revolving Credit Agreement - Europe

On January 17, 2012, we entered into an unsecured credit agreement associated with our operations in Poland that provides for a line of credit up to 6.8 million Polish Zloty (approximately $2.2 million in USD at April 29, 2012). This agreement expires on January 15, 2013 and bears interest at WIBOR (Warsaw Interbank Offered Rate) plus 2% (applicable interest rate of 6.85% interest rate at April 29, 2012). At April 29, 2012, $889,000 (2.8 million Polish Zloty) was outstanding under this agreement.

Overall

Our loan agreements require, among other things, that we maintain compliance with certain financial covenants. At April 29, 2012, the company was in compliance with these financial covenants.

The principal payment requirements for long-term debt during the next four fiscal years are: 2013 – $2.4 million; 2014 – $2.3 million; 2015 - $2.2 million; and 2016 – $2.2 million.

Commitments

The following table summarizes our contractual payment obligations and commitments for each of the next five fiscal years (in thousands):

	2013	2014	2015	2016	2017	Thereafter	Total
Capital expenditures	$1,191	-	-	-	-	-	1,191
Accounts payable – capital expenditures	169	-	-	-	-	-	169
Operating leases	1,727	1,027	764	449	24	-	3,991
Interest expense (1)	621	402	226	49	-	-	1,298
Line of credit	889	-	-	-	-	-	889
Long-term debt – principal	2,404	2,319	2,200	2,200	-	-	9,123
Total (2)	$7,001	3,748	3,190	2,698			