Unum Group
Form 8-K
April 29, 2009

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

FORM 8-K

CURRENT REPORT
Pursuant to Section 13 OR 15(d) of The Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): April 29, 2009

UNUM GROUP
(Exact name of registrant as specified in its charter)

Delaware	001-11294	62-1598430
(State or other jurisdiction of incorporation)	(Commission File Number)	(IRS Employer Identification No.)

1 Fountain Square
Chattanooga, Tennessee 37402
(Address of principal executive offices)(Zip Code)

(423) 294-1011
(Registrant's telephone number, including area code)

Not Applicable
(Former name or former address, if changed since last report.)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

[ ] Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

[ ] Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

[ ] Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

[ ] Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 2.02 Results of Operations and Financial Condition.

On April 29, 2009, Unum Group ("Unum Group" or the "Company"), a Delaware corporation, issued a press release reporting its results for the first quarter of 2009, a copy of which is furnished herewith as Exhibit 99.1 to this Current Report on Form 8-K and incorporated herein by reference.

Also on April 29, 2009, Unum Group posted on its website at www.unum.com the Statistical Supplement relating to its financial results for the first quarter of 2009. A copy of the Statistical Supplement is furnished herewith as Exhibit 99.2 and incorporated herein by reference.

In accordance with General Instruction B.2 of Form 8-K, the information included or incorporated in this Item 2.02, including Exhibits 99.1 and 99.2, shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, nor shall such information and exhibits be deemed incorporated by reference in any filing under the Securities Act of 1933, as amended, except as shall be expressly set forth by specific reference in such a filing.

Item 9.01 Financial Statements and Exhibits.

(d) Exhibits. The following exhibits are filed or furnished with this Report:

99.1 Press release of Unum Group dated April 29, 2009, concerning earnings for the first quarter of 2009.

99.2 Statistical Supplement of Unum Group for the first quarter of 2009.

SIGNATURES

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

Unum Group
(Registrant)

Date: April 29, 2009

By: /s/ Susan N. Roth
Name: Susan N. Roth
Title: Vice President, Transactions, SEC and Corporate Secretary

INDEX TO EXHIBITS

EXHIBIT

99.1 Press release of Unum Group dated April 29, 2009, concerning earnings for the first quarter of 2009.

99.2 Statistical Supplement of Unum Group for the first quarter of 2009.

nd deferred revenue.

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

The following analysis of the financial condition and results of operations should be read in conjunction with the consolidated financial statements and notes and other exhibits included elsewhere in this report.

General

Our fiscal year is the 52 or 53-week period ending on the Sunday closest to April 30. Fiscal 2018, 2017, and 2016 each included 52 weeks. Our operations are classified into two business segments: mattress fabrics and upholstery fabrics. The mattress fabrics segment manufactures, sources and primarily sells fabrics and mattress covers to bedding manufacturers. The upholstery fabrics segment sources, manufactures, and sells fabrics primarily to residential and commercial furniture manufacturers and with the recent acquisition of Read Window Products we now provide window treatment products and related installation services.

We evaluate the operating performance of our segments based upon income from operations before 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 good purchases, direct and indirect labor, overhead and incoming freight charges.

Executive Summary

Results of Operations

	Twelve Months Ended		
(dollars in thousands)	April 29,2018	April 30, 2017	Change
Net sales	$323,725	$309,544	4.6 %
Gross profit	64,633	69,235	(6.6)%
Gross profit margin	20.0 %	22.4 %	(240)bp
SG&A expenses	37,172	39,157	(5.1)%
Income from operations	27,461	30,078	(8.7)%
Operating margin	8.5 %	9.7 %	(120)bp
Income before income taxes	26,883	29,696	(9.5)%
Income taxes	5,740	7,339	(21.8)%
Net income	20,877	22,334	(6.5)%

Net Sales

Overall, our net sales increased in fiscal 2018 compared with a year ago, with mattress fabric net sales increasing slightly by 1% and upholstery fabric net sales increasing 10%. These results reflect our strategic focus on product innovation and creativity and ability to provide a diverse product mix that meets the changing demands of our customers in both business segments.

Income Before Income Taxes

Despite the increase in net sales noted above, income before income taxes decreased 9.5% compared to the same period a year ago. This decrease was primarily due to higher operating costs associated with our upholstery fabric operations located in China resulting from unfavorable foreign currency exchange rates that mostly occurred in the second half of fiscal 2018, a decline in profitability in our U.S. upholstery fabric operation located in Anderson, South Carolina, resulting from changing consumer style preferences and reduced customer demand, and disruptions from the consolidation of our U.S. mattress fabric production facilities that occurred during the first half of fiscal 2018. Profits were also affected by lower demand form bedding customers late in fiscal 2018 due to a significant increase in lower priced imported mattresses.

Income Taxes

We recorded income tax expense of $5.7 million, or 21.4% of income before income tax expense, in fiscal 2018 compared with income tax expense of $7.3 million, or 24.7% of income before income tax expense, in fiscal 2017. Our income tax expense of $5.7 million in fiscal 2018 includes an income tax benefit totaling $2.1 million associated with the 2017 Tax Cuts and Jobs Act, which represents an income tax benefit of $4.3 million that pertains to the one-time mandatory repatriation tax, partially offset by a $2.2 million income tax charge for the re-measurement of our U.S. deferred income taxes resulting from the reduction in the U.S. federal corporate income tax rate. Our income tax expense of $7.3 million in fiscal 2017 included an income tax benefit totaling $3.4 million pertaining to the reversal of an uncertain income tax position associated with a foreign jurisdiction in which the statute of limitations expired.

See the Segment Analysis section located in the Results of Operations for further details.

Liquidity

At April 29, 2018, our cash and cash equivalents, short-term investments (available for sale), and short-term and long-term investments (held-to-maturity) totaled $54.5 million compared with $54.2 million at April 30, 2017. The slight increase from the end of fiscal 2017 was primarily due to net cash provided by operating activities of $27.5 million, mostly offset by $11.8 million in capital expenditures (of which $3.8 million was vendor financed) that were mostly associated with our mattress fabric segment, $4.5 million used for the acquisition of Read Window Products, LLC, and $661,000 for our investment in a joint venture located in Haiti, $6.8 million to our shareholders in the form of regular quarterly and special dividend payments, $1.9 million in contributions to our Rabbi Trust that funds our deferred compensation plan, and $1.5 million in employee withholding tax payments associated with the vesting of certain stock-based compensation awards.

Our net cash provided by operating activities of $27.5 million in fiscal 2018 decreased $6.6 million compared with $34.1 million in fiscal 2017. The decrease is primarily due to decreased income from operations noted above.

At April 29, 2018, we did not have any borrowings outstanding under our revolving credit agreements.

Dividend Program

On June 13, 2018, we announced that our board of directors approved a regular quarterly cash dividend payment of $0.09 per share. These dividend payments are payable on July 16, 2018, to shareholders of record as of July 2, 2018.

During fiscal 2018, dividend payments totaled $6.8 million, of which $2.6 million represented a special cash dividend payment of $0.21 per share, and $4.2 million represented our regular quarterly cash dividend payments ranging from $0.08 to $0.09 per share.

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During fiscal 2017, dividend payments totaled $6.3 million, of which $2.6 million represented a special cash dividend payment in the first quarter of $0.21 per share, and $3.7 million represented our regular quarterly cash dividend payments ranging from $0.07 to $0.08 per share.

During fiscal 2016, dividend payments totaled $8.1 million, of which $5.0 million represented a special cash dividend payment in the first quarter of $0.40 per share, and $3.1 million represented our regular quarterly cash dividend payments ranging from $0.06 to $0.07 per share.

Future dividend payments are subject to board approval and may be adjusted at the board's discretion as business needs or market conditions change.

Common Stock Repurchases

On June 15, 2016, we announced that our board of directors approved an authorization for us to acquire up to $5.0 million of our common stock. Under the common stock repurchase program, shares may be purchased from time to time in open market transactions, block trades, through plans established under Securities Exchange Act Rule 10b5-1, or otherwise. The amount of shares purchased and the timing of such purchases will be based on working capital requirements, market and general business conditions, and other factors including alternative investment opportunities.

During fiscal 2018 and 2017, there were no repurchases of our common stock. During fiscal 2016, we purchased 100,776 shares of our common stock at a cost of $2.4 million, all of which was purchased during the third quarter.

At April 29, 2018, we had $5.0 million available for additional repurchases of our common stock

Results of Operations

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

	Fiscal 2018	Fiscal 2017	Fiscal 2016
Net sales	100.0%	100.0%	100.0%
Cost of sales	80.0	77.6	79.2
Gross profit	20.0	22.4	20.8
Selling, general and administrative expenses	11.5	12.7	11.7
Income from operations	8.5	9.7	9.1
Interest income, net	0.1	0.1	0.0
Other expense	(0.3)	(0.2)	(0.2)
Income before income taxes	8.3	9.6	8.9
Income taxes *	21.4	24.7	39.3
Loss from investment in unconsolidated joint venture	0.1	0.0	0.0
Net income	6.4 %	7.2 %	5.4 %

* Calculated as a percentage of income before income taxes.

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2018 compared with 2017

Segment Analysis

Mattress Fabrics Segment

(dollars in thousands)	Twelve Months Ended April 29,2018	April 30, 2017	Change
Net sales	$192,597	$190,805	0.9 %
Gross profit	38,797	43,065	(9.9)%
Gross profit margin	20.1 %	22.6 %	(250)bp
SG&A expenses	12,935	13,685	(5.5)%
Income from operations	25,861	29,380	(12.0)%
Operating margin	13.4 %	15.4 %	(200)bp

Net Sales

Although overall mattress fabrics sales increased slightly in fiscal 2018 compared to the prior year, our sales decreased 4.7% during the fourth quarter of fiscal 2018 compared to the fourth quarter of fiscal 2017. Our mattress fabrics net sales reflected more challenging market conditions with soft demand trends across the bedding industry and the impact of lower-priced imported mattresses that occurred during the fourth quarter.

Our strategic focus on product innovation and creativity allows us to provide a diverse product mix that meets the changing demands of our customers across most price points. Importantly, our net sales for fiscal 2018 reflected continued growth in our mattress cover business known as CLASS. The growth in CLASS has allowed us to develop new products with existing customers and reach new customers and additional market segments, particularly the boxed bedding space.

Currently, we expect the soft demand trends and the impact of lower-priced imported mattresses to continue into our first half of fiscal 2019.

Gross Profit and Operating Income

Overall

The decrease in mattress fabrics profitability primarily reflects higher operating costs that were incurred in the first half of fiscal 2018 and were associated with production disruptions during a transition period of substantial capital investment and supply chain enhancements designed to improve our operations and product delivery performance.

Below is a summary of our significant capital projects and improvements that were ongoing in fiscal 2017 and were completed as of the second quarter of fiscal 2018:

- Our building expansion projects in North Carolina, including a new distribution center and knitted fabric plant consolidation, were completed during the first quarter of fiscal 2018

- All of our knitting and other fabric forming equipment was relocated into our expanded facility located in North Carolina and placed into service as of the end of our second quarter of fiscal 2018.

- We completed the relocation of our CLASS production platform to an existing facility in High Point, North Carolina, as of the end of our second quarter of fiscal 2018. We believe this relocation will provide a more efficient and streamlined production flow and access to a larger labor pool. Additionally, this facility includes expanded showroom and production development space.

- We completed expansion of our Canadian operations in the fourth quarter of fiscal 2017, with additional finishing equipment and a new distribution center that will allow us to ship directly to our customers in Canada.

With these operational improvements behind us, we are now focused on further refinement of our overall inspection and quality processes to support our continuous improvement initiatives. We expect to realize greater operating efficiencies from these changes going forward.

Business Combination - eLuxury, LLC

Effective June 22, 2018, after the end of the fiscal year, we acquired a majority interest in eLuxury, an internet company offering bedding accessories and home goods directly to consumers. The company's primary products include a line of mattress pads manufactured at eLuxury’s facility in Evansville, Indiana. eLuxury also offers handmade platform beds, cotton bed sheets, and other bedding items. Their products are available on eLuxury’s own branded website, eLuxury.com, Amazon and other leading online retailers for specialty home goods.

We believe this acquisition will provide a new sales channel for the bedding accessory category and will expand our opportunity to participate in the rapidly growing e-commerce direct-to-consumer space. This business combination brings together eLuxury’s experience in e-commerce, online brand building, and direct-to-consumer shopping and fulfillment expertise with our global production, sourcing and distribution capabilities. We also have an opportunity to market our new line of bedding accessories, marketed under the brand name, 'Comfort Supply Company by Culp', as well as other finished products that we may develop, including items made from upholstery fabrics, through this e commerce platform.

The estimated purchase price for this acquisition is $12.5 million, of which $11.6 million was paid at closing, with the remaining $874,000 amount to be paid based on hold back provisions defined in the purchase agreement. The agreement contains a contingent consideration arrangement that requires us to pay the seller based on adjusted EBITDA to be determined over a three-year period in relation to a pre-established adjusted EBITDA target. We are currently performing our preliminary valuation of the allocation of the purchase price among the assets and equity interest acquired and liabilities assumed.

Joint Venture

Effective January 1, 2017, Culp International Holdings, Ltd. (Culp), a wholly-owned subsidiary of Culp, Inc., entered into a joint venture agreement, pursuant to which Culp owns fifty percent of CLASS International Holdings, Ltd (CLIH). CLIH produces cut and sewn mattress covers, and its operations are located in a modern industrial park on the northeast border of Haiti, which borders the Dominican Republic. CLIH commenced production in the second quarter of fiscal 2018 and complements our mattress fabric operations with a mirrored platform that enhances our ability to meet customer demand while adding a lower cost operation to our platform (see note 7 located in the notes to the consolidated financial statements for further details).

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Segment Assets

Segment assets consist of accounts receivable, inventory, property, plant and equipment, investment in an unconsolidated joint venture, goodwill, a non-compete agreement and customer relationships associated with an acquisition.

(dollars in thousands)	April 29,2018	April 30, 2017	% Change
Accounts receivable and inventory	$43,935	$47,038	(6.6)%
Property, plant & equipment	48,797	48,916	(0.2)%
Goodwill	11,462	11,462	0.0 %
Investment in unconsolidated joint venture	1,501	1,106	35.7 %
Non-compete agreement	753	828	(9.1)%
Customer Relationships	613	664	(7.7)%

Accounts Receivable & Inventory

As of April 29, 2018, accounts receivable and inventory decreased $3.1 million or 6.6%, compared with April 30, 2017. This decrease is primarily due to the decrease in sales volume during the fourth quarter of fiscal 2018 compared with the fourth quarter of fiscal 2017 noted above.

Property, Plant & Equipment

The $48.8 million at April 29, 2018, represents property, plant and equipment of $35.4 million and $13.4 million located in the U.S. and Canada, respectively. The $48.9 million at April 30, 2017, represents property, plant, and equipment of $34.0 million and $14.9 million located in the U.S. and Canada, respectively.

As of April 29, 2018, property, plant, and equipment was flat compared with April 30, 2017. The mattress fabric segment incurred depreciation expense of $6.8 million and had capital spending of $6.7 million in fiscal 2018.

Investment in Unconsolidated Joint Venture

Our investment in unconsolidated joint venture represents our fifty percent ownership of CLIH noted above.

Non-Compete Agreement and Customer Relationships

The decreases in carrying values of our non-compete agreement and customer relationships at April 29, 2018, compared with April 30, 2017, are primarily due to amortization expense in fiscal 2018.

Upholstery Fabrics Segment

Net Sales

(dollars in thousands)	Twelve Months Ended April 29, 2018		April 30, 2017		% Change
Non-U.S. Produced	$122,635	94 %	$109,012	92 %	12.5 %
U.S Produced	8,493	6 %	9,727	8 %	(12.6)%
Total	$131,128	100%	$118,739	100%	10.4 %

The increase in upholstery fabric net sales reflects our product-driven strategy with a sustained focus on innovation and creative designs, supported by our manufacturing platform located in China. Our ability to provide a diverse product offering has allowed us to reach new market segments. Our results reflect the success of this strategy, highlighted by expanded sales of LiveSmart®, our popular "performance" line of highly durable stain-resistant fabric. We have recently launched a new website specifically to promote this innovative product line, along with a more aggressive marketing campaign.

Also, we achieved continued sales growth in fabrics designed for the hospitality market. In order to take advantage of the growth opportunities in the hospitality market, we completed the acquisition of Read Window Products, LLC during the fourth quarter of fiscal 2018 (see below for further details).

Gross Profit and Operating Income

(dollars in thousands)	Twelve Months Ended April 29,2018	April 30, 2017	Change
Gross profit	$25,836	$26,170	(1.3)%
Gross profit margin	19.7 %	22.0 %	(230)bp
SG&A expenses	14,881	15,079	(1.3)%
Income from operations	10,956	11,091	(1.2)%
Operating margin	8.4 %	9.3 %	(90)bp

Despite the increase in net sales noted above, our profitability in upholstery fabrics decreased in fiscal 2018 compared with the same period a year ago. The decrease in profitability was primarily due to higher operating costs associated with our operations located in China resulting from unfavorable foreign exchange rates experienced in the second half of fiscal 2018, and a decline in profitability associated with our U.S. upholstery fabric operation located in Anderson, South Carolina, resulting from changing consumer style preferences and reduced customer demand for products made in this facility. (see below for further details regarding closure of our Anderson, South Carolina plant facility).

Business Combination - Read Window Products, LLC

Effective April 1, 2018, we entered into an Asset Purchase Agreement (Agreement) to acquire certain assets and assume certain liabilities of Read Window Products, Inc. (Read), a source of custom window treatments for the

hospitality and commercial industries. Based in Knoxville, Tennessee, Read is a turn-key provider of window treatments offering measuring, sourcing, fabrication and installation services. Read's custom product line includes motorization, shades, drapery, upholstered headboards and shower curtains. In addition, Read supplies soft goods such as decorative top sheets, coverlets, duvet covers, bed skirts, bolsters and pillows, for leading hospitality brands worldwide. The addition of window treatments and other soft goods to our product line will allow us to be a more complete source of fabrics for the hospitality market, in which we believe there are significant growth opportunities.

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The purchase price for the net assets acquired was $5.7 million, of which $4.5 million was paid at closing on Apri1 1, 2018, $375,000 was paid in May 2018, and $763,000 is to be paid in June in 2019, subject to certain conditions as defined in the Agreement.

The Agreement contains a contingent consideration arrangement that requires us to pay the former shareholder of Read based on adjusted EBITDA as defined in the agreement for calendar year 2018 in excess of fifty percent of a pre-established adjusted EBITDA target. Based on historical and projected financial results in relation to the pre-established adjusted EBITDA target, we currently believe a contingent payment will not be made, and therefore, no contingent liability has been recorded.

The following table presents the final allocation of the acquisition cost to the assets acquired and liabilities assumed based on their fair values.

dollars in thousands)	Fair Value
Customer relationships (Note 8)	$2,247
Goodwill (Note 6)	2,107
Inventory	1,128
Accounts receivable	897
Tradename (Note 8)	683
Property, plant & equipment	379
Other assets	35
Deferred revenue	(903)
Accounts payable	(719)
Accrued expenses	(174)
	$5,680

We recorded customer relationships at fair market value based on a multi-period excess earnings valuation model. These customer relationships will be amortized on a straight-line basis over their nine-year useful life. We recorded the tradename at fair market based on the relief from royalty method. This tradename was determined to have an indefinite useful life and, therefore, is not being amortized. Equipment will be depreciated on a straight-line basis over useful lives ranging from three to ten years. Goodwill is deductible for income tax purposes over the statutory period of fifteen years.

Acquisition costs totaling $339,000 were included in selling, general, and administrative expenses in our fiscal 2018 Consolidated Statement of Net Income.

The following unaudited pro forma consolidated results of operations for the years ending April 29, 2018 and April 30, 2017 have been prepared as if the acquisition of Read had occurred at May 2, 2016.

	Years ended	
	April 29,	April 30,
(dollars in thousands, except per share data)	2018	2017
Net Sales	$334,953	$321,398
Income from operations	26,799	30,441
Net income	20,455	22,552
Net income per share, basic	1.65	1.83
Net income per share, diluted	1.62	1.80

The unaudited pro forma information is presented for informational purposes only and is not necessarily indicative of the results of operations that actually would have been achieved had the acquisition been consummated as of that time, nor is it intended to be a projection of future results.

Actual revenue and net income for the month of April 2018 were included in our Consolidated Statement of Net Income and totaled $880,000 and $5,000, respectively.

Exit and Disposal Activity

On June 12, 2018, our board of directors decided to close our upholstery fabrics manufacturing facility in Anderson, South Carolina. This closure is due to a continued decline in demand for the products manufactured at this facility, reflecting a change in consumer style preferences. We expect to close the facility by October 30, 2018. This action is expected to result in estimated cash charges of approximately $450,000 for employee termination costs, and an undetermined non-cash charge associated with write-downs of inventory. During this transition period, we will be working with our customers to fulfill any outstanding and future orders, and through this process we will be able to determine a good faith estimate of any write-downs of inventory. Currently, management estimates that the fair market value of the long-lived assets at this facility exceeds their carrying amount of approximately $400,000, and for this reason no charge for impairment of long-lived assets is expected to be recorded in connection with this decision.

Segment assets consist of accounts receivable, inventory, property, plant, and equipment, and goodwill, customer relationships, and tradename in connection with the acquisition of Read.

(dollars in thousands)	April 29,2018	April 30, 2017	% Change	
Accounts receivable and inventory	$35,826	$29,021	23.4	%
Customer relationships	2,226	-	100.0	%
Goodwill	2,107	-	100.0	%
Tradename	683	-	100.0	%
Property, plant & equipment	2,445	1,879	30.1	%

Accounts Receivable & Inventory

As of April 29, 2018, accounts receivable and inventory increased $6.8 million, or 23%, or compared with April 30, 2017. This increase is primarily due to the increased sales volume during the fourth quarter of fiscal 2018 compared with the fourth quarter of fiscal 2017 and accounts receivable and inventory totaling $2.0 million that was acquired

from Read as noted above.

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Property, Plant & Equipment

The $2.4 million at April 29, 2018, represents property, plant, and equipment located in the U.S. of $1.8 million and located in China of $661,000. The $1.9 million at April 30, 2017, represents property, plant, and equipment located in the U.S. of $1.2 million and located in China of $655,000.

Customer Relationships, Goodwill, and Tradenname

Our customer relationships, goodwill, and tradename intangible assets were acquired in connection with the acquisition of Read as noted above.

Other Income Statement Categories

(dollars in thousands)	Twelve Months Ended April 29,2018	April 30, 2017	% Change
SG&A expenses	$37,172	$39,157	(5.1)%
Interest expense	94	-	100.0 %
Interest income	534	299	78.6 %
Other expense	1,018	681	49.5 %

Selling, General and Administrative Expenses

SG&A expenses for fiscal 2018 compared with the fiscal 2017 included lower incentive compensation expense reflecting weaker financial results in relation to pre-established financial targets, partially offset by the following items that increased SG&A expenses:

- Non-recurring charges associated with the consolidation of our mattress production facilities that were primarily incurred during the first half of fiscal 2018.

- Non-recurring legal and other professional fees incurred that relate to acquisition activity.

Interest Expense

Interest costs incurred were $194,000 during fiscal 2018 compared with $158,000 for the same period a year ago. Our interest costs during fiscal 2018 and 2017 pertain to borrowings associated with our U.S. revolving line of credit and with the construction of a new building associated with our mattress fabrics segment (Refer to Notes 11 and 12 located in the notes to the consolidated financial statements for further details).

The interest costs incurred during fiscal 2018 were partially offset by interest costs totaling $100,000 for the construction of qualifying fixed assets that were capitalized through the second quarter. Interest costs incurred during fiscal 2017 were fully offset by interest costs for the construction of qualifying fixed assets that were capitalized. Interest costs that have been capitalized will be amortized over the related assets' useful lives.

Interest Income

Interest income increased during fiscal 2018 compared with the same period a year ago. The increase in interest income was due to management's decision at the end of the second quarter of fiscal 2017 to invest approximately $31.0 million in investment grade U.S. Corporate bonds with maturities that primarily ranged from 2 to 2.5 years. The purpose of this investment was to earn a higher rate of return on our excess cash located in the Cayman Islands.

Other Expense

Other expense increased during fiscal 2018 compared with the same period a year ago. This increase was mostly due to unfavorable foreign currency exchange rates associated with our operations located in China.

Income Taxes

Effective Income Tax Rate

We recorded income tax expense of $5.7 million, or 21.4% of income before income tax expense, in fiscal 2018 compared with income tax expense of $7.3 million, or 24.7% of income before income tax expense, in fiscal 2017. The following schedule summarizes the principal differences between income tax expense at the federal income tax rate and the effective income tax rate reflected in the consolidated financial statements:

	2018	2017
federal income tax rate	30.4%	34.0 %
tax effects of the 2017 Tax Cuts and Jobs Act	(7.6)	-
tax effects of Chinese foreign exchange (losses) gains	(2.8)	1.6
reversal of foreign uncertain income tax position	-	(11.6)
tax effects of stock-based compensation	(1.8)	-
undistributed earnings from foreign subsidiaries	3.7	-
other	(0.5)	0.7
	21.4%	24.7 %

2017 Tax Cuts and Jobs Act

On December 22, 2017 (the “Enactment Date”), the Tax Cuts and Jobs Act (H.R.1) (the “Tax Act”) was signed into law. The Tax Act contains significant changes to corporate taxation, including (i) the reduction of the corporate income tax rate to 21%, (ii) the acceleration of expensing certain business assets, (iii) a one-time mandatory repatriation tax (the “Transition Tax”) related to the transition of U.S. international tax from a worldwide tax system to a territorial tax system, (iv) limitations on the use of foreign tax credits to reduce the U.S. income tax liability, (v) the repeal of the domestic production activities deduction, (vi) additional limitations on the deductibility of interest expense and executive compensation, and (vii) the creation of new minimum taxes such as the base erosion anti-abuse tax and Global Intangible Low Taxed Income tax.

The corporate income tax rate reduction is effective as of January 1, 2018. Since we have a fiscal year rather than a calendar year, we are subject to IRS rules relating to transitional income tax rates. As a result, our fiscal 2018 federal statutory rate is a blended income tax rate of 30.4%. For fiscal 2019 and beyond, we will utilize the enacted U.S. federal corporate income tax rate of 21%.

The key impacts of the Tax Act on our financial statements for fiscal 2018 were the re-measurement of our U.S. deferred income tax balances to the new U.S. federal corporate income tax rate and the determination of the income tax effects of the Transition Tax on our accumulated earnings and profits associated with our foreign subsidiaries.

While we have not yet completed our assessment of the effects of the Tax Act, we were able to determine reasonable estimates for the impacts of the key items specified above, and thus we reported provisional amounts for these items under guidance provided by SEC Staff Accounting Bulletin No. 118 (“SAB 118”). Our estimates may change and revisions to these estimates will be recorded during the measurement period allowed by SAB 118, which is not to extend beyond one year from the Enactment Date.

Refer to Note 10 located in the notes to the consolidated financial statements for disclosures regarding our assessments and provisional estimates recorded with regard to the Tax Act during fiscal 2018.

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.

Refer to Note 10 located in the notes to the consolidated financial statements for disclosures regarding our assessments of our recorded valuation allowance as of April 29, 2018 and April 30, 2017, respectively.

Deferred Income Taxes – Undistributed Earnings from Foreign Subsidiaries

In accordance with ASC Topic 740, we assess whether the undistributed earnings from our foreign subsidiaries will be reinvested indefinitely or eventually distributed to our U.S. parent company. ASC Topic 740 requires that a deferred tax liability should be recorded for undistributed earnings from foreign subsidiaries that will not be reinvested indefinitely. Also, we assess the recognition of U.S. foreign income tax credits associated with foreign withholding and income tax payments and whether it is more-likely-than-not that our foreign income tax credits will not be realized. If it is determined that any foreign income tax credits need to be recognized or it is more-likely-than-not our foreign income tax credits will not be realized, an adjustment to our provision for income taxes will be recognized at that time.

Refer to Note 10 located in the notes to the consolidated financial statements for disclosures regarding our assessments of our recorded deferred income tax liability balances associated with our undistributed earnings from our foreign subsidiaries as of April 29, 2018 and April 30, 2017, respectively.

Uncertainty in Income Taxes

At April 29, 2018, we had a $844,000 total gross unrecognized income tax benefit, of which $379,000 and $465,000 were classified as net non-current deferred income taxes and income taxes payable – long-term, respectively, in the accompanying consolidated balance sheets. Our gross unrecognized income tax benefit of $844,000 relates to double taxation under applicable income tax treaties with foreign tax jurisdictions, in which currently, significant change is not expected within the next fiscal year.

United States federal income tax returns filed by us remain subject to examination for income tax years 2017 and subsequent. Canadian federal income tax returns filed by us remain subject to examination for income tax years 2014 and subsequent. Canadian provincial (Quebec) income tax returns filed by us remain subject to examination for income tax years 2016 and subsequent. Income tax returns associated with our operations located in China are subject to examination for income tax year 2013 and subsequent.

During the third quarter of fiscal 2017, Revenue Quebec commenced an examination of our Canadian provincial (Quebec) income tax returns for fiscal years 2013 through 2015. This examination was completed during the fourth quarter of fiscal 2018 with final adjustments totaling $4,000.

During the fourth quarter of fiscal 2016, the Internal Revenue Service commenced and examination of our U.S. Federal income tax returns for fiscal years 2014 through 2016. This examination was effectively settled during the fourth quarter of fiscal 2018 with no adjustment.

In accordance with ASC Topic 740, an unrecognized income tax benefit for an uncertain income tax position can be recognized in the first interim period if the more-likely-than-not recognition threshold is met by the reporting period, or is effectively settled through examination, negotiation, or litigation, or the statute of limitations for the relevant taxing authority to examine and challenge the tax position has expired. If it is determined that any of the above conditions occur regarding our uncertain income tax positions, an adjustment to our unrecognized income tax benefit will be recorded at that time.

Refer to Note 10 located in the notes to the consolidated financial statements for disclosures and additional information regarding our uncertain income tax positions.

Income Taxes Paid

We reported income tax expense of $5.7 million and $7.3 million in fiscal 2018 and 2017, respectively. However, our income tax payments totaled $4.0 million and $5.5 million for fiscal 2018 and 2017, respectively. These income tax payments primarily relate to our subsidiaries located in China and Canada.

As a result of the Tax Act noted above, we do expect to start making income tax payments associated with the Transition Tax in fiscal 2019. Taxpayers can elect to pay the Transition Tax over a period of eight years, and we intend to make this election. Additionally, as part of the Tax Act, we expect to elect out of using U.S. federal net loss operating carryforwards to offset the Transition Tax in order to fully utilize our foreign tax credits. As a result, we have $7.4 million of U.S. federal net operating loss carryforwards to apply against fiscal 2019 taxable income. This fact, coupled with the lower U.S. corporate income tax rate and the immediate expensing of U.S. capital expenditures next year, is currently expected to result in minimal U.S. cash income taxes paid in fiscal 2019.

2017 compared with 2016

Segment Analysis

Mattress Fabrics Segment

	Twelve Months Ended		
(dollars in thousands)	April 30, 2017	May 1, 2016	Change
Net sales	$190,805	$186,419	2.4 %
Gross profit	43,065	38,718	11.2 %
Gross profit margin	22.6 %	20.8 %	180 bp
SG&A expenses	13,685	12,223	12.0 %
Income from operations	29,380	26,496	10.9 %
Operating margin	15.4 %	14.2 %	120 bp

Net Sales

During fiscal 2017, mattress fabrics segment reported year-over-year improvement in net sales, in spite of the ongoing issues that surrounded the mattress industry and a soft retail sales environment. Our focus on design and innovation were a top priority and allowed us to have a favorable product mix of mattress fabrics and cut and sew covers across most price points and style trends. Our mattress cover business, known as CLASS, continued to perform well. The growth in CLASS allowed us to develop new products with existing customers and reach new customers and additional market segments, especially the growing Internet ‘bed in a box’ space.

Gross Profit and Operating Income

Overall

Our mattress fabric gross profit and operating income increased in fiscal 2017 compared to fiscal 2016. The increase in operating income reflected lower raw material costs and benefits from our capital investments. Additionally, operating income for mattress fabrics was negatively affected by SG&A expenses relating to higher inventory warehousing costs, design and sales expenses, and plant facility consolidation charges totaling $560,000 in fiscal 2017.

Segment Assets

Segment assets consist of accounts receivable, inventory, property, plant and equipment, investment in an unconsolidated joint venture, goodwill, a non-compete agreement and customer relationships associated with an acquisition.

(dollars in thousands)	April 30, 2017	May 1, 2016	% Change
Accounts receivable and inventory	$47,038	$43,472	8.2 %
Property, plant & equipment	48,916	37,480	30.5 %
Goodwill	11,462	11,462	0.0 %
Investment in unconsolidated joint venture	1,106	-	100 %
Non-compete agreement	828	903	(8.3)%
Customer Relationships	664	715	(7.1)%

Accounts Receivable & Inventory

As of April 30, 2017, accounts receivable and inventory increased $3.6 million compared with May 1, 2016. This increase was due to an increase in inventory of $2.5 million, as a result of having higher inventory levels to meet expected demand trends for new production introductions, and a $1.1 million increase in accounts receivable due to the extension of discount credit terms with certain key customers that occurred in the fourth quarter of fiscal 2017.

Property, Plant & Equipment

The $48.9 million at April 30, 2017, represented property, plant and equipment of $34.0 million and $14.9 million located in the U.S. and Canada, respectively. The $37.5 million at May 1, 2016, represented property, plant, and equipment of $24.8 million and $12.7 million located in the U.S. and Canada, respectively.

As of April 30, 2017, property, plant, and equipment increased $11.4 million compared with May 1, 2016. This increase was due to capital expenditures of $17.6 million that primarily relate to the construction of a new building (see Note 12 of the consolidated financial statements for further details) and purchases and installation of machinery and equipment, partially offset by depreciation expense of $6.2 million for fiscal 2017.

Investment in Unconsolidated Joint Venture

Our investment in unconsolidated joint venture represents our fifty percent ownership of CLIH noted above.

Non-Compete Agreement and Customer Relationships

The decreases in carrying values of our non-compete agreement and customer relationships at April 30, 2017 compared with May 1, 2016, are primarily due to amortization expense in fiscal 2017.

Upholstery Fabrics Segment

Net Sales

(dollars in thousands)	Twelve Months Ended April 30, 2017		May 1, 2016		% Change
Non U.S. Produced	$109,012	92 %	$115,167	91 %	(5.3)%
U.S Produced	9,727	8 %	11,274	9 %	(13.7)%
Total	$118,739	100%	$126,441	100%	(6.1)%

Our decrease in net sales reflected the soft retail environment for residential furniture that persisted for most of fiscal 2017 and our strategy to enhance both our customer and product mix to improve our profitability with a focus on design and innovation.

Gross Profit and Operating Income

(dollars in thousands)	Twelve Months Ended April 30, 2017	May 1, 2016	Change
Gross profit	$26,170	$26,393	(0.8)%
Gross profit margin	22.0 %	20.9 %	110 bp
SG&A expenses	15,079	15,094	(0.1)%
Income from operations	11,091	11,298	(1.8)%
Operating margin	9.3 %	8.9 %	40 bp

Despite the decrease in net sales noted above, our gross profit and operating margins increased in fiscal 2017 compared with the same period a year earlier. This trend reflected our strategy to enhance both our customer and product mix to improve our profitability, and lower operating expenses associated with our operations located in China resulting from more favorable currency exchange rates.

Segment Assets

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

(dollars in thousands)	April 30, 2017	May 1, 2016	% Change
Accounts receivable and inventory	$29,021	$26,540	9.4 %
Property, plant & equipment	1,879	1,564	20.1 %

Accounts Receivable & Inventory

As of April 30, 2017, accounts receivable and inventory increased $2.5 million compared with May 1, 2016. This increase was due to an increase in inventory of $2.5 million, as a result of customers requiring us to hold higher inventory levels of key products.

Property, Plant & Equipment

The $1.9 million at April 30, 2017, represented property, plant, and equipment located in the U.S. of $1.2 million and located in China of $655,000. The $1.6 million at May 1, 2016, represented property, plant, and equipment located in the U.S. of $893,000 and located in China of $671,000.

Other Income Statement Categories

(dollars in thousands)	Twelve Months Ended April 30, 2017	May 1, 2016	% Change	
SG&A expenses	$39,157	$36,773	6.5	%
Interest income	299	176	69.9	%
Other expense	681	616	10.6	%

Selling, General and Administrative Expenses

The increase in SG&A expenses for fiscal 2017 compared with fiscal 2016, was primarily due to higher incentive compensation expense reflecting stronger financial results in relation to pre-established performance targets. This increase was also due to higher inventory warehousing costs, design and sales expenses, and non-recurring plant facility consolidation charges totaling $560,000 for fiscal 2017 that were associated with our mattress fabrics segment.

Interest Expense

Interest costs incurred were $158,000 and $58,000 during fiscal 2017 and 2016, respectively. The interest costs incurred were fully offset by interest costs for the construction of qualifying fixed assets that were capitalized and will be amortized over the related assets' useful lives.

Interest Income

Interest income increased during fiscal 2017 compared with fiscal 2016. The increase was due to management's decision at the end of the second quarter of fiscal 2017 to invest approximately $31.0 million in investment grade U.S. Corporate bonds with maturities that ranged from 2 to 2.5 years. The purpose of this investment was to earn a higher rate of return on our excess cash located in the Cayman Islands.

Other Expense

Other expense for fiscal 2017 was comparable to fiscal 2016.

Income Taxes

Effective Income Tax Rate

We recorded income tax expense of $7.3 million, or 24.7% of income before income tax expense, in fiscal 2017 compared with income tax expense of $11.0 million, or 39.3% of income before income tax expense, in fiscal 2016. The following schedule summarizes the principal differences between income tax expense at the federal income tax rate and the effective income tax rate reflected in the consolidated financial statements:

	2017	2016
federal income tax rate	34.0 %	34.0%
tax effects of Chinese foreign exchange gains	1.6	4.4
reversal of foreign uncertain income tax position	(11.6)	-
other	0.7	0.9
	24.7 %	39.3%

Liquidity and Capital Resources

Liquidity

Overall

Currently, our sources of liquidity include cash and cash equivalents, short-term investments (available for sale), cash flow from operations, and amounts available under our revolving credit lines. These sources have been adequate for day-to-day operations, capital expenditures, debt payments, common stock repurchases, and dividend payments. We believe our present cash and cash equivalents and short-term investment balance (available for sale) totaling $23.7 million at April 29,2018, cash flow from operations, and current availability under our revolving credit lines will be sufficient to fund our business needs and our contractual obligations (see commitments table below).

At April 29, 2018, our cash and cash equivalents, short-term investments (available for sale), and short-term and long-term investments (held-to-maturity) totaled $54.5 million compared with $54.2 million at April 30, 2017. The slight increase from the end of fiscal 2017 was primarily due to net cash provided by operating activities of $27.5 million, mostly offset by $11.8 million in capital expenditures (of which $3.8 million was vendor financed) that were mostly associated with our mattress fabric segment, $4.5 million used for the acquisition of Read Window Products, LLC, and $661,000 for our investment in a joint venture located in Haiti, $6.8 million to our shareholders in the form of regular quarterly and special dividend payments, $1.9 million in contributions to our Rabbi Trust that funds our deferred compensation plan, and $1.5 million in employee withholding tax payments associated with the vesting of certain stock-based compensation awards.

Our net cash provided by operating activities of $27.5 million in fiscal 2018 decreased $6.6 million compared with $34.1 million in fiscal 2017. The decrease is primarily due to decreased income from operations.

At April 29, 2018, we did not have any borrowings outstanding under our credit agreements.

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

By Geographic Area

We currently hold cash and cash equivalents, short-term investments (available for sale), and short-term and long-term investments (held-to-maturity) in the U.S. and our foreign jurisdictions to support operational requirements, potential acquisitions, to mitigate our risk related to foreign exchange rate fluctuations, and for U.S. and foreign income tax planning purposes.

A summary of our cash and cash equivalents, short-term investments (available for sale), and short-term and long-term investments (held-to-maturity) by geographic area follows:

(dollars in thousands)	April 29, 2018	April 30, 2017
Cayman Islands	$31,000	$34,965
United States	10,537	2,228
China	9,221	12,722
Canada	3,715	4,268
	$54,473	$54,183

Currently, we are holding a significant amount of our cash and investments with our international holding company located in the Cayman Islands. Our cash and investments located in this jurisdiction stemmed from accumulated earnings and profits (totaling $50.4 million as of April 29, 2018) that were distributed from our subsidiaries located in China. Our cash and investments held in the Cayman Islands are currently expected to be used for the following business purposes:

- Mitigate our risk related to foreign exchange rate fluctuations for assets and liabilities denominated in Chinese Yuan Renminbi by holding more cash and investments denominated in U.S. dollars.

- Fund any potential acquisitions.

- Repatriate earnings and profits generated from our China operations to the U.S. parent for various strategic purposes. Currently, we have repatriated accumulated earnings and profits residing in the Cayman Islands totaling $19.9 million as of April 29, 2018.

During the second quarter of fiscal 2017, management decided to invest approximately $31.0 million in investment grade U.S. Corporate bonds with maturities that ranged from 2 to 2.5 years. The purpose of this investment was to earn a higher rate of return on our excess cash located in the Cayman Islands.

Dividend Program

On June 13, 2018, we announced that our board of directors approved a regular quarterly cash dividend payment of $0.09 per share. These dividend payments are payable on July 16, 2018, to shareholders of record as of July 2, 2018.

During fiscal 2018, dividend payments totaled $6.8 million, of which $2.6 million represented a special cash dividend payment of $0.21 per share, and $4.2 million represented our regular quarterly cash dividend payments ranging from $0.08 to $0.09 per share.

During fiscal 2017, dividend payments totaled $6.3 million, of which $2.6 million represented a special cash dividend payment in the first quarter of $0.21 per share, and $3.7 million represented our regular quarterly cash dividend payments ranging from $0.07 to $0.08 per share.

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During fiscal 2016, dividend payments totaled $8.1 million, of which $5.0 million represented a special cash dividend payment in the first quarter of $0.40 per share, and $3.1 million represented our regular quarterly cash dividend payments ranging from $0.06 to $0.07 per share.

Future dividend payments are subject to board approval and may be adjusted at the board's discretion as business needs or market conditions change.

Common Stock Repurchases

On June 15, 2016, we announced that our board of directors approved an authorization for us to acquire up to $5.0 million of our common stock. Under the common stock repurchase program, shares may be purchased from time to time in open market transactions, block trades, through plans established under the Securities Exchange Act Rule 10b5-1, or otherwise. The amount of shares purchased and the timing of such purchases will be based on working capital requirements, market and general business conditions, and other factors including alternative investment opportunities.

During fiscal 2018 and 2017, there were no repurchases of our common stock.

At April 29, 2018, we had $5.0 million available for additional repurchases of our common stock.

Working Capital

Accounts receivable at April 29, 2018, were $26.3 million, an increase of $1.7 million or 7%, compared with $24.6 million at April 30, 2017. This increase in our accounts receivable primarily related to our upholstery fabrics segment and resulted from an increase in net sales in the fourth quarter of fiscal 2018 compared with the fourth quarter of fiscal 2017, as well as accounts receivable totaling $897,000 that were acquired from Read. Days' sales in receivable were 30 days and 29 days during the fourth quarters of fiscal 2018 and 2017, respectively.

Inventories at April 29, 2018 were $53.5 million, an increase of 4%, compared with $51.5 million at April 30, 2017. This increase was primarily due to an increase in the upholstery fabric segment's inventory of $4.8 million, resulting from increased sales volume in the fourth quarter of fiscal 2018 compared with the fourth quarter of fiscal 2017, as well as inventory totaling $1.1 million that was acquired from Read. The increase in the upholstery fabrics segment's inventory was partially offset by a decrease in the mattress fabric segment's inventory of $2.8 million, resulting from decreased sales volume in the fourth quarter of fiscal 2018 compared with the fourth quarter of fiscal 2017. Inventory turns were 4.8 and 5.0 during the fourth quarters of fiscal 2018 and 2017, respectively.

Accounts payable-trade at April 29, 2018, were $27.2 million, a decrease of 6% compared with $29.1 million at April 30, 2017. This decrease was primarily due to a decrease in the mattress fabric segment's accounts payable of $2.7 million, resulting from decreased sales volume in the fourth quarter of fiscal 2018 compared with fiscal 2017, partially offset by accounts payable totaling $719,000 that was assumed from Read.

Operating working capital (accounts receivable and inventories, less deferred revenue and accounts payable –trade and capital expenditures) was $49.9 million at April 29, 2018, compared with $40.9 million at April 30, 2017. Operating working capital turnover was 7.1 in fiscal 2018 compared to 7.3 in fiscal 2017.

Financing Arrangements

Currently, we have revolving credit agreements with banks for our U.S parent company and our operations located in China. The purposes of our revolving credit lines of credit are to support potential short-term cash needs in different jurisdictions, mitigate our risk related to foreign currency exchange rate fluctuations, and ultimately repatriate earnings and profits from our foreign subsidiaries to the U.S. for various strategic purposes. Our revolving credit agreements require us to maintain compliance with certain financial covenants as defined in the respective agreements. At April 29, 2018, we were in compliance with all of our financial covenants.

Refer to Note 11 located in the notes to the consolidated financial statements for further details of our revolving credit agreements.

Commitments

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

	2019	2020	2021	2022	2023	Thereafter	Total
Capital expenditures	$2,003	-	-	-	-	-	$2,003
Accounts payable - capital expenditures	1,776	-	-	-	-	-	1,776
Operating leases	2,640	1,893	1,061	181	10	-	5,785
Interest expense	19	-	-	-	-	-	19
Total (1)	$6,438	1,893	1,061	181	10	-	$9,583

Note: Payment Obligations by End of Each Fiscal Year

(1) At April 29, 2018, we had $844,000 of total gross unrecognized tax benefits, of which $379,000 and $465,000 were classified as net non-current deferred income taxes and income taxes payable – long-term, respectively. The final outcome of these tax uncertainties is dependent upon various matters including tax examinations, legal proceedings, competent authority proceedings, changes in regulatory tax laws or interpretations of those tax laws, or expiration of statutes of limitation. As a result of these inherent uncertainties, the company cannot reasonably estimate the timing of payment of these amounts. Of the $844,000 in total gross unrecognized tax benefits, $379,000 would not be subject to cash payments due to the company's U.S. federal net operating loss carryforwards.

Capital Expenditures

Capital expenditures on a cash basis were $11.8 million (of which $3.8 million was vendor financed) for fiscal 2018, compared with $12.9 million (of which $1.1 million was vendor financed) for fiscal 2017. Capital expenditures for fiscal 2018 and 2017 mostly related to our mattress fabrics segment.

Depreciation expense was $7.7 million for fiscal 2018 compared with $7.1 million for fiscal 2017. Depreciation expense for fiscal 2018 and 2017 mostly related to our mattress fabrics segment.

For fiscal 2018, we are currently projecting capital expenditures to be in the range of $6 million to $7 million. Depreciation expense for the company as a whole is projected to be $8.0 million for fiscal 2018. The estimated capital expenditures and depreciation expense for fiscal 2018 primarily relate to our mattress fabrics segment. These are management's current expectations only, and changes in our business could cause changes in plans for capital

expenditures and expectations for related depreciation expense. Funding for capital expenditures is expected to be primarily from cash provided by operating activities.

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Accounts Payable – Capital Expenditures

At April 29, 2018, we had total amounts due regarding capital expenditures totaling $1.8 million, of which $1.4 million is financed and pertains to completed work for the construction of a new building (see below). The total $1.8 million amount is required to be paid in full in fiscal 2019.

At April 30, 2017, we had total amounts due regarding capital expenditures totaling $6.1 million, of which $5.1 million was financed and pertained to completed work for the construction of a new building (see below). Of the total $6.1 million, $4.8 million and $1.3 million were required to be paid in fiscal 2018 and 2019, respectively.

Purchase Commitments - Capital Expenditures

At April 29, 2018, we had open purchase commitments to construct a building and equipment for our mattress fabrics segment totaling $3.4 million. The 3.4 million includes $1.4 million (all of which represents completed work) associated with the construction of a new building noted below.

Effective May 16, 2016, we entered into an agreement with a contractor to construct a new building located in North Carolina that expands our distribution capabilities and office space at a current cost of $11.3 million. This agreement required an installment payment of $1.9 million in April 2016, $4.3 million in fiscal 2017, $3.7 million in fiscal 2018, and $1.4 million in fiscal 2019 (which was paid in May 2018). Interest was charged on the outstanding installment payments at a rate of $2.25% plus the current 30 day LIBOR rate. Also, we were required to issue a letter of a credit totaling $5.0 million with the contractor being the beneficiary. In addition to the interest that was charged on the outstanding installment payments, there was a 0.1% unused fee calculated on the balance of the $5.0 million letter of credit less the amount outstanding per month.

This new building was placed into service July 2017 (our first quarter of fiscal 2018).

Handling Costs

We record warehousing costs in SG&A expenses. These costs were $4.6 million, $4.6 million, and $4.2 million, in fiscal 2018, 2017, and 2016, 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 $60.0 million or 18.5% of net sales, in fiscal 2018, $64.6 million or 20.9% of net sales, in fiscal 2017, and $60.9 million, or 19.5% of net sales, in fiscal 2016.

Inflation

Any significant increase in our raw material costs, utility/energy costs and general economic inflation could have a material adverse impact on the company, because competitive conditions have limited our ability to pass significant operating increases on to customers.

Critical Accounting Policies

U.S. generally accepted accounting principles require us to make estimates and assumptions that affect our reported amounts in the consolidated financial statements and accompanying notes. Some of these estimates require difficult, subjective and/or complex judgments about matters that are inherently uncertain, and as a result actual results could differ significantly from those estimates. Due to the estimation processes involved, management considers the following summarized accounting policies and their application to be critical to understanding the company's business operations, financial condition and results of operations.

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Accounts Receivable - Allowance for Doubtful Accounts

Substantially all of our accounts receivable are due from residential and commercial furniture and bedding manufacturers. As of April 29, 2018, accounts receivable from furniture manufacturers totaled $11.1 million, and accounts receivable from bedding manufacturers totaled 15.2 million. Additionally, as of April 29, 2018, the aggregate accounts receivable balance of our ten largest customers was $13.8 million, or 52% of trade accounts receivable. One customer within the upholstery fabrics segment accounted for 13% of consolidated accounts receivable at April 29, 2018. Two customers within the mattress fabrics segment represented 20% of consolidated accounts receivable at April 29, 2018.

We continuously perform credit evaluations of our customers, considering numerous inputs including customers' financial position, past payment history, cash flows and management capability; historical loss experience; and economic conditions and prospects. Once evaluated, each customer is assigned a credit grade. Credit grades are adjusted as warranted. Significant management judgment and estimates must be used in connection with establishing the reserve for allowance for doubtful accounts. While management believes that adequate allowances for doubtful accounts have been provided in the consolidated financial statements, it is possible that we could experience additional unexpected credit losses.

The reserve balance for doubtful accounts was $357,000 and $414,000 at April 29, 2018, and April 30, 2017, respectively.

Inventory Valuation

We operate as a "make-to-order" and "make-to-stock" business. Although management closely monitors demand in each product area to decide which patterns and styles to hold in inventory, the increasing availability of low cost imports and the gradual shifts in consumer preferences expose the company to markdowns of inventory.

Management continually examines inventory to determine if there are indicators that the carrying value exceeds its net realizable value. Experience has shown that the most significant indicator of the need for inventory markdowns is the age of the inventory and the planned discontinuance of certain patterns. As a result, the company provides inventory valuation markdowns based upon set percentages for inventory aging categories, generally using six, nine, twelve and fifteen-month categories. We also provide inventory valuation write-downs based on the planned discontinuance of certain products based on the current market values at that time as compared to their current carrying values. While management believes that adequate markdowns for excess and obsolete inventory have been made in the consolidated financial statements, significant unanticipated changes in demand or changes in consumer tastes and preferences could result in additional excess and obsolete inventory in the future.

The reserve for inventory markdowns was $4.1 million and $3.4 million at April 29, 2018, and April 30, 2017, respectively.

Goodwill

Management assesses goodwill for impairment at the end of each fiscal year or between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying values. In accordance with ASU No. 2011-08, Intangibles – Goodwill and Other, we performed our annual impairment test on a qualitative basis. Based on our qualitative assessment, we determined that our goodwill is not impaired using a more likely than not standard.

At April 29, 2018, our goodwill totaled $13.6 million, of which $11.5 million and $2.1 million related to the mattress fabrics and upholstery fabrics segments, respectively.

Although we believe we have based the impairment testing on reasonable estimates and assumptions, the use of different estimates and assumptions could result in materially different results.

Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred income taxes are recognized for temporary differences between the financial statement carrying amounts and the tax bases of the company's assets and liabilities and operating loss and tax credit carryforwards at income tax rates expected to be in effect when such amounts are realized or settled. The effect on deferred income taxes of a change in tax rates is recognized in income (loss) in the period that includes the enactment date.

Deferred Income Taxes – Valuation Allowance

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 we 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.

Refer to Note 10 located in the notes to the consolidated financial statements for disclosures regarding our assessments of our recorded valuation allowance as of April 29, 2018 and April 30, 2017.

Deferred Income Taxes – Undistributed Earnings from Foreign Subsidiaries

In accordance with ASC Topic 740, we assess whether the undistributed earnings from our foreign subsidiaries will be reinvested indefinitely or eventually distributed to our U.S. parent company. ASC Topic 740 requires that a deferred tax liability should be recorded for undistributed earnings from foreign subsidiaries that will not be reinvested indefinitely. Also, we assess the recognition of U.S. foreign income tax credits associated with foreign withholding and income tax payments and whether it is more-likely-than-not that our foreign income tax credits will not be realized. If it is determined that any foreign income tax credits need to be recognized or it is more-likely-than-not our foreign income tax credits will not be realized, an adjustment to our provision for income taxes will be recognized at that time.

For fiscal 2019 and beyond, the Tax Act allows a U.S. corporation a 100% dividend received deduction for accumulated earnings and profits from a 10% owned foreign corporation. Therefore, a deferred tax liability will only be required for withholding taxes that are incurred by foreign subsidiaries at the time their accumulated earnings and profits are distributed.

Refer to Note 10 located in the notes to the consolidated financial statements for disclosures regarding our assessments of our recorded deferred income tax liability balances associated with our undistributed earnings from our foreign subsidiaries as of April 29, 2018 and April 30, 2017, respectively.

Uncertainty In Income Taxes

In accordance with ASC Topic 740, we must recognize the income tax impact from an uncertain income tax position only if it is more likely than not that the income tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The income tax impact recognized in the financial statements

from such a position is measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate resolution. Penalties and interest related to uncertain income tax positions are recorded as income tax expense. Significant judgment is required in the identification of uncertain income tax positions and in the estimation of penalties and interest on uncertain income tax positions.

Refer to Note 10 located in the notes to the consolidated financial statements for disclosures and additional information regarding our uncertain income tax positions.

Stock-Based Compensation

ASC Topic 718, “Compensation-Stock Compensation”, requires that all stock-based compensation be recognized as compensation expense in the financial statements and that such cost be measured at the grant date for awards issued to employees and our board of directors. Equity awards issued to non-employees are measured at the earlier date of when the performance criteria are met or at the end of each reporting period.

Compensation expense for unvested incentive stock options and time vested restricted stock awards are amortized on a straight-line basis over the remaining vesting periods. At April 29, 2018, there were 1,200 shares of time vested restricted stock awards that were unvested and no unvested incentive stock options. Our common stock awards issued to our board of directors vest immediately, and therefore, compensation cost was measured at the closing price of our common stock on the date of grant and recognized in full at that time. Compensation expense for performance based restricted stock units is recorded based on an assessment each reporting period of the probability that certain performance goals will be met during the contingent vesting period. If performance goals are not probable of occurrence, no compensation expense will be recognized. Performance goals that were previously deemed probable and subsequently were not or are not expected to be met, previously recognized compensation cost will be reversed. At April 29, 2018, the remaining compensation cost related to our performance based restricted stock units was $1.3 million.

We recorded $2.2 million, $3.4 million, and $2.7 million of compensation expense within selling, general, and administrative expense for our equity-based awards in fiscal 2018, 2017, and 2016, respectively.

In March 2016, the FASB issued ASU No. 2016-09, "Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting". ASU No. 2016-09 was effective for fiscal years and interim periods within those fiscal years, beginning after December 15, 2016. Accordingly, we adopted this guidance during the first quarter of fiscal 2018. ASU No. 2016-09 aims to simplify several aspects of accounting and financial reporting for share-based payment transactions. One provision within this pronouncement requires that excess income tax benefits and deficiencies related to share-based payments be recognized within income tax expense as a discrete event in the period in which they occur, rather than within additional paid-in capital on our Consolidated Balance Sheet on a prospective basis. The impact to our results of operations related to this provision during fiscal 2018 was a reduction to income tax expense of $497,000. The impact of this provision on our future results of operations will depend in part on the market prices for the shares of our common stock on the dates there are taxable events related to the share-based awards, and therefore, the impact is difficult to predict. In connection with another provision within ASU No. 2016-09, we have elected to account for forfeitures of share-based awards as an estimate of the number of awards that are expected to vest, which is consistent with our accounting policy prior to adoption.

Also, we adopted the provisions of ASU No. 2016-09 related to changes on the Consolidated Statements of Cash Flows on a retrospective basis. As a result, we no longer classify excess income tax benefits as a financing activity, which increased net cash provided by operating activities and reduced net cash provided by financing activities by $657,000 and $841,000 for fiscal 2017 and 2016, respectively. Additionally, we no longer classify payments for employee taxes when common stock shares are withheld to satisfy the employer’s statutory income tax withholding obligation as an operating activity, which increased net cash provided by operating activities and reduced net cash provided by financing activities by $429,000 and $747,000 for fiscal 2017 and 2016, respectively.

Our equity incentive plans are described more fully in Note 13 in the notes to the consolidated financial statements.

Adoption of New Accounting Pronouncements

Refer to Note 1 located in the notes to the consolidated statements for recently adopted accounting pronouncements for fiscal 2018.

Recently Issued Accounting Standards

Refer to Note 1 located in the notes to the consolidated statements for recently issued accounting pronouncements for fiscal 2019 and beyond.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES
ABOUT MARKET RISK

We are exposed to market risk from changes in interest rates on our revolving credit lines.

At April 29, 2018, our U.S. revolving credit agreement requires interest to be charged at a rate (applicable interest rate of 3.36% at April 29, 2018) as a variable spread over LIBOR based on our ratio of debt to EBITDA as defined in the agreement. Our revolving credit line associated with our China subsidiaries bears interest at a rate determined by the Chinese government. At April 29, 2018, there were no borrowings outstanding under any of our revolving credit lines.

We are exposed to market risk from changes in the value of foreign currencies for our subsidiaries domiciled in Canada and China. We try to maintain a natural hedge by keeping a balance of our assets and liabilities denominated in the local currency of our subsidiaries domiciled in Canada and China, although there is no assurance that we will be able to continually maintain this natural hedge. Our foreign subsidiaries use the United States dollar as their functional currency. A substantial portion of the company's imports purchased outside the United States are denominated in U.S. dollars. A 10% change in the above exchange rates at April 29, 2018, would not have had a significant impact on our results of operations or financial position.

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ITEM 8. CONSOLIDATED FINANCIAL STATEMENTS
AND SUPPLEMENTARY DATA

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Shareholders
Culp, Inc.:

Opinion on the financial statements

We have audited the accompanying consolidated balance sheets of Culp, Inc. (a North Carolina Corporation) and Subsidiaries (the “Company”) as of April 29, 2018 and April 30, 2017, the related consolidated statements of net income, comprehensive income, shareholders’ equity, and cash flows for each of the three years in the period ended April 29, 2018, and the related notes (collectively referred to as the “financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of April 29, 2018 and April 30, 2017, and the results of its operations and its cash flows for each of the three years in the period ended April 29, 2018, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (“PCAOB”), the Company’s internal control over financial reporting as of April 29, 2018, based on criteria established in the 2013 Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”), and our report dated July 13, 2018 expressed an unqualified opinion.

Basis for opinion

These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ GRANT THORNTON LLP

We have served as the Company’s auditor since fiscal 2008.

Charlotte, North Carolina

July 13, 2018

CONSOLIDATED BALANCE SHEETS

(dollars in thousands, except per share data and preferred and common stock shares)

April 29, 2018 and April 30, 2017	2018	2017
ASSETS		
current assets:		
cash and cash equivalents	$21,228	$20,795
short-term investments - available for sale	2,451	2,443
short-term investments - held to maturity	25,759	-
accounts receivable, net	26,307	24,577
inventories	53,454	51,482
other current assets	2,870	2,894
total current assets	132,069	102,191
property, plant and equipment, net	51,794	51,651
goodwill	13,569	11,462
deferred income taxes	1,458	419
long-term investments - held-to-maturity	5,035	30,945
long-term investments - rabbi trust	7,326	5,466
investment in unconsolidated joint venture	1,501	1,106
other assets	5,232	2,394
total assets	$217,984	$205,634
LIABILITIES AND SHAREHOLDERS' EQUITY		
current liabilities:		
accounts payable - trade	$27,237	$29,101
accounts payable - capital expenditures	1,776	4,767
deferred revenue	809	-
accrued expenses	9,325	11,947
income taxes payable	1,437	287
total current liabilities	40,584	46,102
accounts payable - capital expenditures	-	1,322
accrued expenses - long-term	763	-
income taxes payable - long-term	3,758	467
deferred income taxes	2,150	3,593
deferred compensation	7,353	5,520
total liabilities	54,608	57,004
commitments and contingencies (notes 11 and 12)		
shareholders' equity:		
preferred stock, $.05 par value, authorized 10,000,000 shares	-	-
common stock, $.05 par value, authorized 40,000,000 shares, issued and outstanding 12,450,276 at April 29, 2018 and 12,356,631 at April 30, 2017	623	618

capital contributed in excess of par value	48,203	47,415
accumulated earnings	114,635	100,601
accumulated other comprehensive loss	(85)	(4)
total shareholders' equity	163,376	148,630
total liabilities and shareholders' equity	$217,984	$205,634

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

CONSOLIDATED STATEMENTS OF NET INCOME

For the years ended April 29, 2018, April 30, 2017 and May 1, 2016

(dollars in thousands, except per share data)	2018	2017	2016
net sales	$323,725	$309,544	$312,860
cost of sales	259,092	240,309	247,749
gross profit	64,633	69,235	65,111
selling, general and administrative expenses	37,172	39,157	36,773
income from operations	27,461	30,078	28,338
interest expense	94	-	-
interest income	(534)	(299)	(176)
other expense	1,018	681	616
income before income taxes	26,883	29,696	27,898
income tax expense (note 10)	5,740	7,339	10,963
loss from investment in unconsolidated joint venture (note 7)	266	23	-
net income	$20,877	$22,334	$16,935
net income per share-basic	$1.68	$1.81	$1.38
net income per share-diluted	$1.65	$1.78	$1.36

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

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CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the years ended April 29, 2018, April 30, 2017 and May 1, 2016

	2018	2017	2016
Net income	$20,877	$22,334	$16,935
Other comprehensive (loss) income			
Loss on foreign currency cash flow hedge instrument, net of tax	(55)	-	-
Unrealized (losses) gains on investments			
Unrealized holding (losses) gains on investments, net of tax	(26)	128	(176)
Reclassification adjustment for realized loss included in net income	-	12	127
	(26)	140	(49)
Total other comprehensive (loss) income	(81)	140	(49)
Comprehensive income	$20,796	$22,474	$16,886

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

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(dollars in thousands, except common stock shares) For the years ended April 29, 2018, April 30, 2017 and May 1, 2016	common stock shares	common stock amount	capital contributed in excess of par value	accumulated earnings	accumulated other comprehensive loss	total shareholders' equity
balance, May 3, 2015	12,219,121	$ 611	$ 43,159	$ 75,752	$ (95)	$ 119,427
net income	-	-	-	16,935	-	16,935
stock-based compensation	-	-	2,742	-	-	2,742
unrealized loss on investments	-	-	-	-	(49)	(49)
excess tax benefit related to stock-based compensation	-	-	841	-	-	841
common stock repurchased	(100,776)	(5)	(2,392)	-	-	(2,397)
common stock issued in connection with vesting of performance-based restricted stock units	115,855	6	(6)			-
fully vested common stock award	3,000	-	-	-	-	-
common stock issued in connection with exercise of stock options	54,500	3	197	-	-	200
common stock issued surrendered for withholding taxes payable	(26,211)	(1)	(746)	-	-	(747)
dividends paid	-	-	-	(8,140)	-	(8,140)
balance, May 1, 2016	12,265,489	614	43,795	84,547	(144)	128,812
net income	-	-	-	22,334	-	22,334
stock-based compensation	-	-	3,358	-	-	3,358
unrealized gain on investments	-	-	-	-	140	140
excess tax benefit related to stock-based compensation	-	-	657	-	-	657
common stock issued in connection with vesting of performance-based restricted stock units	49,192	2	(2)	-	-	-
fully vested common stock award	4,800	-	-	-	-	-
common stock issued in connection with exercise of stock options	68,000	3	585	-	-	588
common stock surrendered for the cost of stock option excercises and withholding taxes payable	(30,850)	(1)	(978)	-	-	(979)
dividends paid	-	-	-	(6,280)	-	(6,280)
balance, April 30, 2017	12,356,631	618	47,415	100,601	(4)	148,630
net income	-	-	-	20,877	-	20,877
stock-based compensation	-	-	2,212	-	-	2,212
loss on foreign currency cash flow hedge instrument					(55)	(55)
unrealized loss on investments	-	-	-	-	(26)	(26)

common stock issued in connection with vesting of performance-based restricted stock units	118,845	6	(6)	-	-	-
fully vested common stock award	4,800	-	-	-	-	-
common stock issued in connection with vesting of time-based restricted stock units	1,200	-	-			-
common stock issued in connection with exercise of stock options	15,600	1	110	-	-	111
common stock issued surrendered for withholding taxes payable	(46,800)	(2)	(1,528)	-	-	(1,530)
dividends paid				(6,843)		(6,843)
balance, April 29, 2018	12,450,276	$ 623	$ 48,203	$ 114,635	$ (85)	$ 163,376

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

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CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended April 29, 2018, April 30, 2017, and May 1, 2016 (dollars in thousands)	2018	2017	2016
cash flows from operating activities:			
net income	$20,877	$22,334	$16,935
adjustments to reconcile net income to net cash provided by operating activities:			
depreciation	7,672	7,085	6,671
amortization of other assets	351	244	170
stock-based compensation	2,212	3,358	2,742
deferred income taxes	(2,482)	4,667	4,192
gain on sale of equipment	-	(131)	(35)
loss from investment in unconsolidated joint venture	266	23	-
realized loss on sale of short-term investments	-	12	127
foreign currency exchange losses (gains)	66	78	(40)
changes in assets and liabilities, net of effects of acquisition of assets:			
accounts receivable	(299)	(1,555)	4,476
inventories	(24)	(5,437)	(4,407)
other current assets	226	(495)	(206)
other assets	(81)	30	(46)
accounts payable-trade	(4,028)	5,828	(3,785)
accrued expenses and deferred compensation	(1,562)	992	1,498
deferred revenue	(94)	-	-
income taxes	4,373	(2,966)	91
net cash provided by operating activities	27,473	34,067	28,383
cash flows from investing activities:			
capital expenditures	(8,005)	(11,858)	(11,475)
net cash paid for acquisition of assets	(4,541)	-	-
investment in unconsolidated joint venture	(661)	(1,129)	-
purchase of short-term investments	(49)	(44)	(104)
proceeds from the sale of short-term investments	-	2,000	5,612
purchase of long-term investments (held-to-maturity)	-	(31,020)	-
purchase of long-term investments (rabbi trust)	(1,902)	(1,351)	(1,649)
proceeds from the sale of long-term investments (rabbi trust)	57	-	-
payments on life insurance policies	(18)	(18)	(18)
proceeds from the sale of equipment	6	141	233
net cash used in investing activities	(15,113)	(43,279)	(7,401)
cash flows from financing activities:			
proceeds from lines of credit	19,000	9,000	7,000
payments on lines of credit	(19,000)	(9,000)	(7,000)
payments on vendor-financed capital expenditures	(3,750)	(1,050)	-
payments on long-term debt	-	-	(2,200)
debt issuance costs	-	(2)	(134)
repurchases of common stock	-	-	(2,397)
dividends paid	(6,843)	(6,280)	(8,140)

common stock surrendered for withholding taxes payable	(1,530)	(429)	(747)
proceeds from common stock issued	111	37	200
net cash used in financing activities	(12,012)	(7,724)	(13,418)
effect of exchange rate changes on cash and cash equivalents	85	(56)	498
increase (decrease) in cash and cash equivalents	433	(16,992)	8,062
cash and cash equivalents at beginning of year	20,795	37,787	29,725
cash and cash equivalents at end of year	$21,228	$20,795	$37,787

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Business – Our operations are classified into two business segments: mattress fabrics and upholstery fabrics, in which the majority of our revenues are derived in North America.

The mattress fabrics segment manufacturers, sources, and sells fabrics and mattress covers to bedding manufacturers. At April 29, 2018, we had wholly-owned mattress fabric operations located in Stokesdale, NC, High Point, NC, Quebec, Canada, and a fifty percent owned cut and sew mattress cover operation located in Haiti. On June 22, 2018, we acquired a majority interest in eLuxury, LLC (eLuxury), an internet company offering bedding accessories and home goods directly to consumers, whose primary products include a line of mattress pads manufactured at eLuxury's facility in Evansville, Indiana (see Note 2 for further details regarding our business combinations).

The upholstery fabrics segment sources, manufacturers, and sells fabrics to residential and commercial furniture manufacturers. At April 29, 2018, we had wholly-owned upholstery fabric operations located in Shanghai, China, Burlington, NC, and a recently acquired business located in Knoxville, TN, (see Note 2 for further details regarding our business combinations), and Anderson, SC. On June 12, 2018, our board of directors decided to close our upholstery fabrics manufacturing facility in Anderson, South Carolina, due to continued decline in demand for the products manufactured at that facility (see note 22 for further details regarding this exit and disposal activity).

Basis of Presentation – The consolidated financial statements of the company have been prepared in accordance with U.S. generally accepted accounting principles.

Principles of Consolidation – The consolidated financial statements include the accounts of the company and its subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation. The accounts of our subsidiaries located in Shanghai, China and Poznan, Poland are consolidated as of April 30, a calendar month end, which is required by the Chinese and Polish governments, respectively. No events occurred related to the difference between our fiscal year end on the Sunday closest to April 30 and our China and Polish subsidiaries year end of April 30 that materially affected the company's financial position, results of operations, or cash flows for fiscal years 2018, 2017, and 2016.

Effective January 1, 2017, Culp International Holdings, Ltd. (Culp), a wholly-owned subsidiary of Culp, Inc., entered into a joint venture agreement, pursuant to which Culp owns fifty percent of CLASS International Holdings, Ltd (CLIH).

Culp's investment in CLIH will be accounted for under the equity method of accounting in accordance with ASC Topic 823 – Investments – Equity Method and Joint Ventures. The equity method of accounting is required for an investee entity (i.e. CLIH) that is not consolidated but over which the reporting entity (i.e. Culp Inc.) exercises significant influence. Whether or not a reporting entity exercises significant influence with respect to an investee depends on an evaluation of several factors including, representation on the investee's board of directors, voting rights, and ownership level. Under the equity method of accounting, CLIH's accounts are not reflected within our Consolidated Balance Sheets and Statements of Net Income. Our share of earnings and losses from CLIH will be reflected in the caption "Income (loss) from investment in unconsolidated joint venture" in the Consolidated Statements of Net Income. Our carrying value in CLIH is reflected in the caption "Investment in unconsolidated joint venture" in our Consolidated Balance Sheets.

If our carrying value in CLIH is reduced to zero, no further losses will be recorded in our consolidated financial statements. However, if CLIH subsequently reports income, we will not record our share of such income until it equals the amount of its share of losses previously recognized.

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Fiscal Year – Our fiscal year is the 52 or 53-week period ending on the Sunday closest to April 30. Fiscal 2018, 2017, and 2016 each included 52 weeks.

Use of Estimates – The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents – Cash and cash equivalents include demand deposit and money market accounts. We consider all highly liquid instruments with original maturities of three months or less to be cash equivalents.

A summary of our cash and cash equivalents by geographic area follows:

(dollars in thousands)	April 29, 2018	*April 30,* 2017
United States	$9,452	1,147
China	9,221	12,722
Canada	2,349	2,906
Cayman Islands	206	4,020
	$21,228	20,795

Throughout the year, we have cash balances regarding our U.S. operations in excess of federally insured amounts on deposit with a financial institution. We have not experienced any losses in such accounts. Management believes we are not exposed to any significant credit risk related to cash and cash equivalents.

Short-Term Investments – Our short-term investments consist of bond funds that are classified as available-for-sale. Our short-term investments had an accumulated unrealized loss totaling $91,000 and $47,000 at April 29, 2018 and April 30, 2017, respectively. Our short-term investments were recorded at its fair value of $2.5 million and $2.4 million at April 29, 2018 and April 30, 2017, respectively. The fair value of our short-term investments approximates its cost basis.

A summary of our short-term investments by geographic area follows:

(dollars in thousands)	April 29, 2018	*April 30,* 2017
Canada	$1,366	1,362
United States	1,085	1,081
	$2,451	2,443

Long-Term Investments (Rabbi Trust) – We have a Rabbi Trust to set aside funds for participants of our deferred compensation plan (the “Plan”) and enable the participants to credit their contributions to various investment options of the Plan. The investments associated with the Rabbi Trust consist of investments in a money market fund and various mutual funds that are classified as available for sale.

Our long-term investments are classified as available for sale and were recorded at its fair value of $7.3 million and $5.5 million at April 29, 2018 and April 30, 2017, respectively. Our long-term investments had an accumulated unrealized gain totaling $61,000 and $43,000 at April 29, 2018, and April 30, 2017, respectively. The fair value of our long-term investments associated with our Rabbi Trust approximates its cost basis.

Investments (Held-To-Maturity) – During the second quarter of fiscal 2017, management invested approximately $31.0 million in investment grade U.S. Corporate bonds with maturities ranging from 2 to 2.5 years. The purpose of this investment was to earn a higher rate of return on our excess cash located in the Cayman Islands. These investments are classified as held-to-maturity as we have the positive intent and ability to hold these investments until maturity. Our held-to-maturity will be recorded as either current or noncurrent on our Consolidated Balance Sheets, based on the contractual maturity dated and stated at amortized cost.

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At April 29, 2018, the amortized cost of our held-to-maturity investments was $30.8 million and the fair value was $30.6 million. At April 30, 2017, the amortized cost of our held-to-maturity investments $30.9 million and the fair value was $30.8 million.

Our U.S. corporate bonds were classified as level 2 as they are traded over the counter within a broker network and not on an active market. The fair value of our U.S. corporate bonds is determined based on a published source that provides an average bid price. The average bid price is based on various broker prices that are determined based on market conditions, interest rates, and the rating of the respective U.S. corporate bond.

Accounts Receivable – Substantially all of our accounts receivable are due from manufacturers in the bedding and furniture industries. We grant credit to customers, a substantial number of which are located in North America, and generally do not require collateral. We record an allowance for doubtful accounts that reflects estimates of probable credit losses. Management continuously performs credit evaluations of our customers, considering numerous inputs including financial position, past payment history, cash flows, management ability, historical loss experience and economic conditions and prospects. We do not have any off-balance sheet credit exposure related to our customers.

Inventories – We account for inventories at the lower of first-in, first-out (FIFO) cost or net realizable value. Management continually examines inventory to determine if there are indicators that the carrying value exceeds its net realizable value. Experience has shown that the most significant indicators of the need for inventory markdowns are the age of the inventory and the planned discontinuance of certain patterns. As a result, we provide inventory valuation write-downs based upon established percentages based on the age of the inventory that are continually evaluated as events and market conditions require. Our inventory aging categories are six, nine, twelve, and fifteen months. We also provide inventory valuation write-downs based on the planned discontinuance of certain products based on the current market values at that time as compared to their current carrying values.

Property, Plant and Equipment – Property, plant and equipment are recorded at cost and depreciated over their estimated useful lives using the straight-line method. Major renewals and betterments are capitalized. Maintenance, repairs and minor renewals are expensed as incurred. When properties or equipment are retired or otherwise disposed of, the related cost and accumulated depreciation are removed from the accounts. Amounts received on disposal less the book value of assets sold are charged or credited to income from operations.

Management reviews long-lived assets, which consist principally of property, plant and equipment, for impairment whenever events or changes in circumstances indicate that the carrying value of the asset may not be recovered. Recoverability of long-lived assets to be held and used is measured by a comparison of the carrying amount of the asset to future net undiscounted cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, the related cost and accumulated depreciation are removed from the accounts and an impairment charge is recognized for the excess of the carrying amount over the fair value of the asset. After the impairment loss is recognized, the adjusted carrying amount is the new accounting basis. Assets to be disposed of by sale are reported at the lower of the carrying value or fair value less cost to sell when the company has committed to a disposal plan, and would be reported separately as assets held for sale in the Consolidated Balance Sheets.

Interest Costs – Interest costs incurred were $194,000, $158,000, and $58,000 in fiscal years 2018, 2017, and 2016, respectively.

We capitalize interest costs incurred on funds used to construct property, plant, and equipment. The capitalized interest is recorded as part of the asset to which it relates and is amortized over the asset's estimated useful life. Interest costs of $100,000, $158,000, and $58,000 were capitalized for the construction of qualifying fixed assets for fiscal 2018, 2017, and 2016, respectively.

Foreign Currency Adjustments – The United States dollar is the functional currency for the company's Canadian and Chinese subsidiaries. All monetary foreign currency asset and liability accounts are remeasured into U.S. dollars at year-end exchange rates. Non-monetary asset and liabilities such as property, plant, and equipment are recorded at historical exchange rates. Foreign currency revenues and expenses are remeasured at average exchange rates in effect during the year, except for certain expenses related to balance sheet amounts remeasured at historical exchange rates. Exchange gains and losses from remeasurement of foreign currency denominated monetary assets and liabilities are recorded in the other expense line item in the Consolidated Statements of Net Income in the period in which they occur.

A summary of our foreign currency exchange (losses) gains by geographic area follows:

(dollars in thousands)	2018	2017	2016
China	$(298)	111	(70)
Canada	(8)	(120)	76
	$(306)	(9)	6

Goodwill – Management assesses goodwill for impairment at the end of each fiscal year or between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying values. In accordance with ASU No. 2011-08, Intangibles-Goodwill and Other (ASC Topic 350), we performed our annual impairment test on a qualitative basis. Based on our qualitative assessments as of April 29, 2018 and April 30, 2017, we determined that our goodwill was not impaired using a more likely than not standard.

Income Taxes – Income taxes are accounted for under the asset and liability method. Deferred income taxes are recognized for temporary differences between the financial statement carrying amounts and the tax bases of our assets and liabilities and operating loss and tax credit carryforwards at income tax rates expected to be in effect when such amounts are realized or settled. The effect on deferred income taxes of a change in tax rates is recognized in income (loss) in the period that includes the enactment date.

Deferred Income Taxes – Valuation Allowance

We evaluate our deferred income taxes to determine if a valuation allowance is required. We 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 we operate 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.

Deferred Income Taxes – Undistributed Earnings from Foreign Subsidiaries

We assess whether the undistributed earnings from our foreign subsidiaries will be reinvested indefinitely or eventually distributed to our U.S. parent company. We are required to record a deferred tax liability for undistributed earnings from foreign subsidiaries that will not be reinvested indefinitely. Also, we assess the recognition of U.S. foreign income tax credits associated with foreign withholding and income tax payments and whether it is more-likely-than-not that our foreign income tax credits will not be realized. If it is determined that any foreign income tax credits need to be recognized or it is more-likely-than-not our foreign income tax credits will not be realized, an adjustment to our provision for income taxes will be recognized at that time.

For fiscal 2019 and beyond, the 2017 Tax Cuts and Jobs Act allows a U.S. corporation a 100% dividend received deduction for earnings and profits received from a 10% owned foreign corporation. Therefore, a deferred tax liability will only be required for withholding taxes that are incurred by our foreign subsidiaries at the time E&P is distributed.

Uncertainty in Income Taxes

We recognize the tax impact from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax impact recognized in the financial statements from such a position is measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate resolution. Penalties and interest related to uncertain tax positions are recorded as income tax expense. Significant judgment is required in the identification of uncertain tax positions and in the estimation of penalties and interest on uncertain tax positions.

Revenue Recognition – Revenue associated with the sale of our upholstery and mattress fabric products are primarily recognized upon shipment of inventory and when title and risk of loss pass to the customer. Provision is currently made for estimated product returns, claims and allowances. Management considers historical claims and return experience, among other things, when establishing the allowance for returns and allowances.

On April 1, 2018, we acquired Read Windows Products, LLC, a source of custom window treatments for the hospitality and commercial industries, which involves the sale of certain products and installation services. Revenue associated with the sale of products are recognized upon shipment of inventory and when title and risk of loss pass to the customer. We recognize revenue on installation services as services are rendered. Amounts billed and collected before the services are performed are included in deferred revenues (see Note 2 for further details regarding our business combinations).

Shipping and Handling Costs – Revenue received for shipping and handling costs, which is immaterial for all periods presented, is included in net sales. Shipping costs, principally freight, that comprise payments to third-party shippers are classified as cost of sales. Handling costs represent finished goods warehousing costs incurred to store, move, and prepare products for shipment in the company’s various distribution facilities. Handling costs were $4.6 million, $4.6 million and $4.2 million in fiscal 2018, 2017, and 2016, respectively, and are included in selling, general and administrative expenses.

Sales and Other Taxes – Sales and other taxes collected from customers and remitted to governmental authorities are presented on a net basis and, as such, are excluded from revenues.

Stock-Based Compensation – Our equity incentive plans are described more fully in Note 13. ASC 718, “Compensation – Stock Compensation”, requires that all stock-based compensation be recognized as compensation expense in the financial statements and that such cost be measured at the grant date for awards issued to employees and the company’s board of directors. Equity awards issued to non-employees are measured at the earlier date of when the performance criteria are met or at the end of each reporting period. Compensation expense for time vested restricted stock awards are amortized on a straight-line basis over the remaining vesting periods. Compensation expense for performance based restricted stock units were recorded based on an assessment each reporting period of the probability if certain performance goals were to be met during the contingent vesting period. If performance goals were not probable of occurrence, no compensation expense was recognized. Compensation cost recognized on performance goals that were previously deemed probable and subsequently, were not or expected to be met, previously recognized compensation cost was reversed.

Fair Value of Financial Instruments – The accompanying consolidated financial statements include certain financial instruments, and the fair market value of such instruments may differ from amounts reflected on a historical basis. These financial instruments include our short-term and long-term investments. The fair value measurements of our financial instruments are described more fully in Note 14.

The carrying amount of cash and cash equivalents, short-term investments, accounts receivable, other current assets, line of credit, accounts payable and accrued expenses approximates fair value because of the short maturity of these financial instruments.

Recently Adopted Accounting Pronouncements

Measurement of Inventory

In July 2015, the FASB issued ASU No. 2015-11, “Simplifying the Measurement of Inventory”, which changed the measurement principle for inventory from the lower of cost or market to lower of cost and net realizable value. ASU No. 2015-11 was effective for fiscal years and interim periods within those fiscal years, beginning after December 15, 2016. As a result, we adopted ASU No. 2015-11 in the first quarter of fiscal 2018 and the adoption of this guidance did not have a significant impact on our consolidated financial statements.

Stock-Based Compensation

In March 2016, the FASB issued ASU No. 2016-09, "Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting". ASU No. 2016-09 was effective for fiscal years and interim periods within those fiscal years, beginning after December 15, 2016. Accordingly, we adopted this guidance during the first quarter of fiscal 2018. ASU No. 2016-09 aims to simplify several aspects of accounting and financial reporting for share-based payment transactions. One provision within this pronouncement requires that excess income tax benefits and deficiencies related to share-based payments be recognized within income tax expense as a discrete event in the period in which they occur, rather than within additional paid-in capital on our Consolidated Balance Sheet on a prospective basis. The impact to our results of operations related to this provision during fiscal 2018 was a reduction to income tax expense of $497,000. The impact of this provision on our future results of operations will depend in part on the market prices for the shares of our common stock on the dates there are taxable events related to the share-based awards, and therefore, the impact is difficult to predict. In connection with another provision within ASU No. 2016-09, we have elected to account for forfeitures of share-based awards as an estimate of the number of awards that are expected to vest, which is consistent with our accounting policy prior to adoption.

Also, we adopted the provisions of ASU No. 2016-09 related to changes on the Consolidated Statements of Cash Flows on a retrospective basis. As a result, we no longer classify excess income tax benefits as a financing activity, which increased net cash provided by operating activities and reduced net cash provided by financing activities by $657,000 and $841,000 for fiscal 2017 and 2016, respectively. Additionally, we no longer classify payments for employee taxes when common stock shares are withheld to satisfy the employer’s statutory income tax withholding obligation as an operating activity, which increased net cash provided by operating activities and reduced net cash provided by financing activities by $429,000 and $747,000 for fiscal 2017 and 2016, respectively.

Recently Issued Accounting Pronouncements

In May 2014, the FASB issued ASU No. 2014-09, as amended, Revenue from Contracts with Customers. The amendments in this ASU are intended to enhance the comparability of revenue recognition practices and will be applied to all contracts with customers. Improved disclosures related to the nature, amount, timing, and uncertainty of revenue that is recognized are requirements under the amended guidance. The new revenue standard will be effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. We are therefore required to apply the new revenue guidance in our fiscal 2019 interim and annual financial statements. This ASU can be adopted either retrospectively or as a cumulative-effect adjustment as of the date of adoption. Currently, we are evaluating the impact this guidance may have with regards to our recent acquisition of Read Window Products, LLC. However, we do not expect this guidance to have a material impact on our results of operations and financial position, but we do expect this guidance to have a material impact on the disclosures required in our notes to the consolidated

financial statements.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842), which increases transparency and comparability among companies accounting for lease transactions. The most significant change of this update will require the recognition of lease assets and liabilities on the balance sheet for operating lease arrangements with lease terms greater than twelve months for lessees. This update will require a modified retrospective application which includes a number of optional practical expedients related to the identification and classification of leases commenced before the effective date. This ASU is effective for fiscal years and interim periods within those fiscal years, beginning after December 15, 2018. We are therefore required to apply this guidance in our fiscal 2020 interim and annual financial statements. We are currently assessing the impact that this guidance will have on our consolidated financial statements, but we expect this guidance to have a material impact on our financial position as a result of the requirement to recognize right-of-use assets and lease liabilities on our Consolidated Balance Sheets.

In August 2016, the FASB issued ASU No. 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments, to address the diversity in how certain cash receipts and cash payments are presented in the statement of cash flows. This new guidance provides clarity around the cash flow classification for eight specific issues in an effort to reduce the current and potential future diversity in practice. This standard, which is to be applied retrospectively, will be effective for the first interim period within annual reporting periods beginning after December 15, 2017, and early adoption is permitted. We are therefore required to apply this new guidance in our fiscal 2019 interim and annual financial statements. We are currently assessing the impact that this guidance will have on our statement of cash flows, but we do expect this guidance to be applicable in determining how we classify our contingent consideration payments associated with our business combinations (see note 2) as either investing or financing activities. This guidance requires cash payments not made soon after the acquisition date of a business combination by an acquirer to settle a contingent consideration liability should be separated and classified as cash outflows from financing activities. In comparison, cash payments made soon after the acquisition date should be separated and classified as cash outflows from investing activities.

In October 2016, the FASB issued ASU No. 2016-16, Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory, to reduce the diversity in practice and complexity associated with accounting for the income tax consequences of intra-entity transfers of assets other than inventory. Current GAAP prohibits recognition of deferred income taxes for an intra-entity transfer until the asset has been sold to an outside party. The new pronouncement stipulates that an entity should recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. This new guidance will be effective for annual reporting periods beginning after December 15, 2017, including interim periods within those annual reporting periods, with early adoption permitted in the first interim period only. We are therefore required to apply this new guidance in our fiscal 2019 interim and annual financial statements. The amendments are to be applied on a modified retrospective basis through a cumulative-effect adjustment directly to retained earnings as of the beginning of the period of adoption. Currently, we do not expect that this guidance will have a material impact on our results of operations and financial position,

There are no other new accounting pronouncements that are expected to have a significant impact on our consolidated financial statements.

2. BUSINESS COMBINATIONS

Read Window Products, LLC

Effective April 1, 2018, we entered into an Asset Purchase Agreement (Agreement) to acquire certain assets and assume certain liabilities of Read Window Products, Inc. (Read), a source of custom window treatments for the hospitality and commercial industries. Based in Knoxville, Tennessee, Read is a turn-key provider of window treatments offering measuring, sourcing, fabrication and installation services. Read's custom product line includes motorization, shades, drapery, upholstered headboards and shower curtains. In addition, Read supplies soft goods such as decorative top sheets, coverlets, duvet covers, bed skirts, bolsters and pillows, for leading hospitality brands worldwide. The addition of window treatments and other soft goods to our product line will allow us to be a more complete source of fabrics for the hospitality market, in which we believe there are significant growth opportunities.

The purchase price for the net assets acquired was $5.7 million, of which $4.5 million was paid at closing on Apri1 1, 2018, $375,000 was paid in May 2018, and $763,000 is to be paid in June in 2019, subject to certain conditions as defined in the Agreement.

The Agreement contains a contingent consideration arrangement that requires us to pay a former shareholder of Read based on adjusted EBITDA as defined in the agreement for calendar year 2018 in excess of fifty percent of a pre-established adjusted EBITDA target as defined in the agreement. Based on historical and projected financial results in relation to the pre-established adjusted EBITDA target, we currently believe a contingent payment will not be made, and therefore, no contingent liability has been recorded.

The following table presents the final allocation of the acquisition cost to the assets acquired and liabilities assumed based on their fair values.

(dollars in thousands)	Fair Value
Customer relationships (Note 8)	$2,247
Goodwill (Note 6)	2,107
Inventory	1,128
Accounts receivable	897
Tradename (Note 8)	683
Property, plant & equipment	379
Other assets	35
Deferred revenue	(903)
Accounts payable	(719)
Accrued expenses	(174)
	$5,680

We recorded customer relationships at fair market value based on a multi-period excess earnings valuation model. These customer relationships will be amortized on a straight-line basis over their nine-year useful life. We recorded the tradename at fair market based on the relief from royalty method. This tradename was determined to have an indefinite useful life and, therefore, is not being amortized. Equipment will be depreciated on a straight-line basis over useful lives ranging from three to ten years.

The goodwill related to this acquisition is attributable to Read's reputation with the products and services they provide and the collective experience of management with regards to its operations, customers, and industry. Goodwill is deductible for income tax purposes over the statutory period of fifteen years.

Acquisition costs totaling $339,000 were included in selling, general, and administrative expenses in our fiscal 2018 Consolidated Statement of Net Income.

The following unaudited pro forma consolidated results of operations for the years ending April 29, 2018 and April 30, 2017 have been prepared as if the acquisition of Read had occurred at May 2, 2016.

	Years ended	
	April 29,	April 30,
(dollars in thousands, except per share data)	2018	2017
Net Sales	$334,953	$321,398
Income from operations	26,799	30,441
Net income	20,455	22,552
Net income per share, basic	1.65	1.83
Net income per share, diluted	1.62	1.80

The unaudited pro forma information is presented for informational purposes only and is not necessarily indicative of the results of operations that actually would have been achieved had the acquisition been consummated as of that time, nor is it intended to be a projection of future results.

Actual revenue and net income for the month of April 2018 were included in our Consolidated Statement of Net Income and totaled $880,000 and $5,000, respectively.

eLuxury

Effective June 22, 2018, after the end of the fiscal year, we acquired a majority interest in eLuxury, an internet company offering bedding accessories and home goods directly to consumers. The company's primary products include a line of mattress pads manufactured at eLuxury’s facility in Evansville, Indiana. eLuxury also offers handmade platform beds, cotton bed sheets, and other bedding items. The compny's products are available on eLuxury’s own branded website, eLuxury.com, Amazon and other leading online retailers for specialty home goods.

We believe this acquisition will provide a new sales channel for the bedding accessory category and will expand our opportunity to participate in the rapidly growing e-commerce direct-to-consumer space. This business combination brings together eLuxury’s experience in e-commerce, online brand building, and direct-to-consumer shopping and fulfillment expertise with our global production, sourcing and distribution capabilities. We also have an opportunity to market our new line of bedding accessories, marketed in the brand name, 'Comfort Supply Company by Culp', as well as other finished products that we may develop, including items made from upholstery fabrics, through this e commerce platform.

The estimated purchase price for this acquisition is $12.5 million, of which $11.6 million was paid at closing, with the remaining $874,000 amount to be paid based on holdback provisions defined in the purchase agreement. The agreement contains a contingent consideration arrangement that requires us to pay the seller based on adjusted EBITDA to be determined over a three-year period in relation to a pre-established adjusted EBITDA target. We are currently performing our preliminary valuation of the allocation of the purchase price among the assets and equity interest acquired and liabilities assumed.

3. ACCOUNTS RECEIVABLE

A summary of accounts receivable follows:

(dollars in thousands)	April 29, 2018	April 30, 2017
customers	$28,097	26,211
allowance for doubtful accounts	(357)	(414)
reserve for returns and allowances and discounts	(1,433)	(1,220)
	$26,307	24,577

A summary of the activity in the allowance for doubtful accounts follows:

(dollars in thousands)	2018	2017	2016
beginning balance	$(414)	(1,088)	(851)
provision for bad debts	57	222	(363)
write-offs, net of recoveries	-	452	126
ending balance	$(357)	(414)	(1,088)

A summary of the activity in the allowance for returns and allowances and discounts follows:

(dollars in thousands)	2018	2017	2016
beginning balance	$(1,220)	(962)	(738)
provision for returns and allowances and discounts	(3,295)	(3,061)	(2,825)
credits issued	3,082	2,803	2,601
ending balance	$(1,433)	(1,220)	(962)

4. INVENTORIES

A summary of inventories follows:

(dollars in thousands)	April 29, 2018	*April 30,* 2017
raw materials	$6,024	6,456
work-in-process	3,264	3,095
finished goods	44,166	41,931
	$53,454	51,482

5. PROPERTY, PLANT AND EQUIPMENT

A summary of property, plant and equipment follows:

(dollars in thousands)	depreciable lives (in years)	April 29, 2018	April 30, 2017
land and improvements	0-10	$963	836
buildings and improvements	7-40	31,022	19,071

leasehold improvements	**	1,993	1,541
machinery and equipment	3-12	72,924	67,709
office furniture and equipment	3-10	9,514	8,936
capital projects in progress		2,086	12,901
		118,502	110,994
accumulated depreciation and amortization		(66,708)	(59,343)
		$51,794	51,651

** Shorter of life of lease or useful life.

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6. GOODWILL

A summary of the change in the carrying amount of goodwill follows:

(dollars in thousands)	2018	2017	2016
beginning balance	$11,462	11,462	11,462
acquisition of assets (note 2)	2,107	-	-
loss on impairment	-	-	-
ending balance	$13,569	11,462	11,462

7. INVESTMENT IN UNCONSOLIDATED JOINT VENTURE

Effective January 1, 2017, Culp International Holdings, Ltd. (Culp), a wholly-owned subsidiary of Culp, Inc., entered into a joint venture agreement, pursuant to which Culp owns fifty percent of CLASS International Holdings, Ltd (CLIH). CLIH produces cut and sewn mattress covers, and its operations are located in a modern industrial park on the northeast border of Haiti, which borders the Dominican Republic. CLIH commenced production in the second quarter of fiscal 2018 and complements our mattress fabric operations with a mirrored platform that enhances our ability to meet customer demand while adding a lower cost operation to our platform.

CLIH incurred a net loss of $532,000 and $46,000 in fiscal 2018 and 2017, respectively. CLIH's net loss in fiscal 2017 pertained to initial start up operating expenses incurred during the fourth quarter. Culp's equity interests in these net losses were $266,000 and $23,000 in fiscal 2018 and 2017, respectively.

The following table summarizes information of assets, liabilities and members' equity of our equity method investment in CLIH:

(dollars in thousands)	April 29, 2018	April 30, 2017
total assets	$3,130	$2,258
total liabilities	$128	$46
total members' equity	$3,002	$2,212

8. OTHER ASSETS

A summary of other assets follows:

(dollars in thousands)	April 29, 2018	April 30, 2017
customer relationships, net	$2,839	664
tradename	683	-
non-compete agreement, net	753	828
cash surrender value – life	393	376
other	564	526
	$5,232	2,394

Customer Relationships

A summary of the change in the carrying amount of our customer relationships follows:

(dollars in thousands)	2018	2017	2016
beginning balance	$664	715	766
acquisition of assets (note 2)	2,247	-	-
amortization expense	(72)	(51)	(51)
loss on impairment	-	-	-
ending balance	$2,839	664	715

In connection with our asset purchase agreement with Read (see note 2) on April 1, 2018, we purchased certain customer relationships. We recorded these customer relationships at fair market value totaling $2.2 million based on a multi-period excess earnings valuation model. These customer relationships will be amortized on a straight-line basis over their nine-year useful life.

Additionally, we have customer relationships from a prior acquisition with a carrying amount of $613,000 at April 29, 2018. These customer relationships are being amortized on a straight-line basis over their seventeen-year useful life.

The gross carrying amount of our customer relationships was $3.1 million and $868,000 at April 29, 2018 and April 30, 2017, respectively. Accumulated amortization for these customer relationships was $276,000 and $204,000 at April 29, 2018 and April 30, 2017, respectively.

The remaining amortization expense for the next five fiscal years and thereafter follows: FY 2019 - $301,000; FY 2020 - $301,000; FY 2021 - $301,000; FY 2022 - $301,000; FY 2023 - $301,000; and Thereafter - $1,334,000.

The weighted average amortization period for our customer relationships is 9.6 years as of April 29, 2018.

Tradename

In connection with the asset purchase agreement noted above, we purchased the tradename associated with Read. We recorded this tradename at fair market value totaling $683,000 based on the relief from royalty method. This tradename was determined to have an indefinite useful life and, therefore, is not being amortized.

Non-Compete Agreement

A summary of the change in the carrying amount of our non-compete agreement follows:

(dollars in thousands)	2018	2017	2016
beginning balance	$828	903	978
amortization expense	(75)	(75)	(75)
loss on impairment	-	-	-
ending balance	$753	828	903

We have a non-compete agreement from a prior acquisition that is being amortized on a straight line basis over the fifteen year life of the agreement.

The gross carrying amount of this non-compete agreement was $2.0 million at April 29, 2018 and April 30, 2017, respectively. Accumulated amortization for this non-compete agreement was $1.3 million and $1.2 million at April 29, 2018 and April 30, 2017, respectively.

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The remaining amortization expense for the next five years and thereafter follows: FY 2019 - $75,000; FY 2020 - $75,000; FY 2021 - $75,000; FY 2022 - $75,000; FY 2023 - $75,000, and Thereafter - $378,000.

The weighted average amortization period for the non-compete agreement is 10 years as of April 29, 2018.

Cash Surrender Value - Life Insurance

We had one life insurance contract with a death benefit of $1.4 million at April 29, 2018 and April 30, 2017, respectively. Our cash surrender value - life insurance balance of $393,000 and $376,000 at April 29, 2018 and April 30, 2017, respectively, are collectible upon death of the respective insured.

9. ACCRUED EXPENSES

A summary of accrued expenses follows:

(dollars in thousands)	April 29, 2018	April 30, 2017
compensation, commissions and related benefits	$6,918	10,188
advertising rebates	750	468
interest	20	51
other	2,400	1,240
	$10,088	11,947

At April 29, 2018, we had accrued expenses totaling $10.1 million, of which $9.3 million and $763,000 were classified as current accrued expenses and long-term accrued expenses, respectively, in the accompanying Consolidated Balance Sheets. As of April 30, 2017, we had accrued expense totaling $11.9 million, all of which were classified as current accrued expenses, in the accompanying Consolidated Balance Sheets.

10. INCOME TAXES

Income Tax Expense and Effective Income Tax Rate

Total income tax expense was allocated as follows:

(dollars in thousands)	2018	2017	2016
income from operations	$5,740	7,339	10,963
shareholders' equity, related to the tax benefit arising from stock based compensation	-	(657)	(841)
	$5,740	6,682	10,122

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Income tax expense attributable to income from operations consists of:

(dollars in thousands)	2018	2017	2016
current			
federal	$(1,367)	109	-
state	9	13	6
2017 Tax Cuts and Jobs Act	4,854	-	-
foreign	4,726	5,981	6,765
foreign – reversal of uncertain tax position	-	(3,431)	-
	8,222	2,672	6,771
deferred			
federal	4,295	404	(1,205)
state	112	54	305
2017 Tax Cuts and Jobs Act (1)	(6,903)	-	-
undistributed earnings – foreign subsidiaries	(195)	(101)	(1,129)
U.S. operating loss carryforwards	-	3,630	5,467
foreign	93	734	1,086
valuation allowance (1)	116	(54)	(332)
	(2,482)	4,667	4,192
	$5,740	7,339	10,963

(1) The income tax benefit of $6,903 includes a charge of $4,550 for the establishment of a valuation allowance against U.S. foreign tax credits that are more-likely-than not to be realized as a result of the 2017 Tax Cuts and Jobs Act.

Income (loss) before income taxes related to our foreign and U.S. operations consists of:

(dollars in thousands)	2018	2017	2016
Foreign			
China	$11,036	13,650	14,130
Canada	5,985	4,918	3,647
Poland	-	(19)	(62)
Cayman Islands	339	154	-
Total Foreign	17,360	18,703	17,715
United States	9,523	10,993	10,183
	$26,883	29,696	27,898

The following schedule summarizes the principal differences between the income tax expense at the federal income tax rate and the effective income tax rate reflected in the consolidated financial statements:

	2018	2017	2016
federal income tax rate	30.4%	34.0 %	34.0%
tax effects of the 2017 Tax Cuts and Jobs Act	(7.6)	-	-
tax effects of Chinese foreign exchange (losses) gains	(2.8)	1.6	4.4
reversal of foreign uncertain income tax position	-	(11.6)	-
tax effects of stock-based compensation	(1.8)	-	-
undistributed earnings from foreign subsidiaries	3.7	-	-
other	(0.5)	0.7	0.9
	21.4%	24.7 %	39.3%

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Deferred Income Taxes - Overall

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and liabilities consist of the following:

(dollars in thousands)	2018	2017
deferred tax assets:		
accounts receivable	$316	447
inventories	2,217	2,196
compensation	3,438	6,222
liabilities and other	117	890
foreign income tax credits - U.S.	5,720	44,917
alternative minimum tax credit - U.S.	-	1,428
property, plant and equipment (1)	226	245
loss carryforwards – U.S.	2,513	3,842
loss carryforwards – foreign	76	73
unrecognized tax benefits – U.S.	-	(3,842)
valuation allowances	(5,204)	(536)
total deferred tax assets	9,419	55,882
deferred tax liabilities:		
undistributed earnings on foreign subsidiaries	(4,256)	(43,978)
unrecognized tax benefits – U.S.	(380)	(7,936)
property, plant and equipment (2)	(4,352)	(5,546)
goodwill	(1,046)	(1,478)
other	(77)	(118)
total deferred tax liabilities	(10,111)	(59,056)
Net deferred liabilities	$(692)	(3,174)

(1) Pertains to the company’s operations located in China.
(2) Pertains to the company’s operations located in the U.S. and Canada.

Federal and state net operating loss carryforwards were approximately $11.5 million with related future tax benefits of $2.5 million at April 29, 2018. These carryforwards principally expire in fiscal years 2027 through fiscal 2035. Our U.S. foreign income tax credits of $5.7 million will expire 10 years from when the associated earnings and profits from our foreign subsidiaries are repatriated to the U.S.

2017 Tax Cuts and Jobs Act

On December 22, 2017 (the “Enactment Date”), the Tax Cuts and Jobs Act (H.R.1) (the “Tax Act”) was signed into law. The Tax Act contains significant changes to corporate taxation, including (i) the reduction of the corporate income tax rate to 21%, (ii) the acceleration of expensing certain business assets, (iii) a one-time mandatory repatriation tax (the “Transition Tax”) related to the transition of U.S. international tax from a worldwide tax system to a territorial tax system, (iv) limitations on the use of foreign tax credits to reduce the U.S. income tax liability, (v) the repeal of the domestic production activities deduction, (vi) additional limitations on the deductibility of interest expense and executive compensation, and (vii) the creation of new minimum taxes such as the base erosion anti-abuse tax (“BEAT”) and Global Intangible Low Taxed Income (“GILTI”) tax.

The corporate income tax rate reduction is effective as of January 1, 2018. Since we have a fiscal year rather than a calendar year, we are subject to IRS rules relating to transitional income tax rates. As a result, our fiscal 2018 federal

statutory rate is a blended income tax rate of 30.4%. For fiscal 2019 and beyond, we will utilize the enacted U.S. federal corporate income tax rate of 21%.

The key impacts of the Tax Act on our financial statements for fiscal 2018 were the re-measurement of our U.S. deferred income tax balances to the new U.S. federal corporate income tax rate and the determination of the income tax effects of the Transition Tax on our accumulated earnings and profits associated with our foreign subsidiaries. While we have not yet completed our assessment of the effects of the Tax Act, we were able to determine reasonable estimates for the impacts of the key items specified above, and thus we reported provisional amounts for these items under guidance provided by SEC Staff Accounting Bulletin No. 118 ("SAB 118"). Our estimates may change and revisions to these estimates will be recorded during the measurement period allowed by SAB 118, which is not to extend beyond one year from the Enactment Date.

The provisional estimates related to our U.S. deferred income tax balances and Transition Tax may change due to a variety of factors that include, (i) actual versus estimates of accumulated earnings and profits associated with our foreign subsidiaries, (ii) utilization of our foreign income tax credits, (iii) anticipated guidance from the U.S. Department of Treasury about implementing the Tax Act and (iv) potential guidance from the Securities and Exchange Commission and Financial Accounting Standards Board related to the Tax Act.

In order to determine the effects of the new U.S. federal corporate income tax rate on our U.S. deferred income tax balances, ASC Topic 740 "Income Taxes" (ASC Topic 740), requires the re-measurement of our U.S. deferred income tax balances as of the Enactment Date of the Tax Act, based on income tax rates at which our U.S. deferred income tax balances are expected to reverse in the future. The provisional amount determined for the re-measurement of our U.S. net deferred income taxes was an income tax charge of $2.2 million during fiscal 2018.

The Transition tax is based on our total post-1986 foreign earnings and profits ("E&P") that were previously deferred from U.S. income tax and applicable income tax rates associated with E&P held in cash and other specified assets (the "aggregate foreign cash position"). Also, E&P was not permanently reinvested prior to the Tax Act. The provisional amount determined for the income tax effects of the Transition Tax was an income tax benefit of $4.3 million during fiscal 2018. This $4.3 million income tax benefit relates to an income tax benefit of $18.0 million for the release of deferred income tax liabilities related to E&P, an income tax benefit of $11.7 million that relates to the reduction in our U.S. Federal income tax rate pursuant to the Tax Act on the effective settlement on an IRS exam related to E&P, partially offset by an income tax charge for the write-off and the establishment of a valuation allowance against our unused foreign tax credits totaling $25.4 million. The Transition Tax may be paid over a period of eight years at the election of the taxpayer and we intend to make this election.

In addition to the above mentioned key impacts of the Tax Act on fiscal 2018, the Tax Act also establishes new tax laws that will be effective for our fiscal 2019 which include the creation of new minimum taxes such as the BEAT and GILTI taxes. We have not yet made a policy election with respect to the accounting treatment of these taxes. We can either account for these taxes as expensed when incurred or factor such amounts in the measurement of our U.S. deferred income taxes. We are currently evaluating our selection of an accounting policy, which will depend, in part, on analyzing our facts to determine what the impact is expected to be under each method.

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 our assessments at April 29, 2018 and April 30, 2017, valuation allowances against our deferred income taxes pertain to the following jurisdictions:

(dollars in thousands)	April 29, 2018	April 30, 2017
U.S. foreign income tax credits	$4,550	-
U.S. state loss carryforwards and credits	578	464
Polish loss carryforwards	76	72
	$5,204	536

A summary of the change in the valuation allowances against our deferred income taxes follows:

(dollars in thousands)	2018	2017	2016
beginning balance	$536	590	922
establishment of valuation allowance (1)	4,550	-	-
change in estimate (2)	118	(54)	(332)
ending balance	$5,204	536	590

(1) The establishment of this valuation allowance pertains to U.S. foreign tax credits that are more-likely-than not to be realized as a result of the Tax Act.

(2) Amounts pertain to a change in estimate of the recoverability of certain deferred income tax assets as of the end of the respective prior fiscal year.

Deferred Income Taxes – Undistributed Earnings from Foreign Subsidiaries

In accordance with ASC Topic 740, we assess whether the undistributed earnings from our foreign subsidiaries will be reinvested indefinitely or eventually distributed to our U.S. parent company. ASC Topic 740 requires that a deferred tax liability should be recorded for undistributed earnings from foreign subsidiaries that will not be reinvested indefinitely. Also, we assess the recognition of U.S. foreign income tax credits associated with foreign withholding and income tax payments and whether it is more-likely-than-not that our foreign income tax credits will not be realized. If it is determined that any foreign income tax credits need to be recognized or it is more-likely-than-not our foreign income tax credits will not be realized, an adjustment to our provision for income taxes will be recognized at that time.

During the fiscal 2018, the Tax Act imposed a Transition Tax on our undistributed E&P associated with our foreign subsidiaries. The Tax Act required us to determine E&P as of November 2, 2017 and December 31, 2017 (the "Measurement Dates"), in which the greater E&P amount of the Measurement Dates is subject to the Transition Tax. As a result, we had provisional estimates of E&P prior to participation exemption totaling $156.7 million subject to the Transition Tax and provisional estimates totaling $42.2 million for foreign tax credits that could be used to reduce the Transition Tax subject to certain limitations as defined in the Tax Act.

For fiscal 2019 and beyond, the Tax Act allows a U.S. corporation a 100% dividend received deduction for E&P received from a 10% owned foreign corporation. Therefore, a deferred tax liability will only be required for withholding taxes that are incurred by our foreign subsidiaries at the time E&P is distributed. As a result, at April 29, 2018, we recorded a deferred tax liability of $4.3 million for withholding taxes on undistributed E&P from our foreign subsidiaries.

Uncertainty in Income Taxes

Overall

In accordance with ASC Topic 740, an unrecognized income tax benefit for an uncertain income tax position can be recognized in the first interim period if the more-likely-than-not recognition threshold is met by the reporting period, or is effectively settled through examination, negotiation, or litigation, or the statute of limitations for the relevant taxing authority to examine and challenge the tax position has expired. If it is determined that any of the above conditions occur regarding our uncertain income tax positions, an adjustment to our unrecognized income tax benefit will be recorded at that time.

The following table sets forth the change in the company's unrecognized income tax benefit:

(dollars in thousands)	2018	2017	2016
beginning balance	$12,245	14,897	14,141
increases from prior period tax positions	350	854	454
decreases from prior period tax positions (1)	(11,751)	(3,506)	(77)
increases from current period tax positions	-	-	379
ending balance	$844	12,245	14,897

(1) The $11.8 million reduction in our unrecognized income tax benefits during fiscal 2018 is mostly associated with the reduction in our U.S. Federal income tax rate pursuant to the Tax Act on the effective settlement on an IRS exam. The $3.5 million reduction in our unrecognized income tax benefits during fiscal 2017 is due to a lapse of applicable statute of limitations in a foreign jurisdiction.

At April 29, 2018, we had $844,000 of total gross unrecognized tax benefits, of which $465,000 would favorably affect the income tax rate in future periods. At April 30, 2017, we had $12.2 million of total gross unrecognized tax benefits, of which $467,000 would favorably affect the income tax rate in future periods.

At April 29, 2018, we had $844,000 of total gross unrecognized tax benefits, of which $379,000 and $465,000 were classified as net non-current deferred income taxes and income taxes payable-long-term, respectively, in the accompanying Consolidated Balance Sheets. At April 30, 2017 we had $12.2 million of total gross unrecognized tax benefits, of which $11.8 million and $467,000 were classified as net non-current deferred income taxes and income taxes payable- long-term, respectively, in the accompanying Consolidated Balance Sheets.

We elected to classify interest and penalties as part of income tax expense. At April 29, 2018 and April 30, 2017, the gross amount of interest and penalties due to unrecognized tax benefits was $40,000 and $50,000, respectively.

Our gross unrecognized income tax benefit of $844,000 at April 29, 2018, relates to income tax positions for which significant change is currently not expected within the next year. This amount primarily relates to double taxation under applicable income tax treaties with foreign tax jurisdictions. United States federal income tax returns filed by us remain subject to examination for income tax years 2017 and subsequent. Canadian federal income tax returns filed by us remain subject to examination for income tax years 2014 and subsequent. Canadian provincial (Quebec) income tax returns filed by us remain subject to examination for income tax years 2016 and subsequent. Income tax returns associated with our operations located in China are subject to examination for income tax year 2013 and subsequent.

Income Tax Exams

During the third quarter of fiscal 2017, Revenue Quebec commenced an examination of our Canadian provincial (Quebec) income tax returns for fiscal years 2013 through 2015. This examination was completed during the fourth quarter of fiscal 2018 with final adjustments totaling $4,000.

During the fourth quarter of fiscal 2016, the Internal Revenue Service commenced and examination of our U.S. Federal income tax returns for fiscal years 2014 through 2016. This examination was effectively settled during the fourth quarter of fiscal 2018 with no adjustment.

Income Taxes Paid

Income tax payments, net of income tax refunds, were $4.0 million, $5.5 million, and $6.7 million during fiscal years 2018, 2017, and 2016, respectively.

11. LINES OF CREDIT

Revolving Credit Agreement –United States

Our credit agreement with Wells Fargo Bank N.A. (“Wells Fargo”) provides a revolving loan commitment of $30 million. Interest was charged at a rate (applicable interest rate of 3.36% and 2.45% at April 29, 2018 and April 30, 2017, respectively) as a variable spread over LIBOR based on our ratio of debt to EBITDA. The Credit Agreement contains certain financial and other covenants as defined in the agreement and is set to expire on August 15, 2018.

The purpose of our revolving credit line is to support potential short term cash needs in different jurisdictions within our global operations, mitigate our risk associated with foreign currency exchange rate fluctuations, and support repatriation of earnings and profits from our foreign subsidiaries to the U.S. for various strategic purposes.

Outstanding borrowings are secured by a pledge of 65% of the common stock of Culp International Holdings, Ltd. (our subsidiary located in the Cayman Islands), as required by the Credit Agreement. There were no borrowings outstanding under the Credit Agreement at April 29, 2018 and April 30, 2017, respectively.

At April 29, 2018 and April 30, 2017, there were $250,000 in outstanding letters of credit (all of which related workers compensation) provided by the Credit Agreement.

Effective August 1, 2016, we entered into a Third Amendment to our Credit Agreement which allows us to issue letters of credit not to exceed $7.5 million. On August 3, 2016, we issued a $5.0 million letter of credit ($1.25 million was outstanding at April 29, 2018 in addition to the $250,000 letter of credit noted above) for the construction of a new building associated with our mattress fabrics segment (see Note 12 for further details). This $1.25 million outstanding letter of credit automatically expired on May 15, 2018.

Revolving Credit Agreement - China

We have an unsecured credit agreement associated with our operations in China that provides for a line of credit up to 40 million RMB ($6.3 million USD at April 29, 2018) and is set to expire on March 2, 2019. This agreement has an interest rate determined by the Chinese government and there were no outstanding borrowings as of April 29, 2018 and April 30, 2017.

Overall

Our loan agreements require, among other things, that we maintain compliance with certain financial covenants. At April 29, 2018, the company was in compliance with these financial covenants.

Interest paid during fiscal years 2018, 2017, and 2016 totaled $181,000, $114,000, and $95,000, respectively.

12. COMMITMENTS AND CONTINGENCIES

Operating Leases- Overall

We lease certain office, manufacturing and warehouse facilities and equipment under noncancellable operating leases. Lease terms related to real estate primarily range from one to five years with renewal options for additional periods ranging up to twelve years. The leases generally require the company to pay real estate taxes, maintenance, insurance and other expenses. Rental expense for operating leases was $3.0 million in fiscal 2018, $2.9 million in fiscal 2017, and $3.0 million in fiscal 2016. Future minimum rental commitments for noncancellable operating leases are $2.6 million in fiscal 2019; $1.9 million in fiscal 2020; $1.1 million in fiscal 2021; $181,000 in fiscal 2022; and $10,000 in fiscal 2023. Management expects that in the normal course of business, these leases will be renewed or replaced by other operating leases.

Operating Leases- Related Parties

In connection with an asset purchase agreement with Read (see note 2) on April 1, 2018, we assumed the lease of the building where the operation is located. This lease is with an executive of Read. The lease agreement requires monthly payments of $18,000 per month for a term of 3 years, expiring on March 31, 2021. The lease contains four successive options to renew the lease with each renewal period being three years at prices determined at the date of renewal as defined in the agreement. Rents paid to the executive of Read totaled $18,000 during fiscal 2018.

Additionally, we lease a plant facility associated with our mattress fabrics segment from a partnership owned by certain shareholders and officers of the company and their immediate families. Currently, this facility is being leased on a month to month basis at an amount of $13,000 per month. Rents paid to entities owned by certain shareholders and officers of the company and their immediate families totaled $156,000 in fiscal 2018, 2017, and 2016, respectively.

Other Litigation

The company is involved in legal proceedings and claims which have arisen in the ordinary course of business. Management has determined that it is not reasonably possible that these actions, when ultimately concluded and settled, will have a material adverse effect upon the financial position, results of operations, or cash flows of the company.

Accounts Payable – Capital Expenditures

At April 29, 2018, we had total amounts due regarding capital expenditures totaling $1.8 million, of which $1.4 million is financed and pertains to completed work for the construction of a new building (see below). The total $1.8 million amount is required to be paid in full in fiscal 2019.

At April 30, 2017, we had total amounts due regarding capital expenditures totaling $6.1 million, of which $5.1 million was financed and pertained to completed work for the construction of a new building (see below). Of the total $6.1 million, $4.8 million and $1.3 million were required to be paid in fiscal 2018 and 2019, respectively.

Purchase Commitments - Capital Expenditures

At April 29, 2018, we had open purchase commitments to construct a building and equipment for our mattress fabrics segment totaling $3.4 million. The $3.4 million includes $1.4 million (all of which represents completed work) associated with the construction of a new building noted below.

Effective May 16, 2016, we entered into an agreement with a contractor to construct a new building located in North Carolina that expands our distribution capabilities and office space at a cost of $11.3 million. This agreement required an installment payment of $1.9 million in April 2016, $4.3 million in fiscal 2017, $3.7 million in fiscal 2018, and $1.4 million in fiscal 2019 (which was paid in May 2018). Interest was charged on the outstanding installment payments at a rate of $2.25% plus the current 30 day LIBOR rate. Also, we were required to issue a letter of a credit totaling $5.0 million with the contractor being the beneficiary.

In addition to the interest that was charged on the outstanding installment payments, there was a 0.1% unused fee calculated on the balance of the $5.0 million letter of credit less the amount outstanding per month (see note 11 for further details).

This new building was placed into service July 2017 (our first quarter of fiscal 2018).

13. STOCK-BASED COMPENSATION

Equity Incentive Plan Description

On September 16, 2015, our shareholders approved an equity incentive plan entitled the Culp, Inc. 2015 Equity Incentive Plan (the "2015 Plan"). The 2015 Plan updated and replaced our 2007 Equity Incentive Plan (the "2007 Plan") as the vehicle for granting new equity based awards substantially similar to those authorized under the 2007 Plan. In general, the 2015 Plan authorizes the grant of stock options intended to qualify as incentive stock options, nonqualified stock options, stock appreciation rights, restricted stock, restricted stock units, performance units, and other equity and cash related awards as determined by our Compensation Committee. An aggregate of 1,200,000 shares of common stock were authorized for issuance under the 2015 Plan, with certain sub-limits that would apply with respect to specific types of awards that may be issued as defined in the 2015 Plan. In connection with the approval of the 2015 Plan, no further awards will be granted under the 2007 Plan, but outstanding awards under the 2007 Plan will be settled in accordance with their terms.

At April 29, 2018, there were 978,908 shares available for future equity based grants under the company's 2015 Plan.

Stock Options

Under our 2007 Plan, employees, outside directors, and others associated with the company were granted options to purchase shares of common stock at the fair market value on the date of grant.

The following tables summarize stock option activity during fiscal 2018, 2017, and 2016:

	2018		2017		2016	
	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
outstanding at beginning of year	15,600	$ 7.14	83,600	$ 8.37	140,100	$ 6.49
granted	-	-	-	-	-	-
exercised	(15,600)	7.14	(68,000)	8.65	(54,500)	3.68
canceled/expired	-	-	-	-	(2,000)	4.59
outstanding at end of year	-	-	15,600	7.14	83,600	8.37

At April 29, 2018, there were no option shares of common stock outstanding and exercisable. Therefore, there was no unrecognized compensation cost related to incentive stock option awards at April 29, 2018. No compensation expense was recorded for incentive or non-qualified stock options in fiscal 2018, 2017 and 2016 as all stock option awards were fully vested prior to fiscal 2016.

The aggregate intrinsic value for options exercised was $393,000, $1.7 million, and $1.3 million, in fiscal 2018, 2017, and 2016, respectively.

Time-Based Restricted Stock Awards

The following table summarizes the time vested restricted stock activity during fiscal years 2018, 2017, and 2016:

	2018 Shares	2017 Shares	2016 Shares
outstanding at beginning of year	1,200	-	-
granted	1,200	1,200	-
vested	(1,200)	-	-
outstanding at end of year	1,200	1,200	-

The following table summarizes information related to our grants of time-based restricted stock awards associated with a key member of management during fiscal years 2018 and 2017:

Date of Grant	(1) Restricted Stock Awarded	(2) Price Per Share	Vesting Period
July 13, 2017	1,200	$ 32.50	11 months
June 14, 2016	1,200	$ 28.00	11 months

During the first quarter of fiscal 2018, 1,200 shares of common stock associated with the June 14, 2016 grant vested and had a weighted average fair value of $34,000 or $28 per share.

At April 29, 2018, the remaining unrecognized compensation cost related to our time vested restricted common stock units was $5,000, which is expected to be recognized over the next 1.5 months.

We recorded compensation expense of $38,000 and $29,000 within selling, general, and administrative expense for time vested restricted stock units in fiscal 2018 and 2017, respectively. No compensation expense was recorded for time vested restricted stock awards in fiscal 2016 as all time vested restricted stock awards granted prior to fiscal 2016 were fully vested at the end of fiscal 2015.

Performance Based Restricted Stock Units

We have granted performance based restricted stock units to executives and other key members of management and a non-employee which could earn up to a certain number of shares of common stock if certain performance targets are met as defined in the related restricted stock unit agreements. Our performance based restricted stock units granted to key members of management were measured based on the fair market value on the date of grant. Our performance based restricted stock units granted to a non-employee were measured based on the fair market value at the earlier date of when the performance criteria are met or the end of the reporting period.

Executive Management

On July 13, 2017, we granted performance-based restricted stock units to members of executive management (NEOs) which could earn up to a certain number of shares of common stock if certain performance targets are met over a three-fiscal year performance period as defined in the related restricted stock unit agreements. The number of shares of common stock that are earned based on the performance targets that have been achieved will be adjusted based on a market-based total shareholder return component as defined in the related restricted stock unit agreements.

Compensation cost is measured based on the fair market value on the date of grant (July 13, 2017). The fair market value per share was determined using the Monte Carlo simulation model for the market-based total shareholder return component and the closing price of our common stock for the performance-based components.

The following table provides assumptions used to determine the fair market value of the market-based total shareholder return component using the Monte Carlo simulation model on the date of grant of July 13, 2017:

Closing price of our common stock	$32.50	
Expected volatility of our common stock	31.0	%
Expected volatility of peer companies	16.5	%
Risk-free interest rate	1.56	%
Dividend yield	1.66	%
Correlation coefficient of peer companies	0.46	

On July 14, 2016 and July 15, 2015, we granted performance-based restricted stock units to NEOs which could earn up to a certain number of shares of common stock if certain performance targets were met over a three-fiscal year performance period as defined in the related restricted stock unit agreements. These awards were measured based on the fair market value (closing price of our common stock) on the date of grant. No market-based total shareholder return component was included in these awards.

Other Key Employees and a Non-Employee

We granted performance-based restricted stock units which could earn up to a certain number of shares of common stock if certain performance targets are met over a three-fiscal year performance period as defined in the related restricted stock unit agreements. Our performance based restricted stock units granted to other key employees were measured based on the fair market value (the closing price of our common stock) on the date of grant. Our performance based restricted stock units granted to a non-employee were measured based on the fair market value (the closing price of our common stock) at the earlier date of when the performance criteria are met or the end of the reporting period. No market-based total shareholder return component was included in these awards.

Overall

The following table summarizes information related to our grants of performance based restricted stock units associated with NEOs and key employees that are currently unvested:

Date of Grant	(3) Restricted Stock Units Awarded	Price Per Share	Vesting Period
July 13, 2017 (1)	78,195	$31.85(4)	3 years
July 13, 2017 (2)	44,000	$32.50(5)	3 years
July 14, 2016 (1) (2)	107,880	$28.00(5)	3 years
July 15, 2015 (1) (2)	107,554	$32.23(5)	3 years

(1) Performance-based restricted stock units awarded to NEOs.

(2) Performance-based restricted stock units awarded to key employees.

(3) Amounts represent the maximum number of common stock shares that could be earned if certain performance targets are met as defined in the related restricted stock unit agreements.

(4) Price per share represents the fair market value per share ($0.98 per $1 or a reduction of $0.65 to the closing price of the our common stock) determined using the Monte Carlo simulation model for the market-based total shareholder return component and the closing price of our common stock ($32.50) for the performance-based components of the performance-based restricted stock units granted to our NEOs on July 13, 2017.

(5) Price per share represents the closing price of our common stock on the date of grant.

The following table summarizes information related to our grants of performance-based restricted stock units associated with a non-employee that are currently unvested:

Date of Grant	(1) Restricted Stock Units Awarded	Price Per Share	Vesting Period
July 13, 2017	10,200	$30.10(2)	3 years
July 14, 2016	11,549	$30.10(2)	3 years
July 15, 2015	10,364	$30.10(2)	3 years

(1) Amounts represent the maximum number of common stock shares that could be earned if certain performance targets are met as defined in the related restricted stock unit agreements.

(2) The respective grant was unvested at the end of our reporting period. Accordingly, the price per share represents the closing price of our common stock on April 29, 2018, the end of our reporting period.

The following table summarizes information related to our performance based restricted stock units that vested during the fiscal 2018, 2017, and 2016:

Fiscal Year	Common Stock Shares Vested	(3) Weighted Average Fair Value	Price Per Share
Fiscal 2018 (1)	102,845	$ 1,820	$17.70(4)
Fiscal 2018 (2)	16,000	$ 520	$32.50(5)
Fiscal 2017 (1)	37,192	$ 637	$17.12(4)
Fiscal 2017 (2)	12,000	$ 345	$28.77(5)
Fiscal 2016 (1)	115,855	$ 1,183	$10.21(4)

(1) NEOs and key employees.

(2) Non-employee

(3) Dollar amounts are in thousands.

(4) Price per share represents closing price of our common stock on the date of grant.

(5) The respective grants vested during the first quarter of fiscal 2018 or 2017, respectively. Accordingly, the price per share represents the closing price of our common stock on the date the award vested.

We recorded compensation expense of $2.0 million, $3.2 million and $2.6 million within selling, general, and administrative expense associated with our performance based restricted stock units for fiscal 2018, 2017, and 2016, respectively. Compensation cost is recorded based on an assessment each reporting period of the probability that certain performance goals will be met during the vesting period. If performance goals are not probable of occurrence, no compensation cost will be recognized and any recognized compensation cost would be reversed.

At April 29, 2018, the remaining unrecognized compensation cost related to the performance based restricted stock units was $1.3 million, which is expected to be recognized over a weighted average vesting period of 1.3 years.

Common Stock Awards

The following table summarizes information related to our grants of common stock to our outside directors during fiscal 2018, 2017, and 2016:

Date of Grant	Common Stock Awarded	(1) Price Per Share	Vesting Period
October 2, 2017	4,800	$33.20	Immediate
October 3, 2016	4,800	$29.80	Immediate
October 1, 2015	3,000	$31.77	Immediate

(1) Price per share represents closing price of our common stock on the date of grant.

We recorded $159,000, $143,000, and $95,000, of compensation expense within selling, general, and administrative expense for these common stock awards for fiscal 2018, 2017, and 2016, respectively.

14. FAIR VALUE OF FINANCIAL INSTRUMENTS

ASC Topic 820 establishes a fair value hierarchy that distinguishes between assumptions based on market data (observable inputs) and the company's assumptions (unobservable inputs). Determining where an asset or liability falls within that hierarchy depends on the lowest level input that is significant to the fair value measurement as a whole. An adjustment to the pricing method used within either level 1 or level 2 inputs could generate a fair value measurement that effectively falls in a lower level in the hierarchy. The hierarchy consists of three broad levels as follows:

Level 1 – Quoted market prices in active markets for identical assets or liabilities;

Level 2 – Inputs other than level 1 inputs that are either directly or indirectly observable, and

Level 3 – Unobservable inputs developed using the company's estimates and assumptions, which reflect those that market participants would use.

Recurring Basis

The following table presents information about assets and liabilities measured at fair value on a recurring basis:

	Fair value measurements at April 29, 2018 using:			
	Quoted prices in active markets for identical assets	Significant other observable inputs	Significant unobservable inputs	
(amounts in thousands)	Level 1	Level 2	Level 3	Total
Assets:				
Premier Money Market Fund	$6,492	N/A	N/A	$6,492
Low Duration Bond Fund	1,085	N/A	N/A	1,085
Intermediate Term Bond Fund	747	N/A	N/A	747
Strategic Income Fund	619	N/A	N/A	619
Large Blend Fund	402	N/A	N/A	402
Growth Allocation Fund	169	N/A	N/A	169
Moderate Allocation Fund	113	N/A	N/A	113
Other	150	N/A	N/A	150
Liabilities:				
EURO Foreign Exchange Contract	N/A	$ 55	N/A	$ 55

	Fair value measurements at April 30, 2017 using:			
	Quoted prices in active markets for identical assets	Significant other observable inputs	Significant unobservable inputs	
(amounts in thousands)	Level 1	Level 2	Level 3	Total
Assets:				
Premier Money Market Fund	$4,811	N/A	N/A	$4,811
Low Duration Bond Fund	1,081	N/A	N/A	1,081
Intermediate Term Bond Fund	751	N/A	N/A	751
Strategic Income Fund	611	N/A	N/A	611
Large Blend Fund	365	N/A	N/A	365
Growth Allocation Fund	126	N/A	N/A	126
Moderate Allocation Fund	88	N/A	N/A	88
Other	76	N/A	N/A	76
Liabilities:				
None	N/A	N/A	N/A	N/A

Our EURO foreign exchange contract was recorded at a fair value provided by our bank and is classified within level 2 of the fair value hierarchy. Most derivative contracts are not listed on an exchange and require the use of valuation models. In accordance with ASC Topic 820, we attempted to maximize the use of observable inputs used in the valuation models used to determine the fair value of this contract. Derivative contracts valued based on valuation models with significant unobservable inputs and that are not actively traded, are classified within level 3 of the fair value hierarchy.

The determination of where an asset or liability falls in the hierarchy requires significant judgment. We evaluate our hierarchy disclosures each quarter based on various factors and it is possible that an asset or liability may be classified differently from quarter to quarter. However, we expect that changes in classifications between different levels will be rare.

Nonrecurring Basis

At April 29, 2018, we had no assets that were required to be measured at fair value on a nonrecurring basis other than the assets acquired from Read (see note 2) that were acquired at fair value:

Fair value measurements at April 29, 2018 using:

Significant

(amounts in thousands)	Quoted prices in active markets for identical assets Level 1	Significant other observable inputs Level 2	unobservable inputs Level 3	Total
Assets:				
Customer Relationships	N/A	N/A	$ 2,247	$2,247
Goodwill	N/A	N/A	2,107	2,107
Inventory	N/A	N/A	1,128	1,128
Tradename	N/A	N/A	683	683
Equipment	N/A	N/A	379	379
Liabilities:				
None	N/A	N/A	N/A	N/A

These customer relationships were recorded at fair market value using a multi-period excess earnings valuation model that used significant unobservable inputs and were classified as level 3. The tradename was recorded at fair market value using the royalty from relief method that used significant unobservable inputs and were classified as level 3.

Additionally, we acquired certain current assets such as accounts receivable and other assets and assumed certain liabilities such as deferred revenue, accounts payable and accrued expenses. Based on the nature of these items and their short maturity, the carrying amount of these items approximated their fair values. See note 2 for the allocation of the acquisition cost to the assets acquired and liabilities assumed based on their fair values.

15. DERIVATIVES

During the fourth quarter, we entered into a EURO foreign exchange contract to mitigate the risk of foreign exchange rate fluctuations associated with certain capital expenditures. The contract effectively converts our EURO capital expenditures at a fixed EURO foreign exchange rate compared with the United States dollar of 1.263 and is due to expire in August 2018.

In accordance with the provisions of ASC Topic 815, Derivatives and Hedging, our EURO foreign exchange contract was designated as a cash flow hedge, with the fair value of these financial instruments recorded in other assets and changes in fair value recorded in accumulated other comprehensive income. ASC Topic 815 requires disclosure of gains and losses on derivative instruments in the following tabular format.

	(Amounts in Thousands) Fair Values of Derivative Instruments			
	April 29, 2018		April 30,2017	
Derivatives designated as hedging instruments under ASC Topic 815	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Euro Foreign Exchange Contract	Accrued Expenses	$55	N/A	$-

Derivatives in ASC Topic 815 Net Investment Hedging Relationships	Amt of Gain (Loss) (net of tax) Recognized in OCI on Derivative (Effective Portion) and recorded in Accrued Expenses at Fair Value			Location of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Amount of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)			Location of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Amount of Gain (loss) (net of tax) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)		
	2018	2017	2016		2018	2017	2016		2018	2017	2016
EURO Foreign Exchange Contract	$(55)	$ -	$ -	Other Exp	$-	$ -	$ -	Other Exp	$-	$ -	$ -

16. NET INCOME PER SHARE

Basic net income per share is computed using the weighted-average number of shares outstanding during the period. Diluted net income per share uses the weighted-average number of shares outstanding during the period plus the dilutive effect of stock-based compensation calculated using the treasury stock method. Weighted average shares used in the computation of basic and diluted net income per share are as follows:

(in thousands)	2018	2017	2016
weighted-average common shares outstanding, basic	12,431	12,312	12,302
dilutive effect of stock-based compensation	202	206	173
weighted-average common shares outstanding, diluted	12,633	12,518	12,475

All options to purchase shares of common stock were included in the computation of diluted net income for fiscal years 2018, 2017, and 2016, as the exercise price of the options was less than the average market price of common shares.

17. BENEFIT PLANS

Defined Contribution Plans

The company has defined contribution plans which cover substantially all employees and provides for participant contributions on a pre-tax basis and matching contributions by the company for its U.S. and Canadian operations. Our contributions to the plan were $1.1 million, $924,000, and $843,000 during fiscal years 2018, 2017, and 2016, respectively.

Deferred Compensation Plan

We have a nonqualified deferred compensation plan (the “Plan”) covering officers and certain key members of management. The Plan provides for participant deferrals on a pre-tax basis that are subject to annual deferral limits by the IRS and non-elective contributions made by the company. Participant deferrals and non-elective contributions made by the company are immediately vested.

Our contributions to the Plan were $192,000, $185,000 and $180,000 in fiscal years 2018, 2017, and 2016, respectively. Our nonqualified deferred compensation plan liability of $7.4 million and $5.5 million at April 29, 2018 and April 30, 2017, were recorded in deferred compensation in the 2018 and 2017 Consolidated Balance Sheets, respectively.

We have a Rabbi Trust (the “Trust”) to set aside funds for the participants of the Plan and enable the participants to direct their contributions to various investment options in the Plan. The investment options of the Plan consist of a money market fund and various mutual funds. The funds set aside in the Trust are subject to the claims of our general creditors in the event of the company’s insolvency as defined in the Plan.

The investment assets of the Trust are recorded at their fair value of $7.3 million and $5.5 million at April 29, 2018 and April 30, 2017, and were recorded in long-term investments-rabbi trust in the 2018 and 2017 Consolidated Balance Sheets, respectively. The investment assets of the Trust are classified as available for sale and accordingly, changes in their fair values are recorded in other comprehensive income (loss).

18. SEGMENT INFORMATION

The company's operations are classified into two business segments: mattress fabrics and upholstery fabrics. The mattress fabrics segment manufacturers, sources, and primarily sells fabrics and mattress covers to bedding manufacturers. The upholstery fabrics segment manufacturers, sources, and sells fabrics primarily to residential and commercial furniture manufacturers.

Net sales denominated in U.S. dollars accounted for 90%, 92% and 93% of total consolidated net sales in fiscal 2018, 2017, and 2016, respectively. International sales accounted for 23% of net sales in fiscal 2018 and 22% of net sales in fiscal years 2017 and 2016, and are summarized by geographic area as follows:

(dollars in thousands)	2018	2017	2016
north america (excluding USA) (1)	$27,844	29,995	31,667
far east and asia (2)	40,671	34,695	31,927
all other areas	5,681	3,618	4,336
	$74,196	68,308	67,930

(1) Of this amount, $21.9 million, $22.3 million, and $24.2 million are attributable to shipments to Mexico in fiscal 2018, 2017, and 2016, respectively.
(2) Of this amount $32.6 million, $26.6 million, and $23.1 million are attributable to shipments to China in fiscal 2018, 2017, and 2016, respectively.

Sales are attributed to individual countries based upon location that the company ships its products to for delivery to customers.

The company evaluates the operating performance of its segments based upon income from operations before 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, all costs related to being a public company, and other miscellaneous expenses. Segment assets include assets used in operations of each segment and primarily consist of accounts receivable, inventories, and property, plant, and equipment. The mattress fabrics segment also includes in segment assets, goodwill, an investment in an unconsolidated joint venture, a non-compete agreement and customer relationships associated with an acquisition. The upholstery fabrics segment also includes in segment assets goodwill, customer relationships, and tradename associated with the acquisition of Read Window Products, LLC. (see note 2 for further details).

Statements of operations for the company's operating segments are as follows:

(dollars in thousands)	2018	2017	2016
net sales:			
upholstery fabrics	$131,128	118,739	126,441
mattress fabrics	192,597	190,805	186,419
	$323,725	309,544	312,860
gross profit:			
upholstery fabrics	$25,836	26,170	26,393
mattress fabrics	38,797	43,065	38,718
	$64,633	69,235	65,111

(dollars in thousands)	2018	2017	2016
selling, general, and administrative expenses:			
upholstery fabrics	$14,881	15,079	15,094
mattress fabrics	12,935	13,685	12,223
unallocated corporate	9,356	10,393	9,456
total selling, general, and administrative expenses	$37,172	39,157	36,773
Income from operations:			
upholstery fabrics	$10,956	11,091	11,298
mattress fabrics	25,861	29,380	26,496
total segment income from operations	36,817	40,471	37,794
unallocated corporate expenses	(9,356)	(10,393)	(9,456)
total income from operations	27,461	30,078	28,338
interest expense	(94)	-	-
interest income	534	299	176
other expense	(1,018)	(681)	(616)
income before income taxes	$26,883	29,696	27,898

One customer within the upholstery fabrics segment represented 12%, 11%, and 13% of consolidated net sales in fiscal 2018, 2017 and 2016, respectively. One customer within the mattress fabrics segment represented 13% of consolidated net sales in fiscal 2018, 2017, and 2016, respectively. One customer within the upholstery fabrics segment accounted for 13% of the net accounts receivable balance as of April 29, 2018 and no customers within the upholstery fabrics segment accounted for 10% or more of net accounts receivable as of April 30, 2017. Two customers within the mattress fabrics segment accounted for 20% and 22% of the net accounts receivable balance as of April 29, 2018 and April 30, 2017, respectively.

The hourly employees at our manufacturing facility in Canada (approximately 12% of our workforce) are represented by a local, unaffiliated union. The collective bargaining agreement for these employees expires on February 1, 2020. We are not aware of any efforts to organize any more of our employees, and we believe our relations with our employees are good.

Balance sheet information for the company's operating segments follow:

(dollars in thousands)	2018		2017		2016	
segment assets						
mattress fabrics						
current assets (1)	$43,935		47,038		43,472	
non-compete agreements, net	753		828		903	
customer relationships	613		664		715	
goodwill	11,462		11,462		11,462	
investment in unconsolidated joint venture	1,501		1,106		-	
property, plant, and equipment	48,797	(2)	48,916	(3)	37,480	(4)
total mattress fabrics assets	$107,061		110,014		94,032	
upholstery fabrics						
current assets (1)	$35,826		29,021		26,540	
customer relationships	2,226		-		-	
tradename	683		-		-	
goodwill	2,107		-		-	
property, plant, and equipment	2,445	(5)	1,879	(6)	1,564	(7)
total upholstery fabrics assets	$43,287		30,900		28,104	
total segment assets	150,348		140,914		122,136	
non-segment assets						
cash and cash equivalents	21,228		20,795		37,787	
short-term investments – available for sale	2,451		2,443		4,359	
short-term investments – held-to-maturity	25,759		-		-	
income taxes receivable	-		-		155	
deferred income taxes	1,458		419		2,319	
other current assets	2,870		2,894		2,477	
property, plant, and equipment	552	(8)	856	(8)	929	(8)
long-term investments - held-to-maturity	5,035		30,945		-	
long-term investments - rabbi trust	7,326		5,466		4,025	
other assets	957		902		955	
total assets	$217,984		205,634		175,142	
capital expenditures (9):						
mattress fabrics	$6,713		17,689		9,666	
upholstery fabrics	488		822		626	
unallocated corporate	238		260		416	
	$7,439		18,771		10,708	
depreciation expense						
mattress fabrics	$6,850		6,245		5,837	
upholstery fabrics	822		840		834	
total segment depreciation expense	$7,672		7,085		6,671	

(1) Current assets represent accounts receivable and inventory.

(2) The $48.8 million at April 29, 2018, represents property, plant, and equipment located in the U.S. of $35.4 million and located in Canada of $13.4 million.

(3) The $48.9 million at April 30, 2017, represents property, plant, and equipment located in the U.S. of $34.0 million and located in Canada of $14.9 million.

(4) The $37.5 million at May 1, 2016, represents property, plant, and equipment located in the U.S. of $24.8 million and located in Canada of $12.7 million.

(5) The $2.4 million at April 29, 2018, represents property, plant, and equipment located in the U.S. of $1.8 million and located in China of $661.

(6) The $1.9 million at April 30, 2017, represents property, plant, and equipment located in the U.S. of $1.2 million and located in China of $655.

(7) The $1.6 million at May 1, 2016, represents property, plant, and equipment located in the U.S. of $893 and located in China of $671.

(8) The $552, $856, and $929 balance at April 29, 2018, April 30, 2017, and May 1, 2016, represent property, plant, and equipment associated with unallocated corporate departments and corporate departments shared by both the mattress and upholstery fabric segments located in the U.S.

(9) Capital expenditure amounts are stated on an accrual basis. See Consolidated Statement of Cash Flows for capital expenditure amounts on a cash basis.

19. STATUTORY RESERVES

The company's subsidiaries located in China are required to transfer 10% of their net income, as determined in accordance with the People's Republic of China (PRC) accounting rules and regulations, to a statutory surplus reserve fund until such reserve balance reaches 50% of the company's registered capital.

The transfer to this reserve must be made before distributions of any dividend to shareholders. As of April 29, 2018, the company's statutory surplus reserve was $4.6 million, representing 10% of accumulated earnings and profits determined in accordance with PRC accounting rules and regulations. The surplus reserve fund is non-distributable other than during liquidation and can be used to fund previous years' losses, if any, and may be utilized for business expansion or converted into share capital by issuing new shares to existing shareholders in proportion to their shareholding or by increasing the par value of the shares currently held by them provided that the remaining reserve balance after such issue is not less than 25% of the registered capital.

The company's subsidiaries located in China can transfer funds to the parent company with the exception of the statutory surplus reserve of $4.6 million to assist with debt repayment, capital expenditures, and other expenses of the company's business.

20. COMMON STOCK REPURCHASE PROGRAM

On June 15, 2016, we announced that our board of directors approved an authorization for us to acquire up to $5.0 million of our common stock. Under the common stock repurchase program, shares may be purchased from time to time in open market transactions, block trades, through plans established under the Securities Exchange Act Rule 10b5-1, or otherwise. The amount of shares purchased and the timing of such purchases will be based on working capital requirements, market and general business conditions, and other factors including alternative investment opportunities.

During fiscal 2018 and 2017, there were no repurchases of our common stock. During fiscal 2016, we purchased 100,776 shares of our common stock at a cost of $2.4 million, all of which was purchased during the third quarter.

At April 29, 2018, we had $5.0 million available for additional repurchases of our common stock.

21. DIVIDEND PROGRAM

On June 13, 2018, we announced that our board of directors approved a regular quarterly cash dividend payment of $0.09 per share. These dividend payments are payable on July 16, 2018, to shareholders of record as of July 2, 2018.

During fiscal 2018, dividend payments totaled $6.8 million, of which $2.6 million represented a special cash dividend payment of $0.21 per share, and $4.2 million represented our regular quarterly cash dividend payments ranging from $0.08 to $0.09 per share.

During fiscal 2017, dividend payments totaled $6.3 million, of which $2.6 million represented a special cash dividend payment in the first quarter of $0.21 per share, and $3.7 million represented our regular quarterly cash dividend payments ranging from $0.07 to $0.08 per share.

During fiscal 2016, dividend payments totaled $8.1 million, of which $5.0 million represented a special cash dividend payment in the first quarter of $0.40 per share, and $3.1 million represented our regular quarterly cash dividend payments ranging from $0.06 to $0.07 per share.

Future dividend payments are subject to Board approval and may be adjusted at the Board's discretion as business needs or market conditions change.

22. EXIT AND DISPOSAL ACTIVITIES

On June 12, 2018, our board of directors decided to close our upholstery fabrics manufacturing facility in Anderson, South Carolina. This closure is due to a continued decline in demand for the products manufactured at this facility, reflecting a change in consumer style preferences. We expect to close the facility by October 30, 2018. This action is expected to result in estimated cash charges of approximately $450,000 for employee termination costs, and an undetermined non-cash charge associated with write-downs of inventory. During this transition period, we will be working with our customers to fulfill any outstanding and future orders, and through this process, we will be able to determine a good faith estimate of any write-downs of inventory. Currently, management estimates that the fair market value of the long-lived assets at this facility exceeds their carrying amount of approximately $400,000, and for this reason no charge for impairment of long-lived assets is expected to be recorded in connection with this decision.

SELECTED QUARTERLY DATA (UNAUDITED)

(amounts in thousands except per share, ratios & other, stock data)	fiscal 2018 4th quarter	fiscal 2018 3rd quarter	fiscal 2018 2nd quarter	fiscal 2018 1st quarter	fiscal 2017 4th quarter	fiscal 2017 3rd quarter	fiscal 2017 2nd quarter	fiscal 2017 1st quarter
INCOME STATEMENT DATA								
net sales	$78,184	85,310	80,698	79,533	77,350	76,169	75,343	80,682
cost of sales	63,424	67,707	64,894	63,068	60,194	59,410	58,442	62,263
gross profit	14,760	17,603	15,804	16,465	17,156	16,759	16,901	18,419
selling, general and administrative expenses	8,296	9,959	9,415	9,501	9,986	9,824	9,602	9,746
income from operations	6,464	7,644	6,389	6,964	7,170	6,935	7,299	8,673
interest expense	26	31	37	-	-	-	-	-
interest income	(143)	(132)	(128)	(131)	(134)	(124)	(15)	(25)
other expense	115	229	321	353	305	69	155	152
income before income taxes	6,466	7,516	6,159	6,742	6,999	6,990	7,159	8,546
income taxes	(6,217)	8,208	2,108	1,640	778	643	2,684	3,233
loss from investment in unconsolidated joint venture	17	56	75	118	23	-	-	-
net income (loss)	$12,666	(748)	3,976	4,984	6,198	6,347	4,475	5,313
depreciation	$1,992	1,966	1,905	1,807	1,781	1,793	1,751	1,761
weighted average shares outstanding	12,450	12,436	12,440	12,399	12,340	12,313	12,308	12,286
weighted average shares outstanding, assuming dilution	12,611	12,436	12,580	12,590	12,567	12,544	12,507	12,463
PER SHARE DATA								
net income (loss) per share - basic	$1.02	(0.06)	0.32	0.40	0.50	0.52	0.36	0.43
net income (loss) per share - diluted	1.00	(0.06)	0.32	0.40	0.49	0.51	0.36	0.43
dividends per share	0.09	0.09	0.08	0.29	0.08	0.08	0.07	0.28
book value	13.12	12.22	12.31	12.03	12.03	11.56	11.04	10.68
BALANCE SHEET DATA								

operating working capital (3)	$49,939	47,760	46,620	42,608	40,869	40,973	41,810	43,486
property, plant and equipment, net	51,794	51,838	52,530	52,912	51,651	50,333	45,537	41,745
total assets	217,984	216,844	201,043	207,904	205,634	191,056	179,127	183,360
capital expenditures	1,568	1,274	1,529	3,068	3,097	6,590	5,541	3,543
dividends paid	1,121	1,119	995	3,608	988	985	862	3,445
lines of credit (1)	-	-	-	5,000	-	-	-	7,000
shareholders' equity	163,376	152,182	153,080	149,677	148,630	142,314	135,949	131,435
capital employed (2)	114,817	109,165	109,373	108,222	98,429	97,788	94,101	94,599
RATIOS & OTHER DATA								
gross profit margin	18.9 %	20.6 %	19.6 %	20.7 %	22.2 %	22.0 %	22.4 %	22.8 %
operating income margin	8.3	9.0	7.9	8.8	9.3	9.1	9.7	10.7
net income (loss) margin	16.2	(0.9)	4.9	6.3	8.0	8.3	5.9	6.6
effective income tax rate	(96.1)	109.2	34.2	24.3	11.1	9.2	37.5	37.8
Debt-to-total capital employed ratio (1) (2)	0.0	0.0	0.0	4.6	0.0	0.0	0.0	7.4
operating working capital turnover (3)	7.1	7.4	7.4	7.4	7.3	7.0	7.0	7.0
days sales in receivables	30	28	27	25	29	27	23	26
inventory turnover	4.8	5.2	5.2	4.7	5.0	5.2	5.2	5.3
STOCK DATA								
stock price								
high	$32.29	34.05	33.25	34.00	34.50	37.80	34.30	30.11
low	27.40	26.15	27.00	30.60	30.25	26.80	26.72	25.57
close	30.10	31.35	31.95	30.65	32.10	33.80	28.15	28.53
daily average trading volume (shares)	18.3	17.4	24.4	27.9	37.7	43.5	45.9	40.9

(1) Debt represents outstanding borrowings on our lines of credit.

(2) Capital employed does not include cash and cash equivalents, short-term investments (available-for-sale), short-term investments (held-to-maturity), long-term investments (held-to-maturity), long-term investments (rabbi trust), lines of credit, noncurrent deferred tax assets and liabilities, income taxes receivable and payable, and deferred compensation.

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

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ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS
ON ACCOUNTING AND FINANCIAL DISCLOSURE

During the three years ended April 29, 2018, there were no disagreements on any matters of accounting principles or practices or financial statement disclosures.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

We have conducted an evaluation of the effectiveness of our disclosure controls and procedures as of April 29, 2018. This evaluation was conducted under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer. Based upon that evaluation, we have concluded that these disclosure controls and procedures were effective, in all material respects, to ensure that information required to be disclosed in the reports filed by us and submitted under the Securities Exchange Act of 1934, as amended (the “Exchange Act”) is recorded, processed, summarized, and reported as and when required. Further we concluded that our disclosure controls and procedures have been designed to ensure that information required to be disclosed in reports filed by us under the Exchange Act is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, in a manner to allow timely decisions regarding the required disclosure.

Management’s Annual Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is a process to provide reasonable assurance regarding the reliability of our financial reporting for external purposes in accordance with generally accepted accounting principles. Internal control over financial reporting includes: (1) maintaining records that in reasonable detail accurately and fairly reflect the transactions and disposition of assets; (2) providing reasonable assurance that the transactions are recorded as necessary for preparation of financial statements, and that receipts and expenditures are made in accordance with authorizations of management and directors; and (3) providing reasonable assurance that unauthorized acquisition, use, disposition of assets that could have a material effect