WALKER WINSTON W
Form 4
June 16, 2005

FORM 4

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

Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. *See* Instruction 1(b).

STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

OMB APPROVAL
OMB Number: 3235-0287
Expires: January 31, 2005
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(Print or Type Responses)

1. Name and Address of Reporting Person *
WALKER WINSTON W

(Last) (First) (Middle)

13450 N. KACHINA DRIVE

(Street)

TUCSON, AZ 85737

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
CBL & ASSOCIATES PROPERTIES INC [CBL]

3. Date of Earliest Transaction (Month/Day/Year)
06/15/2005

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

__X__ Director _____ 10% Owner
_____ Officer (give title below) _____ Other (specify below)

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			
Common Stock	06/15/2005		S		1,000	D	$ 86.9	31,350 (1)	D	
Common Stock								600	I	By Spouse

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)		5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)		6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Amount of Underlying Securities (Instr. 3 and 4)		8. Price of Derivative Security (Instr. 5)	9. Nu Deriv Secur Bene Owne Follo Repo Trans (Instr
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares		

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
WALKER WINSTON W 13450 N. KACHINA DRIVE TUCSON, AZ 85737	X			

Signatures

/s/ Walker, Winston W.	06/15/2005
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) The shares are held by the Winston Walker and Mary Walker Revocable Living Trust dated 2/25/04, under which (i) the Reporting Person and the Reporting Person's spouse are Co-Trustees, (ii) the Reporting Person and the Reporting Person's spouse are the sole beneficiaries, and (iii) the Reporting Person has unilateral authority to transfer the Trust's assets and to revoke the Trust. 850 shares of Common Stock of the Issuer owned by the Reporting Person are included in the reported total of beneficially owned securities.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. R>
Change in assets and liabilities:

Receivables, net
(3,462) 599 1,883
Inventories
14,916 (6,932) 15,444
Prepaid expenses and accrued income
588 108 596

Accounts payable	(21,372)	16,474	4,285
Income taxes	213	(3,026)	1,704
Salaries, wages and related liabilities	(720)	(4,143)	(445)
Other liabilities	3,576	406	6,102
Employees leaving entitlement	(8,692)	(9,315)	(3,854)
Total adjustments	29,939	47,254	49,841
Net cash provided by (used in) operating activities	(31,999)	(15,393)	62,180

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	2008	2007	2006
Cash flows from investing activities:			
Property, plant and equipment:			
Additions	(11,884)	(21,445)	(15,563)
Disposals	174	589	1,057
Other assets	(4,097)	(5,039)	(3,560)
Government grants received			605
Purchase of business, net of cash acquired		(230)	(250)
Disposal of business and affiliated company	2,262		
Net cash used in investing activities	(13,545)	(26,125)	(17,711)
Cash flows from financing activities:			
Long-term debt:			
Proceeds	2,038		363
Repayments	(691)	(318)	(1,620)
Short-term borrowings	2,125	3,775	(3,926)
Majority Shareholder Capital contribution	488		
Net cash provided by (used in) financing activities	3,960	3,457	(5,183)
Effect of translation adjustments on cash	1,432	(2,589)	(900)
Increase (decrease) in cash and cash equivalents	(40,152)	(40,650)	38,386
Cash and cash equivalents, beginning of the year	87,459	128,109	89,723
Cash and cash equivalents, end of the year	47,307	87,459	128,109
Supplemental disclosure of cash flow information:			
Cash paid during the year for interest	327	665	1,400
Cash paid during the year for income taxes	1,399	5,409	6,555
Non cash investing activities			3,093

See accompanying notes to consolidated financial statements

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Natuzzi S.p.A. and Subsidiaries

Notes to consolidated financial statements

(Expressed in thousands of euros except as otherwise indicated)

1. Description of business and Group composition

The consolidated financial statements include the accounts of Natuzzi S.p.A. (Natuzzi or the Company) and of its subsidiaries (together with the Company, the Group). The Group s primary activity is the design, manufacture and marketing of contemporary and traditional leather and fabric upholstered furniture.

The subsidiaries included in the consolidation at December 31, 2008, together with the related percentages of ownership, are as follows:

Name	Percent of ownership	Registered office	Activity
Italsofa Bahia Ltd	97.99	Salvador, Brazil	(1)
Minuano Nordeste S.A.	100.00	Pojuca, Brazil	(1)
Italsofa Shanghai Ltd	96.50	Shanghai, China	(1)
Softaly Shanghai Ltd	100.00	Shanghai, China	(1)
Natuzzi China Ltd	100.00	Shanghai, China	(1)
Italsofa Romania	100.00	Baia Mare, Romania	(1)
Natco S.p.A.	99.99	Bari, Italy	(2)
I.M.P.E. S.p.A.	90.83	Qualiano,Italy	(3)
Nacon S.p.A.	100.00	Bari, Italy	(4)
Lagene S.r.l.	100.00	Bari, Italy	(4)
Natuzzi Americas Inc.	100.00	High Point, NC, USA	(4)
Natuzzi Iberica S.A.	100.00	Madrid, Spain	(4)
Natuzzi Switzerland AG	100.00	Kaltbrunn, Switzerland	(4)
Natuzzi Nordic	100.00	Copenaghen, Denmark	(4)
Natuzzi Benelux S.A.	100.00	Geel, Belgium	(4)
Natuzzi Germany Gmbh	100.00	Dusseldorf, Germany	(4)
Natuzzi Sweden AB	100.00	Stockholm, Sweden	(4)
Natuzzi Japan KK	100.00	Tokyo, Japan	(4)
Natuzzi Services Limited	100.00	London, UK	(4)
Italholding S.r.l.	100.00	Bari, Italy	(5)
Natuzzi Netherlands Holding	100.00	Amsterdam, Holland	(5)
Natuzzi Trade Service S.r.l.	100.00	Bari, Italy	(6)
Natuzzi United Kingdom Limited	100.00	London, UK	(7)
Kingdom of Leather Limited	100.00	London, UK	(7)
La Galleria Limited	100.00	London, UK	(7)

(1) Manufacture and distribution

(2) Intragroup leather dyeing and finishing

(3)

Production and distribution of polyurethane foam

(4) Distribution

(5) Investment holding

(6) Transportation services

(7) Dormant

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Natuzzi S.p.A. and Subsidiaries

Notes to consolidated financial statements

(Expressed in thousands of euros except as otherwise indicated)

During July 2008 the Company sold six retail stores to a third party for a consideration of 912. The stores disposed of are located in the central part of Italy. Leather and fabric upholstered furniture sold by these stores to final consumers were bought from Natuzzi.

On June 14, 2007, the Company acquired from a third party 100% of a business which main asset was a store located in one of the several shopping and commercial areas of Rome (Tiburtina area). The cash consideration paid by the Company for this acquisition was 230. At the date of the acquisition there were no employees, inventory or revenues associated with this asset. The net assets acquired were composed mainly as follows: (a) operating lease agreement; (b) leasehold improvements incorporated in the store; (c) commercial license authorization obtained from the Rome Municipality for trading sofas and other furniture to the public. During 2008, the Company set up in this store the Natuzzi s layout selling system. The acquisition resulted in a goodwill of 225, which represents the excess of purchase price over fair value of the acquired net assets. The fair value of assets acquired was as follows:

Goodwill	225
Leasehold improvements	5
Cash paid	230

The main factor that has contributed to the determination of the consideration paid is the presence of the store in a key geographic location of Rome. The results of this business acquisition have been included in the consolidated statement of operations from the date of acquisition.

In March 2007 the Company incorporated a new subsidiary, Natuzzi China Ltd, which is engaged in the cutting of leather hides to be used as upholstery.

In June 2006 the Company acquired 100% of a business composed by four Divani & Divani by Natuzzi stores, located in Milan area, for a consideration of 3,093. This business was operating as a Natuzzi franchisee. Prior to the date of the acquisition the franchisee agreement between Natuzzi and the original business had expired under the original terms. The primary reason for this acquisition was the opportunity to maintain the market presence in the Milan area. The main factor that contributed to the determination of the purchase price was the presence of the stores in key locations. The acquisition was accounted for using the purchase price method and it resulted in a goodwill of 2,600, which represents the excess of the purchase price over the fair value of assets acquired and liabilities assumed. The following table summarizes the estimated fair value of the assets acquired and liabilities assumed at date of acquisition.

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Natuzzi S.p.A. and Subsidiaries
Notes to consolidated financial statements
(Expressed in thousands of euros except as otherwise indicated)

Goodwill	2,600
Fixed assets	132
Leasehold improvements	468
Current liabilities	(107)
Purchase price	3,093

The purchase price of this acquired business was not paid in cash but through an offset with trade receivables due from the selling shareholder and amounting to 3,093. The results of this business acquisition have been included in the consolidated statement of operations from the date of the acquisition.
In September 2006 the Company acquired 100% of a business composed by two Divani & Divani by Natuzzi stores, located in Reggio Emilia and Modena, for a cash consideration of 250. This business was operating as a Natuzzi franchisee. At the date of the acquisition the franchisee agreement between Natuzzi and the original business had not expired. The primary reason for this acquisition was the opportunity to maintain the market presence in the Emilia Romagna region. The main factor that contributed to the determination of the purchase price was the presence of the stores in key locations. The acquisition was accounted for using the purchase price method and it resulted in a goodwill of 100, which represents the excess of the purchase price over the fair value of assets acquired and liabilities assumed. The following table summarizes the estimated fair value of the assets acquired and liabilities assumed at date of acquisition.

Goodwill	100
Fixed assets	38
Current assets	112
Purchase price	250

The results of this business acquisition have been included in the consolidated statement of operations from the date of the acquisition.
During 2005 the Company tried to sell to third party its twelve stores located in the United Kingdom. But in December 2005, due to the impossibility to find an acquirer, the Company decided to close down this business through the adoption of the following actions: (a) in January 2006 the Company incorporated a new subsidiary in United Kingdom (Natuzzi Service Limited) to which it transferred three stores and part of the corporate net assets; (b) during March 2006 the Company closed down the remaining nine stores that had poor earning performances and did not produce positive cash flow. The stores closed down continued to trade until the end of March in order to sell out all the stock in house.
In January 2006 the Company incorporated a new subsidiary, Natuzzi Service Limited, which owns some stores and provides sales support for the Group in the United Kingdom.
During 2006 in an effort to maximize the efficiency of the Group s organizational structure two Italian subsidiaries, Divani Due S.r.l. and Koineè S.r.l., were merged into Nacon S.p.A..

Natuzzi S.p.A. and Subsidiaries

Notes to consolidated financial statements

(Expressed in thousands of euros except as otherwise indicated)

During 2006 the subsidiaries Natuzzi Asia Ltd and Kingdom of Leather Trustees Limited were wound up.

2. Basis of preparation

The financial statements utilized for the consolidation are the financial statements of each Group company at December 31, 2008, 2007 and 2006. The 2008, 2007 and 2006 financial statements have been approved by the respective shareholders of the relevant companies. The 2008 consolidated financial statements have been approved by the Board of Directors of the Company.

The financial statements of subsidiaries are adjusted, where necessary, to conform to Natuzzi s accounting principles and policies, which are consistent with Italian legal requirements governing financial statements considered in conjunction with established accounting principles promulgated by the Italian Accounting Profession.

Established accounting principles in the Republic of Italy vary in certain significant respects from generally accepted accounting principles in the United States of America. Information relating to the nature and effect of such differences is presented in note 27 to the consolidated financial statements.

3. Summary of significant accounting policies

The significant accounting policies followed in the preparation of the consolidated financial statements are outlined below.

a) Principles of consolidation

The consolidated financial statements include all affiliates and companies that Natuzzi directly or indirectly controls, either through majority ownership or otherwise. Control is presumed to exist where more than one-half of a subsidiary s voting power is controlled by the Company or the Company is able to govern the financial and operating policies of a subsidiary or control the removal or appointment of a majority of a subsidiary s board of directors. Where an entity either began or ceased to be controlled during the year, the results of operations are included only from the date control commenced or up to date control ceased. However, the pre-acquisition results of an acquired entity could be reflected in the operating results of the acquiring entity provided that the acquisition is completed within 6 months of the beginning of the acquiring entity s fiscal year.

The assets and liabilities of subsidiaries are consolidated on a line-by-line basis and the carrying value of intercompany investments held is eliminated against the related shareholder s equity accounts. The minority interests of consolidated subsidiaries are separately classified in the consolidated balance sheets and consolidated statements of operations. All intercompany balances and transactions are eliminated in consolidation.

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Notes to consolidated financial statements

(Expressed in thousands of euros except as otherwise indicated)

b) Foreign currency transactions

Foreign currency transactions are recorded at the exchange rates applicable at the transaction dates. Assets and liabilities denominated in foreign currency are remeasured at year-end exchange rates. Foreign exchange gains and losses resulting from the remeasurement of these assets and liabilities are included in other income (expense), net, in the consolidated statements of operations.

c) Forward exchange contracts

The Group enters into forward exchange contracts (known in Italian financial markets as domestic currency swaps) to manage its exposure to foreign currency risks. The Group does not enter into these contracts on a speculative basis, nor is hedge effectiveness constantly monitored. As a consequence of this, forward exchange contracts are not used to hedge any on or off-balance sheet items. Therefore, at December 31, 2008, 2007 and 2006 all unrealized gains or losses on such contracts are recorded in other income (expense), net, in the consolidated statements of operations.

d) Financial statements of foreign operations

The financial statements of the foreign subsidiaries expressed in the foreign currency are translated directly into euro as follows: (i) year-end exchange rate for assets and liabilities, (ii) historical exchange rates for share capital and retained earnings, and (iii) average exchange rates during the year for revenues and expenses. The resulting exchange differences on translation is recorded as a direct adjustment to shareholders equity.

During September 2005, effective as of December 31, 2005, the Italian Accounting Profession has changed the Italian accounting standard No. 17, Consolidated Financial Statements with regard to the translation of the financial statements of a foreign subsidiary expressed in a foreign currency.

Under the previous accounting standard an Italian parent company was allowed to translate the financial statements of a foreign subsidiary expressed in a foreign currency using the following two methodologies:

(a) if the foreign subsidiary was considered an integral part of the parent company due to various factors including intercompany transactions, financing, and cash flow indicators, its financial statements expressed in the foreign currency were translated directly into euro from the local currency as follows: (i) year-end exchange rate for monetary assets and liabilities, (ii) historical exchange rates for non monetary assets and liabilities, share capital and retained earnings, and (iii) average exchange rates during the year for revenues and expenses except for those revenues and expenses related to assets and liabilities translated at historical exchange rates. The resulting exchange differences on translation were recognized in other income (expense), net, in the consolidated statements of operations;

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Natuzzi S.p.A. and Subsidiaries

Notes to consolidated financial statements

(Expressed in thousands of euros except as otherwise indicated)

(b) if the foreign subsidiary was not considered an integral part of a parent company, its financial statements expressed in the foreign currency were translated directly into euro as follows: (i) year-end exchange rate for assets and liabilities, (ii) historical exchange rates for share capital and retained earnings, and (iii) average exchange rates during the year for revenues and expenses. The resulting exchange differences on translation were recorded as a direct adjustment to shareholders equity.

As indicated above, effective as of December 31, 2005, the Italian Accounting Profession has eliminated option (a).

e) Cash and cash equivalents

The Company classifies as cash and cash equivalents cash on hand, amounts on deposit and on account in banks and cash invested temporarily in various instruments with maturities of three months or less at time of purchase.

f) Marketable debt securities

Marketable debt securities are valued at the lower of cost or market value determined on an individual security basis. A valuation allowance is established and recorded as a charge to other income (expense), net, for unrealized losses on securities. Unrealized gains are not recorded until realized. Recoveries in the value of securities are recorded as part of other income (expense), net, but only to the extent of previously recognized unrealized losses.

Gains and losses realized on the sale of marketable debt securities were computed based on a weighted-average cost of the specific securities being sold.

Realized gains and losses are charged to other income (expense), net.

g) Accounts receivable and payable

Receivables are stated at nominal value net of an allowance for doubtful accounts. Payables are stated at face value.

h) Inventories

Raw materials are stated at the lower of cost (determined under the specific cost method for leather hides and under the weighted-average method for other raw materials) and replacement cost.

Goods in process and finished goods are valued at the lower of production cost and net realizable value. Production cost includes direct production costs and production overhead costs. The production overhead costs are allocated to inventory based on the manufacturing facility s normal capacity.

The provision for slow moving and obsolete raw materials and finished goods is based on the estimated realizable value net of the costs of disposal.

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Natuzzi S.p.A. and Subsidiaries

Notes to consolidated financial statements

(Expressed in thousands of euros except as otherwise indicated)

i) Property, plant and equipment

Property, plant and equipment is stated at historical cost, except for certain buildings which were revalued in 1983, 1991 and 2000 according to Italian revaluation laws. Maintenance and repairs are expensed; significant improvements are capitalized and depreciated over the useful life of the related assets. The cost or valuation of fixed assets is depreciated on the straight-line method over the estimated useful lives of the assets (refer to note 9). The related depreciation expense is allocated to cost of goods sold, selling expenses and general and administrative expenses based on the usage of the assets.

j) Other assets

Other assets primarily include software, trademarks and patents, goodwill and certain deferred costs. These assets are stated at the lower of amortized cost or recoverable amount. The carrying amount of other assets are reviewed to determine if they are in excess of their recoverable amount, based on discounted cash flows, at the consolidated balance sheet date. If the carrying amount exceeds the recoverable amount, the asset is written down to the recoverable amount.

Software, trademarks, patents and goodwill are amortized on a straight-line basis over a period of five years.

k) Impairment of long-lived assets and long-lived assets to be disposed of

The Company reviews long-lived assets, including intangible assets with estimable useful lives, for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future discounted cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. Estimated fair value is generally determined through various valuation techniques including discounted cash flow models, quoted market values and third-party independent appraisals, as considered necessary.

l) Income taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and for losses available for carryforward in the various tax jurisdictions. Deferred tax assets are reduced by a valuation allowance to an amount that is more likely than not to be realized. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

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Natuzzi S.p.A. and Subsidiaries

Notes to consolidated financial statements

(Expressed in thousands of euros except as otherwise indicated)

m) Government grants

Capital grants compensate the Group for the partial cost of an asset and are part of the Italian government s investment incentive program, under which the Group receives amounts generally equal to a percentage of the aggregate investment made by the Group in the construction of new manufacturing facilities, or in the improvement of existing facilities, in designated areas of the country.

Capital grants from government agencies are recorded when there is reasonable assurance that the grants will be received and that the Group will comply with the conditions applying to them.

Until December 31, 2000 capital grants were recorded, net of tax, within reserves in shareholders equity. As from January 1, 2001 all new capital grants are recorded in the consolidated balance sheet initially as deferred income and subsequently recognized in the consolidated statement of operations as revenue on a systematic basis over the useful life of the related asset.

In addition when capital grants are received after the year in which the related assets are acquired, the depreciation of the capital grants is recognized as income as follows: (a) the depreciation of the grants related to the amortization of the assets recorded in statements of operations in the years prior to the date in which the grants are received, is recorded in other income (expense), net; (b) the depreciation of the grants related to the amortization of the assets recorded in statements of operations of the year, is recorded in net sales.

At December 31, 2008 and 2007 the deferred income for capital grants shown in the consolidated balance sheet amounts to 12,058 and 13,332, respectively.

The amortization of these grants recorded in net sales of the consolidated statement of operations for the years ended December 31, 2008, 2007 and 2006, amounts to 990, 1,026 and 1,111, respectively.

Cost reimbursement grants relating to research, training and other personnel costs are credited to income when there is a reasonable assurance of receipt from government agencies.

n) Employees leaving entitlement

Leaving entitlements represent amounts accrued for each Italian employee that are due and payable upon termination of employment, assuming immediate separation, determined in accordance with applicable Italian labour laws. The Group accrues the full amount of employees vested benefit obligation as determined by such laws for leaving entitlements.

Under such Italian labour laws, upon termination of an employment relationship, the former employee has the right to receive termination benefits for each year of service equal to the employee s gross annual salary, divided by 13.5. The entitlement is increased each year by an amount corresponding to 75% of the rise in the cost of living index plus 1.5 points.

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Natuzzi S.p.A. and Subsidiaries

Notes to consolidated financial statements

(Expressed in thousands of euros except as otherwise indicated)

The expense recorded for the leaving entitlement for the years ended December 31, 2008, 2007 and 2006 was 7,026, 7,389 and 6,778, respectively.

The number of workers employed by the Group totalled 7,569, and 8,219 at December 31, 2008 and 2007, respectively.

o) Net sales

The Company recognizes revenue on sales at the time products are shipped from the manufacturing facilities, and when the following criteria are met: persuasive evidence of an arrangement exists; the price to the buyer is fixed and determinable; and collectibility of the sales price is reasonably assured.

Revenues are recorded net of returns and discounts. Sales returns and discounts are estimated and provided for in the year of sales. Such allowances are made based on historical trends. The Company has the ability to make a reasonable estimate of such allowances due to large volumes of homogeneous transactions and historical experience.

p) Cost of sales, selling expenses, general and administrative expenses

Cost of sales consist of the following expenses: the change in opening and closing inventories, purchases of raw materials, labor costs, third party manufacturing costs, depreciation and amortization expense of property, plant and equipment used in the production of finished goods, energy and water expenses (for instance light and power expenses), expenses for maintenance and repairs of production facilities, distribution network costs (including inbound freight charges, warehousing costs, internal transfer costs and other logistic costs involved in the production cycle), rentals and security costs for production facilities, small-tools replacement costs, insurance costs, and other minor expenses.

Selling expenses consist of the following expenses: shipping and handling costs incurred for transporting finished products to customers, advertising costs, labor costs for sales personnel, rental expense for stores, commissions to sales representatives and related costs, depreciation and amortization expense of property, plant and equipment and intangible assets that, based on their usage, are allocated to selling expense, sales catalogue and related expenses, warranty costs, exhibition and trade-fair costs, advisory fees for sales and marketing of finished products, expenses for maintenance and repair of stores and other trade buildings, bad debt expense, insurance costs for trade receivables and other related costs, and other miscellaneous expenses.

General and administrative expenses consist of the following expenses: labor costs for administrative personnel, advisory fees for accounting and information-technology services, traveling expenses for management and other personnel, depreciation and amortization expenses related to property, plant and equipment and intangible assets that, based on their usage, are allocated to general and administrative expense, postage and telephone costs, stationery and other office-supplies costs, expenses for maintenance and repair of administrative facilities, statutory auditors and external auditors fees, and other miscellaneous expenses.

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Natuzzi S.p.A. and Subsidiaries

Notes to consolidated financial statements

(Expressed in thousands of euros except as otherwise indicated)

As noted above, the costs of Group s distributions network, which include inbound freight charges, warehousing costs, internal transfer costs and other logistic costs involved in the production cycle, are classified under the cost of sales line item.

q) Shipping and handling costs

Shipping and handling costs sustained to transport products to customers are expensed in the periods incurred and are included in selling expenses. Shipping and handling expenses recorded for the years ended December 31, 2008, 2007 and 2006 were 52,658, 51,568 and 69,433, respectively.

r) Advertising costs

Advertising costs are expensed in the periods incurred and are included in selling expenses. Advertising expenses recorded for the years ended December 31, 2008, 2007 and 2006 were 28,007, 34,424 and 31,621, respectively.

s) Commission expense

Commissions payable to sales representatives and the related expenses are recorded at the time shipments are made by the Group to customers and are included in selling expenses. Commissions are not paid until payment for the related sale s invoice is remitted to the Group by the customer.

t) Warranties

Warranties are estimated and provided for in the year of sales. Such allowances are made based on historical trends. The Company has the ability to make a reasonable estimate of such allowances due to large volumes of homogeneous transactions and historical trends.

u) Research and development costs

Research and development costs are expensed in the periods incurred.

v) Contingencies

Liabilities for loss contingencies are recorded when it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated.

w) Use of estimates

The preparation of financial statements in conformity with established accounting policies 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 reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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Natuzzi S.p.A. and Subsidiaries

Notes to consolidated financial statements

(Expressed in thousands of euros except as otherwise indicated)

z) Earnings per share

Basic earnings per share is calculated by dividing net earnings attributable to ordinary shareholders by the weighted-average number of ordinary shares outstanding during the period. Diluted earnings per share include the effects of the possible issuance of ordinary shares under share grants and option plans in the determination of the weighted average number of ordinary shares outstanding during the period. In 2008, 2007 and 2006 share grants and options of 761,594, 439,651 and 332,959, respectively, were excluded as their effect was anti dilutive. The following table provides the amounts used in the calculation of earnings (loss) per share:

	2008	2007	2006
Net earnings (loss) attributable to ordinary shareholders	(61,938)	(62,647)	12,339
Weighted-average number of ordinary shares outstanding during the year	54,850,643	54,817,086	54,733,796
Increase resulting from assumed conversion of share grants and options			
Weighted-average number of ordinary shares and potential shares outstanding during the year	54,850,643	54,817,086	54,733,796

4. Cash and cash equivalents

Cash and cash equivalents are analyzed as follows:

	2008	2007
Cash on hand	261	381
Bank accounts in Euro	13,234	7,531
Bank accounts in foreign currencies	33,812	79,547
Total	47,307	87,459

The Company anticipates that its existing cash and cash equivalents resources, including availability under its credit facilities (see note 11) and cash flows from operations, will be adequate to satisfy its liquidity requirements through calendar year 2009. If available liquidity is not sufficient to meet the Company s operating and debt service obligations as they come due, management s plans include pursuing alternative financing arrangements or reducing expenditures as necessary to meet the Company s cash requirements throughout 2009.

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5. Marketable debt securities

Details regarding marketable debt securities are as follows:

	2008	2007
Foreign corporate bonds	4	4
Italian government bonds		
Total	4	4

Further information regarding the Group s investments in marketable debt securities is as follows:

2008	Cost	Gross unrealized Gains	Gross unrealized Losses	Fair value
Foreign corporate bonds	4			4
Italian government bonds				
Total	4			4

2007	Cost	Gross unrealized Gains	Gross unrealized Losses	Fair value
Foreign corporate bonds	4			4
Italian government bonds				
Total	4			4

The contractual maturity of the Group s marketable debt securities at December 31, 2008 is between 1 5 years.

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6. Trade receivables, net

Trade receivables are analyzed as follows:

	2008	2007
North American customers	52,016	43,214
Other foreign customers	45,962	46,032
Domestic customers	27,474	27,638
Trade bills receivable	5,946	6,537
Total	131,398	123,421
Allowance for doubtful accounts	(8,615)	(5,699)
Total trade receivables, net	122,783	117,722

Trade receivables are due primarily from major retailers who sell directly to their customers.
As of December 31, 2008, 2007 and 2006 and for each of the years in the three-year period ended December 31, 2008, the Company had customers who exceeded 5% of trade receivables and/or net sales as follows:

Trade receivables	N° of customers	% on trade receivables
2008	2	16%
2007	3	21%
2006	2	16%

Net sales	N° of customers	% net sales
2008	2	22%
2007	2	23%
2006	2	18%

In 2008 and 2007 one customer accounted for approximately 15% of the total net sales of the Group, respectively. This customer operates many furniture stores throughout the world.
The Company insures with a third party its collection risk in respect of a significant portion of accounts receivable outstanding balances, and estimates an allowance for doubtful accounts based on the insurance in place, the credit worthiness of its customers, as well as general economic conditions.
The following table provides the movements in the allowance for doubtful accounts:

	2008	2007	2006
Balance, beginning of year	5,699	6,057	5,159
Charges-bad debt expense	3,550	1,789	1,695
Reductions-write off of uncollectible accounts	(634)	(2,147)	(797)

Balance, end of year	8,615	5,699	6,057

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Trade receivables denominated in foreign currencies at December 31, 2008 and 2007 totalled 66,239 and 59,075, respectively. These receivables consist of the following:

	2008	2007
U.S. dollars	48,639	39,293
Canadian dollars	6,489	6,012
British pounds	4,193	6,495
Australian dollars	3,759	4,778
Other currencies	3,159	2,497
Total	66,239	59,075

7. Other receivables

Other receivables are analyzed as follows:

	2008	2007
Receivable from National Institute for Social Security	10,729	6,870
Government capital grants	10,633	11,798
VAT	8,084	10,302
Receivable from tax authorities	6,526	10,373
Advances to suppliers	3,625	4,837
Other	6,588	3,604
Total	46,185	47,784

The receivable from National Institute for Social Security represents the amounts anticipated by the Company on behalf of such governmental institute related to salaries for those employees subject to temporary work force reduction. The Company will recover these amounts anticipated by the end of the following fiscal year.

The receivable for capital grants represents amounts due from government agencies related to capital expenditures that have been incurred.

The VAT receivable includes value added taxes and interest thereon reimbursable to various companies of the Group. While currently due at the balance sheet date, the collection of the VAT receivable may extend over a maximum period of up to two years.

The receivable from the tax authorities represents principally advance taxes paid in excess of the amounts due and interest thereon.

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8. Inventories

Inventories are analyzed as follows:

	2008	2007
Leather and other raw materials	52,049	63,698
Goods in process	13,868	14,770
Finished products	26,095	28,822
Total	92,012	107,290

As of December 31, 2008 and 2007 the provision for slow moving and obsolete raw materials and finished products included in the inventories amounts to 5,721 and 6,218, respectively.

9. Property, plant and equipment and accumulated depreciation

Fixed assets are listed below together with accumulated depreciation.

2008	Cost or valuation	Accumulated depreciation	Annual rate of depreciation
Land and industrial buildings	193,108	(48,946)	0 10%
Machinery and equipment	118,521	(86,608)	10 25%
Airplane	24,075	(7,946)	6%
Office furniture and equipment	23,503	(19,700)	10 20%
Retail gallery and store furnishings	31,753	(22,111)	25 35%
Transportation equipment	6,038	(5,159)	20 25%
Leasehold improvements	8,545	(3,896)	10 20%
Construction in progress	604		
Total	406,147	(194,366)	

2007	Cost or valuation	Accumulated depreciation	Annual rate of depreciation
Land and industrial buildings	200,424	(44,763)	0 10%
Machinery and equipment	119,371	(80,163)	10 25%
Airplane	24,075	(6,500)	6%
Office furniture and equipment	24,373	(19,650)	10 20%
Retail gallery and store furnishings	29,932	(18,232)	25 35%
Transportation equipment	6,044	(4,962)	20 25%
Leasehold improvements	7,969	(3,610)	10 20%
Construction in progress	1,542		

Total	413,730	(177,880)

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Construction in progress relates principally to manufacturing facilities.

The Company in October 2008, in order to improve its manufacturing efficiency and in connection with the adoption of the three year business plan, decided to close and sell a manufacturing facility located in Brazil in the State of Bahia. As a result of this decision the Company performed an impairment analysis in accordance with its accounting policy (whenever the events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable) and determined that the carrying value of such manufacturing facility as of December 31, 2008 was more than the fair value less costs to sell. Therefore, as of December 31, 2008 the carrying value of such manufacturing facility was reduced to fair value less costs to sell. This resulted in an impairment loss of 2,911 recorded under the line other income (expense), net of the consolidated statement of operations for the year ended December 31, 2008 (see note 24). Company s management estimated the fair value based on third-party independent appraisals. Further, as of December 31, 2008 the carrying value net of the impairment loss of this manufacturing facility is analyzed as follows: 5,986 for the industrial building and 1,204 for machinery and equipment.

The Company in October 2008, in order to improve its manufacturing efficiency and in connection with the adoption of the three year business plan, decided to close and sell six industrial buildings utilized mainly as warehouses and located in the cities of Altamura and Matera nearby the Group s headquarters in Italy. As a result of this decision the Company performed an impairment analysis in accordance with its accounting policy (whenever the events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable) and determined that the carrying values of two of the six industrial buildings as of December 31, 2008 were more than the fair value less costs to sell. Therefore, as of December 31, 2008 the carrying values of these two industrial buildings were reduced to fair value less costs to sell. This resulted in an impairment loss of 1,792 recorded under the line other income (expense), net of the consolidated statement of operations for the year ended December 31, 2008 (see note 24). Company s management estimated the fair value of these industrial buildings based on observable market transactions involving sales of comparable buildings and third party independent appraisals. Further, as of December 31, 2008 the carrying value net of the impairment loss of the six industrial buildings is 10,931.

As of December 31, 2008 the Company, in accordance with its accounting policy, has classified the manufacturing facility of Brazil and the industrial buildings located in Italy under the line property, plant and equipment held and used of the consolidated balance sheet as there is a current expectation that it is more-likely-than not that these assets will be sold in the medium long-term period (more than one year from the consolidated balance sheet date).

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10. Other assets

Other assets consist of the following:

	2008	2007
Software and other	25,384	21,664
Goodwill	12,538	14,202
Equity in affiliated enterprises	1,429	2,646
Total, gross	39,351	38,512
Less accumulated amortization	(26,009)	(21,236)
Total, net	13,342	17,276

The line software and other primarily includes software, trademarks and patents. At December 31, 2008 and 2007 the net book value of these assets may be analyzed as follows:

2008	Gross carrying amount	Accumulated depreciation	Net book value
Software	17,555	(10,896)	6,659
Trademarks, patents and other	7,829	(5,978)	1,851
Total	25,384	(16,874)	8,510

2007	Gross carrying amount	Accumulated depreciation	Net book value
Software	15,510	(9,017)	6,493
Trademarks, patents and other	6,154	(4,703)	1,451
Total	21,664	(13,720)	7,944

Amortization expense recorded for these assets was 3,530, 2,679 and 1,831 for the years ended December 31, 2008, 2007 and 2006, respectively. Estimated amortization expense for the next five years is 3,147 in 2009, 2,742 in 2010, 2,302 in 2011, 637 in 2012 and 18 in 2013.

At December 31, 2008 and 2007 the net book value of goodwill may be analyzed as follows:

	2008	2007
Gross carrying amount	12,538	14,202
Less accumulated depreciation	(9,135)	(7,516)
Net book value	3,403	6,686

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The changes in the carrying amount of goodwill for the year ended December 31, 2007 and 2008 are as follows:

Balance as of December 31, 2006	9,301
Acquisition of one retail store	225
Amortization	(2,840)
Balance as of December 31, 2007	6,686
Write-off for disposal	(776)
Amortization	(2,507)
Balance as of December 31, 2008	3,403

At December 31, 2008 and 2007 investments in affiliated enterprises are accounted for under the equity method. These affiliated enterprises are Salena S.r.l. and Alfa Omega S.r.l., in which the Company owns 49% and 20% interest, respectively. Salena S.r.l. is engaged in the building construction sector. Alfa Omega S.r.l. owns buildings that are rented as office space or store space. The Company has a significant influence on these two entities.

In addition, during 2008 the Company sold all the investment in the affiliated enterprise Alfa Omega S.r.l., for a cash consideration of 1,350. The gain realized by the Company for this disposal is 133.

11. Short-term borrowings

Short-term borrowings consist of the following:

	2008	2007
Bank borrowings		3,068
Bank overdrafts	9,701	4,508
Total	9,701	7,576

While bank overdrafts are payable on demand, bank borrowings consist of unsecured credit line agreements with banks and have various short maturities.

At December 31, 2008 and 2007 the short-term borrowings included nil and 3,068 denominated in foreign currencies, respectively.

The weighted average interest rates on the above-listed short-term borrowings at December 31, 2008, 2007 and 2006 are as follows:

	2008	2007	2006
Bank borrowings	6.22%	6.18%	4.87%
Bank overdrafts	3.31%	5.03%	3.58%

Credit facilities available to the Group amounted to 45,525 and 47,351 at December 31, 2008 and 2007, respectively. The unused portion of these facilities amounted to 35,824 and 39,775 at December 31, 2008 and 2007, respectively.

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12. Accounts payable-trade

Accounts payable-trade totaling 68,577 and 89,247 at December 31, 2008 and 2007, respectively, represent principally amounts payable for purchases of goods and services in Italy and abroad, and include 18,433 and 14,411 at December 31, 2008 and 2007, respectively, denominated in foreign currencies.

13. Accounts payable-other

Accounts payable-other are analyzed as follows:

	2008	2007
Provision for warranties	10,717	8,627
Advances from customers	5,953	9,667
Cooperative advertising and quantity discount	4,123	3,777
Withholding taxes on payroll and on others	2,301	2,996
Payable to minority interests for dividends	593	593
Other	6,056	4,153
Total	29,743	29,813

The following table provides the movements in the provision for warranties:

	2008	2007	2006
Balance, beginning of year	8,627	6,561	6,896
Charges to profit and loss	4,735	4,962	6,386
Reductions for utilization	(2,645)	(2,896)	(6,721)
Balance, end of year	10,717	8,627	6,561

14. Taxes on income

Italian companies are subject to two income taxes at the following rates:

	2008	2007	2006
IRES (state tax)	27.50%	33.00%	33.00%
IRAP (regional tax)	3.90%	4.25%	4.25%

On December 12, 2003, the Italian Government approved the legislative decree n. 344 which enacted certain changes in the fiscal legislation for fiscal years beginning on or after January 1, 2004. The principal change made was the introduction of the new state income tax IRES which replaced IRPEG, with the simultaneous elimination of the dual income tax system. IRES is a state tax and is calculated on the taxable income determined on the income before taxes modified to reflect all temporary and permanent differences regulated by the tax law.

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Such tax law did not modify the existing IRAP regime. IRAP is a regional tax and each Italian region has the power to increase the current rate by a maximum of 1.00%. In general, the taxable base of IRAP is a form of gross profit determined as the difference between gross revenues (excluding interest and dividend income) and direct production costs (excluding labour costs, interest expense and other financial costs).

In addition, on December 24, 2007 the Italian Parliament definitively approved the budget law (law n. 244) which enacted the changes to IRES and IRAP tax rate as from January 1, 2008 as follows: IRES tax rate passed from 33% to 27.50%, while IRAP tax rate passed from 4.25% to 3.90%.

As result of these changes in the tax rates, the Company adjusted the effect of changes in IRES and IRAP tax rates on net deferred tax assets during the year ended December 31, 2007, as it includes the enactment date. These changes in tax rates resulted in a decrease of gross deferred tax assets (gross of the valuation allowance) by 3,809 as of December 31, 2007. However, these changes in tax rates resulted in no effect on the net deferred tax assets as of December 31, 2007 due to the valuation allowance.

The enacted IRES tax rate for 2008 is 27.50%, while for 2007 and 2006 is 33% of taxable income. The enacted IRAP tax rate for 2008 is 3.90%, while for 2007 and 2006 is 4.25%.

Certain foreign subsidiaries enjoy significant tax benefits, such as corporate income tax exemptions or reductions of the corporate income tax rates effectively applicable, the most significant of which will expire in 2012. The tax reconciliation table reported below demonstrates the effect of such tax exempt income on the Group s 2008, 2007 and 2006 income tax charge.

Approximately 51.0%, 91.1% and 57.0% respectively, of the Group s consolidated earnings (loss) before taxes were generated by domestic Italian operations during 2008, 2007 and 2006. However, consolidated earnings (loss) before taxes and minority interest are analyzed as follows:

	2008	2007	2006
Domestic	(30,986)	(47,137)	(11,012)
Foreign	(29,828)	(4,619)	30,333
Total	(60,814)	(51,756)	19,321

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The effective income tax rates for the years ended December 31, 2008, 2007 and 2006 were 2.6%, 22.0% and 36.7%, respectively. The actual income tax expense differs from the expected income tax expense (computed by applying the state tax, which is 27.50% for 2008 and 33% for 2007 and 2006, to income before income taxes and minority interest) as follows:

	2008	2007	2006
Expected income tax (benefit) expense charge at full tax rates	(16,724)	(17,079)	6,376
Effects of:			
Tax exempt income	(2,489)	(6,320)	(5,779)
Aggregate effect of different tax rates in foreign jurisdictions	(3,258)	(2,903)	(4,434)
Italian regional tax	2,057	1,793	4,646
Non-deductible expenses	3,384	3,286	2,694
Provisions for contingent liabilities	373	566	914
Depreciation and impairment of goodwill	228	273	274
Effect of net change in valuation allowance established against deferred tax assets	18,799	28,503	1,989
Effect of change in tax rates		3,809	
Tax effect of unremitted earnings	(814)	(541)	405
Actual tax charge	1,556	11,387	7,085

Total income taxes for the years ended December 31, 2008, 2007 and 2006 relate to earnings from operations.

Total income taxes for the years ended December 31, 2008, 2007 and 2006 are allocated as follows:

	2008	2007	2006
Current:			
Italian	2,057	1,331	5,738
Foreign	2,606	1,593	3,405
Total (a)	4,663	2,924	9,143
Deferred:			
Italian		7,507	(2,592)
Foreign	(3,107)	956	534
Total (b)	(3,107)	8,463	(2,058)
Total (a + b)	1,556	11,387	7,085

The tax years from January 1, 2004 for the majority of the Italian and Foreign companies are open to assessment for additional taxes.

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The tax effects of temporary differences that give rise to deferred tax assets and deferred tax liabilities at December 31, 2008 and 2007 are presented below:

	2008	2007
Deferred tax assets:		
Tax loss carryforwards	51,847	36,033
Provision for warranties	3,641	2,589
Allowance for doubtful accounts	2,864	1,506
Unrealized net losses on foreign exchange	2,798	2,796
Impairment loss of long-lived assets	1,674	
One-time termination benefits	1,266	
Inventory obsolescence	1,187	1,714
Goodwill	1,019	666
Intercompany profit on inventory	803	1,027
Provision for contingent liabilities	777	1,080
Provision for sales representatives	398	493
Other temporary differences	756	641
Total gross deferred tax assets	69,030	48,545
Less valuation allowance	(62,452)	(43,654)
Net deferred tax assets (a)	6,578	4,891
Deferred tax liabilities:		
Unrealized net gains on foreign exchange	(935)	(998)
Unremitted earnings of subsidiaries	(585)	(1,399)
Government grants	(570)	(570)
Revenue recognition		(633)
Other temporary differences	(90)	
Total deferred tax liabilities (b)	(2,180)	(3,600)
Net deferred tax assets (a + b)	4,398	1,291

A valuation allowance has been established for most of the deductible tax temporary differences and tax loss carryforwards.

The valuation allowance for deferred tax assets as of December 31, 2008 and 2007 was 62,452 and 43,654, respectively. The net change in the total valuation allowance for the years ended December 31, 2008 and 2007 was an increase of 18,798 and 28,508, respectively. In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible and the tax loss carryforwards are utilized.

Given the cumulative loss position of the Company and of most of the Italian and foreign subsidiaries as of December 31, 2008 and 2007, management considered the scheduled reversal of deferred tax liabilities and tax planning strategies, in making this assessment. However, management after a reasonable effort as of December 31, 2008 and 2007 has not identified any relevant tax planning strategies prudent and feasible available to reduce the need for a valuation allowance. Therefore, at December 31, 2008 and 2007 the realization of the deferred tax assets is primarily based on the scheduled reversal of deferred tax liabilities.

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Based upon this analysis, management believes it is more likely than not that Natuzzi Group will realize the benefits of these deductible differences and net operating loss carryforwards, net of the existing valuation allowance at December 31, 2008 and 2007.

Net deferred income tax assets are included in the consolidated balance sheets as follows:

2008	Current	Non current	Total
Gross deferred tax assets	14,748	54,282	69,030
Valuation allowance	(9,504)	(52,948)	(62,452)
Net deferred tax assets	5,244	1,334	6,578
Deferred tax liabilities	(1,025)	(1,155)	(2,180)
Net deferred tax assets	4,219	179	4,398

2007	Current	Non current	Total
Gross deferred tax assets	8,888	39,657	48,545
Valuation allowance	(6,178)	(37,476)	(43,654)
Net deferred tax assets	2,710	2,181	4,891
Deferred tax liabilities	(1,631)	(1,969)	(3,600)
Net deferred tax assets	1,079	212	1,291

As of December 31, 2008 the tax loss carryforwards of the Group total 175,475 and expire as follows:

2009	5,372
2010	2,905
2011	5,453
2012	43,526
2013	20,269
Thereafter	97,950
Total	175,475

As of December 31, 2008, taxes that are due on the distribution of the portion of shareholders equity equal to unremitted earnings of most of the subsidiaries is 585 (1,399 at December 31, 2007). The Group has provided for such taxes as the likelihood of distribution is probable.

The Group has not provided for such taxes, amounting to 96 (136 at December 31, 2007), for some subsidiaries for which the likelihood of distribution is remote and earnings are deemed to be permanently reinvested.

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15. Salaries, wages and related liabilities

Salaries, wages and related liabilities are analyzed as follows:

	2008	2007
Salaries and wages	4,142	7,991
Social security contributions	7,191	6,826
Vacation accrual	3,385	2,714
One-time termination benefits	2,093	
Total	16,811	17,531

The one-time termination benefits include the amounts to be paid on the separation date to certain workers (No. 76) to be terminated on an involuntarily basis. Such one-time termination benefits have been determined by the Company based on the agreement reached with each terminated worker during first months of 2009 (see note 24).

16. Long-term debt

Long-term debt at December 31, 2008 and 2007 consists of the following:

	2008	2007
2.25% long-term debt payable in annual equal instalments with final payment due May 30, 2015	1,961	2,214
0.25% long-term debt payable in semi-annual instalments with final payment due July 2013	1,672	
0.96% long-term debt payable in annual instalments with final payment due September 2010	147	219
Total long-term debt	3,780	2,433
Less current instalments	(514)	(317)
Long-term debt, excluding current instalments	3,266	2,116

Loan maturities after 2009 are summarized below:

2010	708
2011	645
2012	653
2013	662
Thereafter	598
Total	3,266

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At December 31, 2008 and 2007 there are no covenants on the above long-term debt. In addition, at December 31, 2008 and 2007 there are no long-term debt denominated in foreign currencies.

Interest expense related to long-term debt for the years ended December 31, 2008, 2007 and 2006 was 49, 64 and 96 respectively. Interest expense is paid with the related instalment (semi-annual or annual).

17. Other liabilities

Other liabilities consist of:

	2008	2007
Provision for contingent liabilities	10,545	9,344
One-time termination benefits	2,512	
Termination indemnities for sales agents	1,385	1,522
Total	14,442	10,866

The Group is involved in a number of certain and probable claims (including tax claims) and legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters, after the provision accrued (at December 31, 2008 and 2007 amounts to 10,545 and 9,344, respectively), will not have a material adverse effect on the Group s consolidated financial position or results of operations.

The one-time termination benefits include the amounts to be paid on the separation date to certain workers (No. 474) to be terminated on an involuntarily basis. Such one-time termination benefits have been determined by the Company based on the current applicable Italian law and regulations for involuntarily termination of employees (see note 24).

18. Minority interest

Minority interest shown in the accompanying consolidated balance sheet at December 31, 2008 is 795 (146 at December 31, 2007).

19. Shareholders equity

The share capital is owned as follows:

	2008	2007
Mr. Pasquale Natuzzi	53.5%	47.5%
Miss Anna Maria Natuzzi	2.6%	2.6%
Mrs. Annunziata Natuzzi	2.5%	2.5%
Public Investors	41.4%	47.4%
	100%	100%

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An analysis of the reserves is as follows:

	2008	2007
Legal reserve	11,199	11,199
Monetary revaluation reserve	1,344	1,344
Government capital grants reserve	29,749	29,749
Majority shareholder capital contribution	488	
Total	42,780	42,292

The number of ordinary shares issued at December 31, 2008 and 2007 is 54,853,045 and 54,824,227, respectively. The par value of one ordinary share is euro 1.

Italian law requires that 5% of net income of the parent company and each of its consolidated Italian subsidiaries be retained as a legal reserve, until this reserve is equal to 20% of the issued share capital of each respective company. The legal reserve may be utilized to cover losses; any portion which exceeds 20% of the issued share capital is distributable as dividends. The combined legal reserves totalled 11,545 and 12,378 at December 31, 2008 and 2007, respectively.

During 2008 the majority shareholder made a contribution of 488 recorded by the Company under shareholder s equity in the line item reserves . This contribution was made based on the rules which regulate the cost reimbursement grants related to research and development costs.

No taxes would be payable on the distribution of the monetary revaluation reserve and government capital grants reserve.

The cumulative translation adjustment included in retained earnings of shareholders equity related to translation of the Group s foreign assets and liabilities at December 31, 2008 was a debit of 12,505 (debit of 7,576 at December 31, 2007).

20. Share grants and options

In order to provide incentives to certain personnel, the shareholders of the Company on July, 23 2004 approved in its Shareholders Ordinary and Extraordinary Meeting the guidelines of a share incentive plan in favor of Natuzzi Group s managers subject to assignment of Natuzzi S.p.A. shares. The 2004 plan covers the period 2005-2009. During this period the Company assigns performance share grants and performance share options related to the achievement of pre-determined levels of individual, enterprise and share price targets related to the years 2004 and 2005. The maximum number of shares to be issued in connection with the plan is 3,000,000, each with a nominal value of 1.00, of which 500,000 in the form of restricted stock units and the remaining from the conversion of stock options. The Shareholders Meeting has delegated to the Board of Directors the regulation and management of the 2004 plan, and the responsibility for the issuance of the options and grants under the 2004 plan.

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Under the 2004 plan an employee is entitled to grants of restricted stock units and options if certain performance targets are met. In particular, the Plan provides for: (a) grants of restricted stock units for achievement of pre-determined objectives (management by objectives or MBOs) in 2004 and 2005, which vest and settle if the applicable performance targets are achieved, with respect to the 2004 MBOs, in 2006 and 2007, and, with respect to 2005 MBOs, in 2007 and 2008; (b) grants of options that only become exercisable if MBOs in 2004 and 2005 are achieved; and (c) the opportunity for participants to receive additional 50% options for combined achievement of 2004 and 2005 MBOs and the targeted price of the Company s share (during a reference period) on the New York Stock Exchange.

In order for an employee to obtain the additional 50% options based on 2004 MBOs, the following conditions have to be met (first tranche): (a) achievement of 2004 MBOs, and the arithmetic mean of the Company s American Depositary Shares (ADS) during the period from October 1, 2005 and December 31, 2005 equal or greater than U.S. dollars 15. Similarly, in order for an employee to obtain the additional 50% options based on 2005 MBOs, the following conditions have to be met (second tranche): achievement of 2005 MBOs, and the arithmetic mean of the Company s American Depositary Shares (ADS) during the period from October 1, 2007 and December 31, 2007 equal or greater than U.S. dollars 24.

The share grants issued for the achievement of 2004 MBOs have been issued in two equal instalments during January 2006 and 2007. Similarly for the achievement of 2005 MBOs the share grants have been issued in two equal instalments during January 2007 and 2008. The vesting period for these grants is considered to be reference year (2004 or 2005), as continuation of employment after that date is not a condition for the said share grants.

The share options have an exercise price of euro 8.51 (U.S. dollars 11.84 at December 31, 2008 exchange rate), calculated in accordance with fiscal law in force. An employee is entitled to share options and additional options on the following dates: 50% of 2004 MBOs and 50% of first tranche in January 2006; remaining 50% of 2004 MBOs, 50% of the first tranche and 50% of 2005 MBOs in January 2007; remaining 50% of 2005 MBOs and 50% of the second tranche in January 2008; remaining 50% of second tranche in January 2009. If the employee is not on employment on the above dates, he or she is not entitled to the remaining options. Therefore vesting dates for the options are determined to be the above dates.

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The status of the share grants and options under the plan, as of December 31, 2008 and 2007, is as follows:

MBO 2004	Shares	Options	Additional options	Total
Balance at December 31, 2007		203,868		203,868
Granted				
Exercised				
Forfeited		(80,845)		(80,845)
Expired				
Balance at December 31, 2008		123,023		123,023
Weighted average remaining contractual life		0.04 years		

MBO 2005	Shares	Options	Additional options	Total
Balance at December 31, 2007	28,818	108,760		137,578
Granted				
Exercised	(28,818)			(28,818)
Forfeited		(26,039)		(26,039)
Expired				
Balance at December 31, 2008		82,721		82,721
Weighted average remaining contractual life		0.04 years		

During 2008, 2007 and 2006 the Company did not grant any shares, options and additional options.

The total intrinsic value of shares exercised during the years ended December 31, 2008, 2007 and 2006 was 50, 268 and 368, respectively. During 2008, 2007 and 2006 there were no options and additional options exercised as the intrinsic value was negative (the exercise price as of December 31, 2008, 2007 and 2006 exceeded the market value).

The grant date fair value of shares vested during the years ended December 31, 2008, 2007 and 2006 was 226, 674 and 447, respectively.

On the basis of the plan the exercise price for the share grants is zero, while for the options and additional options is euro 8.51 (U.S. dollars 11.84 at December 31, 2008 exchange rate). At December 31, 2008, 2007 and 2006 the market price of Natuzzi s shares is euro 1.72 (U.S. dollars 2.40 at December 31, 2008 exchange rate) euro 3.13 (U.S. dollars 4.61 at December 31, 2007 exchange rate) and euro 6.46 (U.S. dollars 8.51 at December 31, 2006 exchange rate), respectively.

Under Italian GAAP the Company does not record in the consolidated statements of operations the compensation expense related to share based compensation plans.

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21. Commitments and contingent liabilities

Several companies of the Group lease manufacturing facilities and stores under non-cancellable lease agreements with expiry dates through 2023. Rental expense recorded for the years ended December 31, 2008, 2007 and 2006 was 17,061, 15,768 and 14,125, respectively. As of December 31, 2008, the minimum annual rental commitments are as follows:

2009	12,794
2010	11,234
2011	10,916
2012	8,940
2013	7,327
Thereafter	15,964
Total	67,175

Certain banks have provided guarantees at December 31, 2008 to secure payments to third parties amounting to 1,760 (2,674 at December 31, 2007). These guarantees are unsecured and have various maturities extending through December 31, 2013.

In December 1996, the Company and the Contract Planning Service of the Italian Ministry of the Industrial Activities signed a Program Agreement with respect to the Natuzzi 2000 project . In connection with this project, Natuzzi Group prepared a multi-faceted program of industrial investments for the increase of the production capacity of leather and fabric upholstered furniture in the area close to its headquarters in Italy. According to this Program Agreement , Natuzzi should have realized investments for 295,156 and at the same time the Italian government should have contributed in the form of capital grants for 145,455. During 2003 Natuzzi revised its growth and production strategy due to the strong competition of products realized by competitors in countries like China and Brazil. Therefore, as a consequence of this change in the economic environment in 2003 Natuzzi requested the Italian Ministry of the Industrial Activities to revise the original Program Agreement as follows: reduction of the investment to be realized from 295,156 to 69,772, and reduction of the related capital grants from 145,455 to 34,982. During April 2005 the Company received from the Italian Government the final approval of the Program Agreement confirming these revisions. Natuzzi received under the aforementioned project capital grants in 1997 and 2005 of 27,072 and of 7,910, respectively.

As of December 31, 2008 and 2007 the capital grants of 34,982 are secured by a guarantee letter for 26,005 from a bank. This guarantee letter is unsecured and will expire when the Italian Ministry of Industrial Activities releases the final approvals of all investments made.

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In prior years the Company and certain Italian subsidiaries, on the basis of the Italian law, for the personnel employed under the contract scheme referred to as training and work enjoyed an exemption for the social contribution due to the National Institute for Social Security (Istituto Nazionale per la Previdenza Sociale or INPS) for a certain period. During 2004, the European Court of Justice decided that these grants were not in conformity with European Union law and regulations in force about competition. As a consequence of this disposition the European Commission has established that Italy has to recover from its enterprises all the social contribution not paid from November 1995 to May 2001 for the above work contracts. Therefore, the Italian National Institute for Social Security has communicated, in 2005 with a preliminary notice and in 2007 with a final notice, to the Company and certain Italian subsidiaries to reimburse all the social contribution due and not paid, amounting to 19,732. The Company, based on the advice of its legal consultants, did not pay the amounts claimed back and, at the same time, has taken a legal action against the National Institute for Social Security in order to obtain the cancellation of the above request of 19,732. During 2008 the Company obtained from the National Institute by Social Security official notices for the cancellation of the above request for 18,639. For the rest of the initial request of 1,093, the Company intends to vigorously defend its position. The Company believes that the probability of a favorable final outcome is very high. Therefore, the Company for this contingent liability recorded a provision of 475 in the Consolidated Financial Statements as of December 31, 2008, 2007 and 2006, as this amount is considered the probable final liability.

The Group is also involved in a number of certain and probable claims (including tax claims) and legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters, after considering amounts accrued, will not have a material adverse effect on the Group s consolidated financial position or results of operations (see notes 17 and 24).

22. Segmental and geographical information

The Group operates in a single industry segment, that is, the design, manufacture and marketing of contemporary and traditional leather and fabric upholstered furniture. It offers a wide range of upholstered furniture for sale, manufactured in production facilities located in Italy and abroad (Romania, Brazil and China).

Net sales of upholstered furniture analyzed by coverings are as follows:

	2008	2007	2006
Leather upholstered furniture	535,178	502,913	573,086
Fabric upholstered furniture	52,607	60,597	87,165
Total	587,785	563,510	660,251

Within leather and fabric upholstered furniture, the Company offers furniture in the following categories: stationary furniture (sofas, loveseats and armchairs), sectional furniture, motion furniture, sofa beds and occasional chairs, including recliners and massage chairs.

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The following tables provide information upon the net sales of upholstered furniture and of long-lived assets by geographical location. Net sales are attributed to countries based on the location of customers. Long-lived assets consist of property, plant and equipment.

	2008	2007	2006
Sales of upholstered furniture			
United States of America	165,445	159,289	204,303
Italy	65,739	68,734	81,911
Spain	37,383	41,677	45,955
Canada	37,345	34,190	36,244
France	36,311	29,433	33,551
England	31,458	31,965	39,874
Belgium	27,572	24,138	28,013
Germany	27,045	26,714	30,927
Holland	16,965	15,594	16,624
Australia	16,172	15,354	18,269
Other countries (none greater than 2%)	126,350	116,422	124,580
Total	587,785	563,510	660,251

	2008	2007
Long lived assets		
Italy	120,883	132,789
Romania	27,366	32,468
China	22,572	20,769
United States of America	16,761	16,147
Brazil	15,069	24,355
Other countries	9,130	9,322
Total	211,781	235,850

In addition, the Group also sells minor volumes of excess polyurethane foam, leather by-products and certain pieces of furniture (coffee tables, lamps and rugs) which, for 2008, 2007 and 2006 totalled 78,241, 70,892 and 75,188, respectively.

23. Cost of sales

Cost of sales is analyzed as follows:

	2008	2007	2006
Opening inventories	107,290	100,358	115,690
Purchases	301,811	308,234	313,207
Labor	97,720	101,664	109,360

Third party manufacturers	18,474	16,499	19,609
Other manufacturing costs	45,487	41,124	33,055
Closing inventories	(92,012)	(107,290)	(100,358)
Total	478,770	460,589	490,563

The line item Other manufacturing costs includes the depreciation expenses of property plant equipment used in the production of finished goods. This depreciation expense amounted to 17,339, 16,964 and 15,883 for the years ended December 31, 2008, 2007 e 2006, respectively.

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24. Other income (expense), net

Other income (expense), net is analyzed as follows:

	2008	2007	2006
Interest income	1,614	3,557	3,609
Interest expense and bank commissions	(1,855)	(1,884)	(2,077)
Interest income (expenses), net	(241)	1,673	1,532
Losses on foreign exchange, net	(6,589)	(8,096)	(4,651)
Unrealized exchange gains (losses) on domestic currency swaps, net	(4,471)	946	5,463
Gains (losses) on foreign exchange, net	(11,060)	(7,150)	812
Other, net	(14,517)	2,831	503
Total	(25,818)	(2,646)	2,847

Gains (losses) on foreign exchange, net are related to the following:

	2008	2007	2006
Net realized gains (losses) on domestic currency swaps	(1,263)	5,877	664
Net realized losses on accounts receivable and payable	(6,281)	(3,865)	(8,166)
Net unrealized gains (losses) on accounts receivable and payable	955	(10,108)	2,851
Total	(6,589)	(8,096)	(4,651)

Other, net consists of the following:

	2008	2007	2006
Impairment losses of long-lived assets	(4,703)		
One-time termination benefits	(4,605)		
Provisions for contingent liabilities	(3,200)	(2,956)	(5,828)
Incentive from landlord			1,100
Export incentive benefits			3,371
Tax refund		2,961	
Write off of a provision		1,500	
Income tax not due		668	
Write off of fixed assets	(1,189)	(2,285)	
Other, net	(820)	2,943	1,860

Total	(14,517)	2,831	503

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Impairment losses of long-lived assets

The Company in October 2008, in order to improve its manufacturing efficiency and in connection with the adoption of the three year business plan, decided to close and sell a manufacturing facility located in Brazil in the State of Bahia. As a result of this decision the Company performed an impairment analysis and determined that the carrying value of such manufacturing facility as of December 31, 2008 was more than the fair value less costs to sell. Therefore, as of December 31, 2008 the carrying value of such manufacturing facility was reduced to fair value less costs to sell. This resulted in an impairment loss of 2,911 recorded under the line other income (expense), net of the consolidated statement of operations for the year ended December 31, 2008. Company s management estimated the fair value based on third-party independent appraisals.

The Company in October 2008, in order to improve its manufacturing efficiency and in connection with the adoption of the three year business plan, decided to close and sell six industrial buildings utilized mainly as warehouses and located in the cities of Altamura and Matera nearby the Group s headquarters in Italy. As a result of this decision the Company performed an impairment analysis and determined that the carrying values of two of the six industrial buildings as of December 31, 2008 were more than the fair value less costs to sell. Therefore as of December 31, 2008 the carrying values of these two industrial buildings were reduced to fair value less costs to sell. This resulted in an impairment loss of 1,792 recorded under the line other income (expense), net of the consolidated statement of operations for the year ended December 31, 2008. Company s management estimated the fair value of these industrial buildings based on observable market transactions involving sales of comparable buildings and third party independent appraisals.

One-time termination benefits

In light of the current credit crisis and economic downturn started in 2007 that have negatively affected the order flows and the sales level, the Company in late 2008 in connection with the adoption of its 2009-2011 business plan and budget for 2009 approved by the its Board of Directors on October 17, 2008, and December, 15 2008, respectively, decided to terminate on a involuntarily basis a certain number of workers related to its Italian manufacturing facilities. Therefore, the Company on the basis of such decisions has charged in 2008 to other income, expense, net the one-time termination benefits, amounting to 4,605, to be recognized cash to 550 workers upon their involuntarily termination that should occur by the end of July 2009. For a certain number of these workers (No.76) the above termination benefits, for an amount of 2,093, have been determined pursuant to an individual agreement reached by the Company during the first months of 2009; while for the rest of the workers (No. 474) the above termination benefits, for an amount of 2,512, have been determined by the Company based on the current applicable Italian law and regulations for involuntarily termination of employees. The date of termination of work for such workers to be terminated on a involuntarily basis is at discretion of the Company and it should occur by the end of July 2009. Before or on December 31, 2008 the Company did not make any official announcement or notification to the terminated employees related to the above work termination plan and one-time termination benefits.

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Provisions for contingent liabilities

The Company has charged to other income (expense), net in 2008, 2007 and 2006 the amount of 3,200, 2,956 and 5,828, respectively, for the estimated probable liabilities related to some claims (including tax claims) and legal actions in which it is involved.

Below are reported the comments on the 2008 legal and tax actions.

During 2008 the Company has charged to other income (expense) net the amount of 2,237 for the probable tax contingent liabilities related to income taxes and other taxes of some foreign subsidiaries. This amount represents the probable amount that could be claimed back by the tax authorities in case of tax audit.

For 2008 the remaining amount of 963 of the provisions for contingent liabilities is related to several minor claims and legal actions arising in the ordinary course of business.

Below are reported the comments on the 2007 legal and tax actions.

During 2007 the Company has charged to other income (expense) net the amount of 2,172 for the probable tax contingent liabilities related to income taxes and other taxes of some foreign subsidiaries. This amount represents the probable amount that could be claimed back by the tax authorities in case of tax audit.

For 2007 the remaining amount of 784 of the provisions for contingent liabilities is related to several minor claims and legal actions arising in the ordinary course of business.

Below are reported the comments on the 2006 legal and tax claims.

The Company since 2001 was a plaintiff in a suit that alleged the infringement of Natuzzi s model copyright by a competitor. In 2006 the Court of Justice in which the suit was filed has rejected the Company s requests. The Court of Justice has also condemned the Company to reimburse the legal costs sustained by the defendant. As of December 31, 2006 the Company estimated the probable amount of the legal costs to reimburse to the defendant in 1,500. This amount has been charged to other income (expense), net in 2006.

During 2006 the tax authorities of a foreign country conducted a tax audit on a subsidiary regarding, in particular, income taxes for the years from 2001 to 2005. As a result of this audit, the tax authorities issued several tax assessments totaling approximately to 8,000. The Company has taken action against the tax authorities in order to obtain the cancellation of the requested amounts. The Company considers many of the issues contested by the tax authorities baseless, without rational and not adequately documented. The Company intends to vigorously defend its position. However, the Company believes that the probable liability related to the aforementioned tax assessments is of 1,260. Therefore, the Company has charged this amount of 1,260 to other income (expense), net in 2006.

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During 2006 the Company has charged to other income (expense), net the amount of 1,223 because of probable charge related to a misinterpretation of custom duties regulation in a foreign country.

For 2006 the remaining amount of 1,845 of the provisions for contingent liabilities is related to several minor claims and legal actions arising in the ordinary course of business.

Incentive from landlord

In 2006, the Company has charged to other income (expense), net the one time incentive, amounting to 1,100, received from the landlord of a store, for the termination of the related lease contract before the term specified in the lease agreement.

Export incentive benefits

In 2006, the Company received export incentive benefits of 3,371. These incentives are measured on the basis of the export sales realized during a certain period.

Tax refund

During 2007, the Company obtained from tax authorities a refund of 2,961 for income and other taxes not due related to prior years. As these amounts were not recorded previously due to uncertainty, the Company recorded such amounts in the consolidated statement of operations for those years.

Write off a provision for contingent liability

As indicated above under the title provisions for contingent liability , the Company since 2001 was a plaintiff in a suit that alleged the infringement of Natuzzi s model copyright by a competitor. In 2006 the Court of Justice in which the suit was filed has rejected the Company s requests. The Court of Justice has also condemned the Company to reimburse the legal costs sustained by the defendant. As of December 31, 2006 the Company estimated the probable amount of the legal costs to reimburse to the defendant in 1,500. This amount has been charged to other income (expense), net in 2006. During 2007 the Company and the defendant signed a settlement agreement that provided the following: (a) the Company renounced to proceed against the defendant for other infringements of Natuzzi s models and other requests; (b) the defendant renounced to the reimbursement of the legal cost of 1,500. As a consequence of this settlement the Company has recorded in other income (expense), net in 2007 the amount of 1,500 as income.

Income tax not due

During 2007 an Italian subsidiary of the Parent Company obtained from the Italian tax authorities the confirmation that a portion of the income tax amounting to 668 related to year 2006 was not due. As this amount was not recorded due to uncertainty, the Company recorded such amount in the consolidated statement of operations for that year.

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Write off of fixed assets
The write off of fixed assets include the net book value of those fixed assets that refer mainly to damaged items and that were no longer in conformity with the production quality standards. As of December 31, 2008, 2007 and 2006 the write off of fixed assets amount to 1,189, 2,285 and nil, respectively.
25. Financial instruments and risk management
A significant portion of the Group s net sales, but only approximately 40% of its costs, are denominated in currencies other than the euro, in particular the U.S. dollar. The remaining costs of the Group are denominated principally in euros. Consequently, a significant portion of the Group s net revenues are exposed to fluctuations in the exchange rates between the euro and such other currencies. The Group uses forward exchange contracts (known in Italy as domestic currency swaps) to reduce its exposure to the risks of short-term declines in the value of its foreign currency denominated revenues. The Group uses such domestic currency swaps to protect the value of its foreign currency denominated revenues, and not for speculative or trading purposes.
The Group is exposed to credit risk in the event that the counterparties to the domestic currency swaps fail to perform according to the terms of the contracts. The contract amounts of the domestic currency swaps described below do not represent amounts exchanged by the parties and, thus, are not a measure of the exposure of the Group through its use of those financial instruments. The amounts exchanged are calculated on the basis of the contract amounts and the terms of the financial instruments, which relate primarily to exchange rates. The immediate credit risk of the Group s domestic currency swaps is represented by the unrealized gains or losses on the contracts. Management of the Group enters into contracts with creditworthy counter-parties and believes that the risk of material loss from such credit risk to be remote. The table below summarizes in euro equivalent the contractual amounts of forward exchange contracts used to hedge principally future cash flows from accounts receivable and sales orders at December 31, 2008 and 2007:

	2008	2007
U.S. dollars	62,561	58,724
Euro	25,292	46,326
British pounds	11,988	8,751
Canadian dollars	11,463	18,930
Australian dollars	9,771	16,503
Norwegian kroner	2,492	7,071
Swiss francs	1,973	620
Danish kroner	1,675	2,681
Swedish kroner	1,644	2,616
Japanese yen	360	292
Total	129,219	162,514

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The following table presents information regarding the contract amount in euro equivalent amounts and the estimated fair value of all of the Group s forward exchange contracts. Contracts with unrealized gains are presented as assets and contracts with unrealized losses are presented as liabilities .

	2008		2007	
	Contract amount	Unrealized gains (losses)	Contract amount	Unrealized gains (losses)
Assets	38,898	6,799	97,967	4,995
Liabilities	90,321	(11,270)	64,547	(4,049)
Total	129,219	(4,471)	162,514	946

At December 31, 2008 and 2007, the forward exchange contracts had a net unrealized loss of 4,471 and a net unrealized gain of 946, respectively. These amounts are recorded in other income (expense), net in the consolidated statements of operations (see note 24).

The carrying value of forward exchange contracts is determined based on the unrealized loss and gain of such contracts recorded in the consolidated financial statements. Unrealized gains (losses) on forward exchange contracts is determined by using quoted prices in active markets for similar forward exchange contracts.

Refer to note 3 (c) for the Group s accounting policy on forward exchange contracts.

26. Fair value of financial instruments

The following table summarizes the carrying value and the estimated fair value of the Group s financial instruments:

	2008		2007	
	Carrying value	Fair value	Carrying value	Fair value
Assets:				
- Marketable debts securities	4	4	4	4
Liabilities:				
- Long-term debt	3,780	2,906	2,433	2,151

Cash and cash equivalents, receivables, payables and short-term borrowings approximate fair value because of the short maturity of these instruments.

Market value for quoted marketable debt securities is represented by the securities exchange prices at year-end. Market value for unquoted securities is represented by the prices of comparable securities, taking into consideration interest rates, duration and credit standing of the issuer.

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Fair value of the long-term debt is estimated based on cash flows discounted using current rates available to the Company for borrowings with similar maturities.

27. Application of generally accepted accounting principles in the United States of America

The established accounting policies followed in the preparation of the consolidated financial statements (Italian GAAP) vary in certain significant respects from those generally accepted in the United States of America (US GAAP).

The calculation of net earnings (loss) and shareholders equity in conformity with US GAAP is as follows:

Reconciliation of net earnings (loss):

	2008	2007	2006
Net earnings (loss) under Italian GAAP	(61,938)	(62,647)	12,339
Adjustments to reported income:			
(a) Revaluation of property, plant and equipment	27	27	27
(b) Government grants	811	1,188	1,453
(c) Revenue recognition	2,330	1,887	(615)
(g) Goodwill and intangible assets	(2,634)	1,970	1,828
(h) Share grants and options	(2)	(56)	(254)
(i) Translation of foreign financial statements	753	191	762
(j) One-time termination benefits	4,605		
(k) Impairment of long-lived assets	400		
(l) Penalties to landlords			(658)
Tax effect of US GAAP adjustments	(14)	(2,567)	(393)
Net earnings (loss) in conformity with US GAAP	(55,662)	(60,007)	14,489
Basic earnings (loss) per share in conformity with US GAAP	(1.02)	(1.09)	0.26
Diluted earnings (loss) per share in conformity with US GAAP	(1.02)	(1.09)	0.26

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Reconciliation of shareholders equity:

	2008	2007
Shareholders equity under Italian GAAP	345,218	411,597
(a) Revaluation of property, plant and equipment	(534)	(561)
(b) Government grants	(12,037)	(12,848)
(c) Revenue recognition	(2,043)	(4,373)
(g) Goodwill and intangible assets	4,721	7,355
(i) Translation of foreign financial statements	15,895	10,213
(j) One-time termination benefits	4,605	
(k) Impairment of long-lived assets	400	
Tax effect of US GAAP adjustments	(2,923)	(2,909)
Shareholders equity in conformity with US GAAP	353,302	408,474

The condensed consolidated balance sheets as at December 31, 2008 and 2007, and the condensed consolidated statements of operations for the years ended December 31, 2008, 2007 and 2006, which include all the US GAAP differences commented below are as follows:

Condensed Consolidated Balance Sheets as at December 31, 2008 and 2007

	December 31, 2008	December 31, 2007
ASSETS		
Current assets	314,695	357,184
Non current assets	245,784	270,345
Total assets	560,479	627,529
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities	135,707	146,414
Long-term liabilities	70,675	72,495
Minority interest	795	146
Shareholders equity	353,302	408,474
Total Liabilities and Shareholders Equity	560,479	627,529

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Condensed Consolidated Statements of Operations Years Ended December 31, 2008, 2007 and 2006

	2008	2007	2006
Net sales	670,130	635,883	736,848
Cost of sales	(496,905)	(468,654)	(495,153)
Gross profit	173,225	167,229	241,695
Selling expenses	(163,265)	(164,514)	(176,551)
General and administrative expenses	(49,916)	(49,094)	(42,418)
Operating income (loss)	(39,956)	(46,379)	22,726
Other expenses, net	(14,313)	(2,207)	(552)
Earnings (loss) before taxes and minority interest	(54,269)	(48,586)	22,174
Income taxes	(1,825)	(11,917)	(7,788)
Earnings (loss) before minority interest	(56,094)	(60,503)	14,386
Minority interest	432	496	103
Net earnings (loss)	(55,662)	(60,007)	14,489

The tables below sets forth the reconciliation of net sales and operating income (loss) from Italian GAAP to US GAAP for the years ended December 31, 2008, 2007 and 2006:

Reconciliation of net sales from Italian GAAP to US GAAP

	2008	2007	2006
Net sales Italian GAAP	666,026	634,402	735,439
(b) Government grants (reclassification)	(990)	(1,026)	(1,111)
(c) Revenue recognition (adjustment)	9,430	6,828	3,385
(n) Cost paid to resellers (reclassification)	(4,336)	(4,321)	(4,236)
(p) Export incentive (reclassification)			3,371
Net sales US GAAP	670,130	635,883	736,848

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Reconciliation of operating income (loss) from Italian GAAP to US GAAP

	2008	2007	2006
Operating income (loss) Italian GAAP	(34,996)	(49,110)	16,474
(a) Revaluation property, plant and equipment (adjustment)	27	27	27
(b) Government grants (adjustment)	811	1,188	1,453
(c) Revenue recognition (adjustment)	2,330	1,887	(615)
(g) Goodwill and intangible assets (adjustment)	(2,634)	1,970	1,828
(h) Share grants and options (adjustment)	(2)	(56)	(254)
(k) Impairment of long-lived assets (reclassification)	(4,703)		
(k) Impairment of long-lived assets (adjustment)	400		
(l) Penalties to landlords (adjustment)			(658)
(m) Write-off of tangible assets (reclassification)	(1,189)	(2,285)	
(p) Export incentive (reclassification)			3,371
(q) Incentive for landlords (reclassification)			1,100
Operating income (loss) US GAAP	(39,956)	(46,379)	22,726

The differences which have a material effect on net earnings (loss) and/or shareholders equity are disclosed as follows:

(a) Certain property, plant and equipment have been revalued in accordance with Italian laws. The revalued amounts are depreciated for Italian GAAP purposes. US GAAP does not allow for such revaluations, and depreciation is based on historical costs. The revaluation primarily relates to industrial buildings. The adjustment to net earnings (loss) and shareholders equity represents the reversal of excess depreciation recorded under Italian GAAP on revalued assets.

(b) Under Italian GAAP until December 31, 2000 government grants related to capital expenditures were recorded, net of tax, within reserves in shareholders equity. Subsequent to that date such grants have been recorded as deferred income and recognized in the consolidated statement of operations as revenue or other income, as appropriate under Italian GAAP (see note 3 (m)), on a systematic basis over the useful life of the asset.

Under US GAAP, such grants, when received, are classified either as a reduction of the cost of the related fixed asset or as a deferred credit and amortized over the estimated remaining useful lives of the assets. The amortization is treated as a reduction of depreciation expense and classified in the consolidated statement of operations according to the nature of the asset to which the grant relates.

The adjustments to net earnings (loss) represent mainly the annual amortization of the pre December 31, 2000 capital grants based on the estimated useful life of the related fixed assets. The adjustments to shareholders equity are to reverse the amounts of capital grants credited directly to equity for Italian GAAP purposes, net of the amounts of amortization of such grants for US GAAP purposes.

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Amortization of deferred income related to grants recognized as revenues under Italian GAAP of 990, 1,026 and 1,111 for the years ended December 31, 2008, 2007 and 2006 respectively would be reclassified to depreciation expense and recorded in cost of goods sold under US GAAP, in the period such amounts are recognized.

(c) Under Italian GAAP, the Group recognizes sales revenue, and accrued costs associated with the sales revenue, at the time products are shipped from its manufacturing facilities located in Italy and abroad. A significant part of the products is shipped from factories directly to customers under terms that risks and ownership are transferred to the customer when the customer takes possession of the goods. These terms are delivered duty paid , delivered duty unpaid , delivered ex quay and delivered at customer factory . Delivery the customer generally occurs within one to six weeks from the time of shipment.

US GAAP requires that revenue should not be recognized until it is realized or realizable and earned, which is generally at the time delivery to the customer occurs and the risks of ownership pass to the customer. Accordingly, the Italian GAAP for revenue recognition is at variance with US GAAP. The principal effects of this variance on the accompanying consolidated balance sheets as of December 31, 2008 and 2007 and related consolidated statements of operations for each of the years in the three-year period ended December 31, 2008 are indicated below:

Consolidated balance sheets	**2008 Effects Increase (Decrease)**	**2007 Effects Increase (Decrease)**
Trade receivables, net	(13,463)	(22,893)
Inventories	9,665	15,946
Total effect on current assets (a)	(3,798)	(6,947)
Accounts payable-trade	(1,755)	(2,574)
Income taxes	(468)	(89)
Total effect on current liabilities (b)	(2,223)	(2,663)
Total effect on shareholders equity (a-b)	(1,575)	(4,284)

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Consolidated statements of operations	**2008**	**2007**	**2006**
Net sales	9,430	6,828	3,385
Gross profit	3,149	2,950	498
Operating income (loss)	2,330	1,887	(615)
Total effect on net operations	2,709	235	(342)

(d) During June 2006 (see notes 1 and 27 (g)) the Company acquired a business composed by four Divani & Divani by Natuzzi stores, located in Milan area, and the purchase price was 3,093. At the date of the acquisition the franchisee agreement between Natuzzi and the original business had expired under the original terms. This acquisition was accounted for as business combination under Italian GAAP. This acquisition qualifies as a business combination under US GAAP. However, under Italian GAAP the difference between purchase price and the fair value of the net assets acquired was allocated to goodwill, while under US GAAP the same difference was allocated in part to goodwill and in part to intangibles operating lease agreements for favorable leases acquired. The allocation of purchase price under US GAAP and Italian GAAP is summarized as follows:

	US GAAP	IT GAAP	Difference
Goodwill	1,778	2,600	(822)
Fixed assets	132	132	
Leasehold improvements	468	468	
Operating lease agreements	1,310		1,310
Deferred tax liabilities	(488)		(488)
Payable to employees	(107)	(107)	
Purchase price	3,093	3,093	

The intangible operating lease agreements is amortized on a straight-line basis over the remaining lease term of approximately 8 years.

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(e) During September 2006 (see notes 1 and 27 (g)) the Company acquired a business composed by two Divani & Divani by Natuzzi stores, located in Reggio Emilia and Modena, respectively, and the purchase price was 250. This acquisition was accounted for as business combination under Italian GAAP. This acquisition qualifies as a business combination under US GAAP. However, under Italian GAAP the difference between purchase price and the fair value of the net assets acquired was allocated to goodwill, while under US GAAP the same difference was allocated in part to goodwill and in part to the intangible franchisee agreements . The allocation of purchase price under US GAAP and Italian GAAP is summarized as follows:

	US GAAP	IT GAAP	Difference
Goodwill	37	100	(63)
Fixed assets and leas. impr.	38	38	
Inventory	112	112	
Franchisee agreements	100		100
Deferred tax liabilities	(37)		(37)
Purchase price	250	250	

The intangible franchisee agreements is amortized on a straight-line basis over the remaining life of the agreement of 3.6 years.

(f) On June 14, 2007 (see notes 1 and 27 (g)) the Company acquired from a third party 100% of a business which main asset was a store located in one of the several shopping and commercial areas of Rome (Tiburtina area). The cash consideration paid by the Company for this acquisition was 230. At the date of the acquisition there were no employees, inventory or revenues associated with this asset. The net assets acquired were composed mainly as follows: (a) operating lease agreement; (b) leasehold improvements incorporated in the store; (c) commercial license authorization obtained from the Rome Municipality for trading sofas and other furniture to the public. Further during 2008, the Company started some construction work in order to set up in this store the Natuzzi layout selling system.

Under Italian GAAP the acquisition of this store was considered to be a business acquisition, while under US GAAP the same has been accounted for as an asset acquisition in accordance with EITF 98-3 *Determining Whether a Nonmonetary Transaction Involves Receipt of Productive Assets or of a Business"*, which did not result in a goodwill. Natuzzi s management has determined that the difference between the purchase price and the fair value of the net tangible assets acquired is due to the key location of the store acquired. Therefore, under US GAAP this intangible of 359 is depreciated over the term of the operating lease agreement (twelve years). The related deferred tax liabilities are established by using the simultaneous equations method .

The following table reports the allocation of the purchase price both under US and Italian GAAP:

	US GAAP	IT GAAP	Difference
Goodwill		225	(225)
Intangible assets	359		359
Leasehold improvements	5	5	
Deferred tax liabilities	(134)		(134)
Cash paid	230	230	

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(g) Under Italian GAAP, the Company amortizes the goodwill arising from business acquisitions on a straight-line basis over a period of five years. US GAAP states that goodwill acquired in a purchase business combination completed after July 1, 2001 is not amortized, but instead tested for impairment at least annually in accordance with provisions of FASB Statement 142, *Goodwill and Other Intangible Assets* (FASB Statement No. 142).

In addition, under Italian GAAP, the Company has allocated certain intangible assets, having definite lives and arising from a business acquisition and asset acquisition under the caption goodwill. Under US GAAP the Company would have classified such as intangible assets, would have amortized these over their estimated useful lives to their residual values, and would have reviewed these for impairment in accordance with FASB Statement 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* (FASB Statement No. 144).

The changes in the carrying amount of goodwill, intangible assets and deferred taxes arising from business and asset acquisitions completed after July 1, 2001, are as follows:

	Goodwill		Intangibles		Deferred taxes	
	US	Italian	US	Italian	US	Italian
Balance at December 31, 2005	5,945	9,122	6,075		(2,097)	(23)
Acquisition of Milan stores	1,778	2,600	1,310		(488)	
Acquisition of other stores	37	100	100		(37)	
Amortization		(2,521)	(693)		241	(494)
Balance at December 31, 2006	7,760	9,301	6,792		(2,381)	(517)
Acquisition of one store		225	359		(134)	
Amortization		(2,840)	(870)		438	(404)
Balance at December 31, 2007	7,760	6,686	6,281		(2,077)	(921)
Impairment of goodwill	(1,500)					
Write off of goodwill		(776)				
Impairment of an intangible asset			(3,583)		1,218	
Amortization		(2,507)	(834)		274	(486)
Balance at December 31, 2008	6,260	3,403	1,864		(585)	(1,407)

Estimated amortization expense of the intangibles assets for the next five years is as follows: 323 in 2009, 304 in 2010, 295 in 2011, 295 in 2012 and 167 in 2013.

The above US and Italian GAAP goodwill is entirely related to a small reporting unit named Italian retail owned stores . Management has evaluated the carrying value of this mentioned goodwill for impairment purposes in accordance with the provisions of FASB Statement No. 142. Based on that evaluation, on a reporting unit basis, as at December 31, 2008, 2007 and 2006 such goodwill was impaired to the extent of 1,500, nil, nil, respectively.

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The impairment loss of such goodwill of 1,500, as indicated above, was entirely related to the reporting unit Italian retail owned stores. During the end of 2008 Natuzzi revised its sales growth strategy for its Italian retail owned stores as a consequence of the decline in the consumer demand in the Italian furniture market caused by the actual critical situation of the Italian economy. As a result of this 2008 revision for the next years in the expected level of sales of finished products through its Italian retail owned stores, the 2008 increase in the discount rate used to discount future cash flow and the 2008 sharp decline in the Company s market capitalization, the Company concluded that the carrying value of the goodwill related to such reporting unit as of December 31, 2008 was less than the fair value of the reporting unit impaired. The fair value as of December 31, 2008 was determined on the basis of the methodology so called Unlevered Discounted Cash Flow . The comparison of the implied fair value of goodwill with the carrying value of goodwill resulted in the determination of an impairment in value of 1,500. The difference between the carrying value of the goodwill under Italian GAAP (3,403) and US GAAP (6,260) is attributable to the classification and amortization differences discussed above.

The Company in October 2008, in order to improve its manufacturing efficiency and in connection with the adoption of the three year business plan, decided to close and sell a manufacturing facility located in Brazil in the State of Bahia. As a result of this decision the Company performed an impairment analysis and determined that the carrying value of such manufacturing facility as of December 31, 2008 exceeded the fair value (see note 9). Therefore, as of December 31, 2008 the carrying value of such group of assets was reduced to fair value. This resulted, in particular, in an impairment loss of 3,583 related to the intangible asset export incentive benefit agreement that was depreciated in twelve years (as of December 31, 2008 its residual useful life was of seven years). Under this export incentive benefit agreement, the Company was entitled to receive incentives calculated according to a certain percentage of sales of products manufactured in this facility and exported outside Brazil. As of December 31, 2008 under US GAAP the carrying value of this intangible asset net of the above impairment loss is zero. The valuation of such intangible asset is zero due to the following circumstances occurred during 2008: (a) in late 2008 the Company, as indicated above, ceased the production in this manufacturing facility and therefore is no longer entitled to the export incentive benefit; (b) the Company can not sell the export incentive benefit agreement to third parties nor use it in others manufacturing facilities as this incentive benefit agreement was granted exclusively for the production in such facility located in the city of Pojuca, in the State of Bahia in Brazil. Under Italian GAAP this intangible asset due to the classification and amortization differences discussed above was considered as goodwill and depreciated in five years. Therefore as of December 31, 2008 the net book value of this goodwill is zero.

(h) Under Italian GAAP the Company does not record in the consolidated statement of operations the compensation expense related to share based compensation plans.

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Effective January 1, 2006, the Company adopted FASB Statement No. 123 (R), *Share-Based Payment* (Statement 123 (R)). This statement replaces FASB Statement No. 123, *Accounting for Stock-Based Compensation* (Statement 123) and supersedes APB No. 25. Statement 123 (R) requires that all stock-based compensation be recognized as an expense in the financial statements and that such cost be measured at the fair value of the award. This statement was adopted using the modified prospective method of application, which requires the Company to recognize compensation cost on a prospective basis. Therefore, prior years financial statements have not been restated. Under this method, the Company recorded stock-based compensation expense for awards granted prior to, but not yet vested as of January 1, 2006, using the fair value amounts determined for pro forma disclosures under Statement 123.

During 2008, 2007 and 2006 Natuzzi did not launch any new stock awards plan. Therefore, as of the effective date of Statement 123 (R) January 1, 2006 and as of December 31, 2008, 2007 and 2006 the only stock awards plan in place is the one described in note 20 and launched by the Company during 2004.

As of December 31, 2008, 2007 and 2006 for US GAAP purposes the Company for its compensation cost related to its stock awards plan recorded a cost of 2, 56 and 254, respectively. At December 31, 2008 there is nil of total unrecognized compensation cost related to non vested share-based compensation arrangements granted under the 2004 plan.

Prior to fiscal year 2006 under US GAAP, the provisions of Statement 123 allowed entities to continue to apply the provisions of Accounting Principles Board Opinion (APB) No. 25 *Accounting for Stock Issued to Employees* for the accounting of compensation expense for its share based compensation plans, and required certain pro-forma disclosures for employee share options granted as if the fair value based methods defined in Statement 123 had been applied. For US GAAP purpose, the Company had elected to apply the provisions of APB Opinion No. 25 and related interpretations and to provide the pro-forma disclosure provisions of Statement 123 for its share grants and options plan. Compensation expense was recorded in the financial statements on the measurement date only if the market value of the underlying shares exceeds the exercise price.

For US GAAP purposes, the Company employees share based awards was considered variable under APB Opinion No. 25. Accordingly, the Company was recognizing the intrinsic values (resulting from the excess of the market price of the underlying shares at December 31, 2005 and 2004 over the exercise price) as a compensation cost in the consolidated statement of operations over the vesting period of the shares and options, as identified in note 20.

Under current Italian tax legislation, issuance of shares to satisfy share based compensation plans does not result in a deduction for tax purposes and, as such, no deferred taxation impacts have been recognized for US GAAP.

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The average fair value of shares, options and additional options granted during 2004 was approximately euro 7.86 per share, euro 2.05 per option and euro 0.02 per additional option, respectively. The fair value of each share, option and additional option was estimated using a pricing binomial model, that considers the following assumptions or variables:

Expected life and performance related conditions	2 years	5.3 years
Expected volatility of the underlying share		23%
Expected dividend yield of the underlying share		2%
Risk-free interest rate	2.43%	3.79%

(i) Under Italian GAAP effective on December 31, 2005, the financial statements of the foreign subsidiaries expressed in a foreign currency (which is deemed to be the functional currency) are translated directly into euro as follows: (i) year-end exchange rate for assets and liabilities, (ii) historical exchange rates for share capital and retained earnings, and (iii) average exchange rates during the year for revenues and expenses. The resulting exchange differences on translation is recorded as a direct adjustment to shareholders equity (see note 3 (d)).

Under US GAAP as of December 31, 2008, 2007 and 2006 the Natuzzi s foreign subsidiaries financial statements have been translated on the basis of the guidance included in FASB Statement 52, *Foreign Currency Traslation* (FASB Statement No. 52). Under US GAAP, foreign subsidiaries are considered to be an integral part of Natuzzi due to various factors including significant intercompany transactions, financing, and cash flow indicators. Therefore, the functional currency for these foreign subsidiaries is the functional currency of the parent, namely the euro. As a result all monetary assets and liabilities are remeasured, at the end of each reporting period, using euro and the resulting gain or loss is recognized in the consolidated statements of operations. For all non monetary assets and liabilities, share capital and retained earnings historical exchange rates are used. The average exchange rates during the year are used for revenues and expenses, except for those revenues and expenses related to assets and liabilities translated at historical exchange rates. The resulting exchange differences on translation are recognized in the statements of operations.

At December 31, 2008, 2007 and 2006 the US GAAP difference arises due to the requirement to use the local currency as the functional currency under Italian GAAP as compared to US GAAP, which requires that the functional currency be determined based on certain indicators which may, or may not result in the local currency being determined to be the functional currency. Consequently, the Company recorded in the US GAAP reconciliation for: (a) net earnings (loss) an income of 753, 191 and 762 for 2008, 2007 and 2006, respectively; (b) shareholders equity a positive adjustment of 15,895 and 10,213 for 2008 and 2007, respectively.

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(j) Under Italian GAAP, the Company has recognized in the consolidated statement of operations for the year ended December 31, 2008 the cost of one-time termination benefits of 4,605 related to the employees to be terminated on a involuntary basis as indicated in the plan of termination (see note 24). In accordance with Italian GAAP this cost has been recognized in 2008 as in such year the Company has formally decided to adopt the termination plan (approval by the Board of Directors) and is able to reasonably estimate the related one-time termination benefits. Before or on December 31, 2008 the Company did not make any official announcement or notification to the terminated employees related to the work termination plan and one-tine termination benefits. Under Italian GAAP for the recognition of the cost for the termination benefits related to the terminated workers is not relevant the communication or announcement to third parties of the plan of termination of workers.

FASB Statement 146, *Accounting for Costs Associated with Exit and Disposal Activities* (FASB Statement No. 146), at paragraph 8 states that the liability for the one-time termination benefits provided to current employees that are involuntarily terminated under the terms of a benefit arrangement that, in substance, is not an ongoing benefit arrangement or and individual deferred compensation contract is measured and recognized if a one-time arrangement exist at the date the plan of termination meets all the following criteria and has been communicated to the employees: (a) management, having the authority to approve the action, commits to a plan of termination; (b) the plan identifies the number of employees to be terminated, their job classifications or functions and their locations, and the expected completion date; (c) the plan establishes the terms of the benefit arrangement, including the benefits that employees will receive upon termination (including but not limited to cash payments), in sufficient detail to enable employees to determine the type and amount of benefits they will receive if they are involuntarily terminated; (d) actions required to complete the plan indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn.

Therefore, on the basis of the above discussion, the Italian GAAP for recognition in consolidated statement of operations for the year ended December 31, 2008 of the one-time termination benefits of 4,605 related to the to the employees to be terminated involuntarily is at variance with US GAAP.

Under US GAAP, considering the guidance of FASB Statement No. 146, the one-time termination benefits of 4,605 has to be recorded in the consolidated statement of operations when the termination plan will be communicated to the employees and will meet all the criteria indicated in paragraph 8 of FASB Statement No. 146. Therefore, under US GAAP the cost of the one-time termination benefits of 4,605 has been reversed out of the consolidated statements of operations for the year ended December 31, 2008.

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(k) The Company in October 2008, in order to improve its manufacturing efficiency and in connection with the adoption of the three year business plan, decided to close and sell a manufacturing facility located in Brazil in the State of Bahia. As a result of this decision the Company, in accordance with its Italian accounting policy (see note 3 (k)), performed an impairment analysis and determined that the carrying value of such manufacturing facility as of December 31, 2008 was more than the fair value less costs to sell. Therefore, as of December 31, 2008 the carrying value of such manufacturing facility was reduced to fair value less costs to sell. This resulted in an impairment loss of 2,911, recorded under the line other income (expense), net of the consolidated statement of operations for the year ended December 31, 2008, in accordance with its Italian accounting policy (see note 24). Company s management estimated the fair value based on third-party independent appraisals. In addition, as of December 31, 2008 the Company, in accordance with its Italian accounting policy, has classified this manufacturing facility under the line property, plant and equipment held and used of the consolidated balance sheet (see note 9) as there is a current expectation that it is more-likely-than not that this asset will be sold in the medium long-term period (more than one year from the balance sheet date).

The Company in October 2008, in order to improve its manufacturing efficiency and in connection with the adoption of the three year business plan, decided to close and sell six industrial buildings utilized mainly as warehouses and located in the cities of Altamura and Matera nearby the Group s headquarter in Italy. As a result of this decision the Company, in accordance with its Italian accounting policy (see note 3 (k)), performed an impairment analysis and determined that the carrying values of two of the six industrial buildings as of December 31, 2008 were more than the fair value less costs to sell. Therefore, as of December 31, 2008 the carrying values of these two industrial buildings were reduced to fair value less costs to sell. This resulted in an impairment loss of 1,792 recorded under the line other income (expense), net of the consolidated statement of operations for the year ended December 31, 2008 in accordance with its Italian accounting policy (see note 24). Company s management estimated the fair value of such industrial buildings based on observable market transactions involving sales of comparable buildings and third party independent appraisals. In addition, as of December 31, 2008 the Company, in accordance with its Italian accounting policy, has classified these industrial buildings under the line property, plant and equipment held and used of the consolidated balance sheet (see note 9) as there is a current expectation that it is more-likely-than not that these assets will be sold in the medium long-term period (more than one year from the consolidated balance sheet date).

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In accordance with FASB Statement 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* (FASB Statement No. 144), long lived assets (such as property, plant and equipment) are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If circumstances require a long lived asset or asset group be tested for possible impairment, an entity first compares undiscounted cash flows expected to be generated by that asset or asset group to its carrying value. If the carrying value of the long lived asset or asset group is not recoverable on an undiscounted cash flow basis, an impairment is recognized to the extent that the carrying value exceeds its fair value. Fair value is determined through various valuation techniques including discounted cash flow models, quoted market values and third-party independent appraisals, as considered necessary. Long lived assets or asset group to be disposed of by sale are classified as held for sale in the period in which are met all the six criteria indicated in paragraph 30 of FASB Statement No.144, and are measured at the lower of its carrying amount or fair value. If these six criteria are not met the assets are classified as held and used and measured as such as indicate above. In addition, in the statement of operations the impairment loss is classified as part of operating income.

Therefore, on the basis of the above discussion, as of December 31, 2008 the Italian GAAP for measurement and classification in the consolidated statement of operations of the impairment loss related to the manufacturing facility of Brazil and industrial buildings of Italy is at variance with the US GAAP.

Under Italian GAAP the measurement of the impairment loss of the manufacturing facility of Brazil and industrial buildings of Italy has been determined by the amount by which the carrying amount of the asset exceeds the fair value less costs to sell. Under US GAAP as the carrying value of these assets is not recoverable on an undiscounted cash flow basis, the impairment loss has been measured by the amount by which the carrying value exceeds its fair value. Therefore, at December 31, 2008 the difference between Italian GAAP and US GAAP for the measurement of the impairment losses is 400 and this is due to costs to sell. This amount has been reported in the US GAAP reconciliation for the year ended December 31, 2008.

Under Italian GAAP the impairment losses of the manufacturing facility of Brazil and the industrial buildings of Italy of 4,703 have been classified under the line other income (expense), net of the consolidated statement of operations for the year ended December 31, 2008 (see note 24). Under US GAAP these impairment losses would be classified as cost of sales.

Further, there is no difference between Italian GAAP and US GAAP about the classification of the manufacturing facility of Brazil and industrial building of Italy in the consolidated balance sheet as of December 31, 2008 as under both GAAP these assets are classified under the line property, plant and equipment held and used (see note 9).

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(l) Under Italian GAAP in 2005 Natuzzi has charged to other income (expense), net the one time penalties, amounting to 658, that it expected to negotiate, in 2006, with the landlords of several stores for the termination in 2006 of the related operating lease contracts before the term specified in the lease agreements (see note 24). Under US GAAP, considering the guidance of FASB Statement No. 146, these penalties were reversed out of the consolidated statement of operations for the year ended at December 31, 2005, and were recognized at the cease-use date , that occurred during 2006.

(m) During 2008, 2007 and 2006 the Company under Italian GAAP has recognized the write-off of tangible assets of 1,189, 2,285 and of nil, respectively, as part of non operating income. Under US GAAP such write-off charge would be included as part of operating income.

(n) Under Italian GAAP certain costs paid to resellers are reflected as part of selling expenses. Under US GAAP, in accordance with EITF 01-09 *Accounting for Consideration Given by a Vendor to a Customer (Including a Reseller of the Vendor s Products)* , these costs should be recorded as a reduction of net sales. Such expenses include advertising contributions paid to resellers which amounted at December 31, 2008, 2007 and 2006 to 4,336, 4,321 and 4,236, respectively.

(o) Under Italian GAAP, the Company includes its warranty cost as a component of selling expenses in the consolidated statement of operations. Under US GAAP, warranty costs would be included as a component of cost of sales. For the years ended December 31, 2008, 2007 and 2006 warranty cost amounting to 4,607, 4,143 and 4,294, respectively, would be reclassified from selling expenses to cost of sales under US GAAP.

(p) In 2008, 2007 and 2006 the Company under Italian GAAP has recognized certain export incentives of nil, nil and 3,371, respectively, under the caption other income (expense), net (see note 24). Under US GAAP such revenue would be included as part of operating income.

(q) In 2006 the Company under Italian GAAP has recognized in other income (expense), net an incentive of 1,100 received from the landlord of a store for the termination of the related lease contract before the term specified in the lease agreement (see note 24). Under US GAAP such revenue would be included as part of operating income.

(r) Under Italian GAAP, the Company includes the deferred tax assets related to the elimination of the intercompany profits on inventory under the line deferred income taxes of the current part of the balance sheet. As of December 31, 2008, 2007 and 2006 the above deferred taxes amount to nil, nil and 1,051, respectively. Under US GAAP these deferred taxes would be classified in the line deferred charges of the current part of the balance sheet.

(s) Under Italian GAAP the Company includes the component income taxes included in the provisions for contingent tax liabilities under the line other income (expense), net in the consolidated statement of operations. For the years ended December 31, 2008, 2007 and 2006 the above income taxes amount approximately to 255, 519 and 310. Under US GAAP these amounts would be classified in the line income taxes of the consolidated statements of operations.

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(t) During 2007 the Company obtained from tax authorities a refund of income taxes related to prior years for an amount of 1,888. In addition, during 2007 a subsidiary of the Company obtained from tax authorities the confirmation that a portion of income tax of 668 related to 2006 was not due. As these amounts were not recorded previously due to uncertainty, the Company recorded in 2007 such amounts in other income (expense), net (see note 24). Under US GAAP these amounts would be classified in the line income taxes of the consolidated statement of operations for the year ended December 31, 2007.

(u) Under Italian GAAP the Company records a tax contingent liability (income tax exposure) when it is probable that the liability has been incurred and the amount of the loss can be reasonably estimated.

In July 2006, the FASB issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*, an interpretation of FASB Statement 109 (FIN 48). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise s financial statements and prescribes a threshold of more-likely-than-not for recognition of tax benefits of uncertain tax position taken or expected to be taken in a tax return. FIN 48 also provides related guidance on measurement, derecognition, classification, interest and penalties, and disclosure.

The Company adopted the provisions of FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*, on January 1, 2007. As a result of the implementation of Interpretation No. 48, the Company did not recognize any increase or decrease in the liability for unrecognized tax benefits as of January 1, 2007. The following table provides the movements of unrecognized tax benefits:

	2008	2007
Balance, beginning of the year	1,460	941
Additions based on tax positions related to the current year	2	435
Additions for tax positions of prior years	483	358
Reductions due to statute of limitations expiration	(230)	(274)
Settlements		
Balance, end of year	1,715	1,460

If the Company had recognized the above uncertain tax positions, the income taxes for the year ended December 31, 2008, 2007 and 2006 would have decreased of 1,715, 1,460 and 941, respectively.

As of December 31, 2008 the Company does not expect that any unrecognized tax benefits could significantly increase or decrease in the next twelve months.

The Company recognized interest and penalties accrued related to unrecognized tax benefits in other income (expenses), net. During the years ended December 31, 2008, 2007 and 2006, the Company recognized approximately 42, 346 and 629 in interest and penalties, respectively. The Company had approximately 1,501 and 1,459 for the payment of interest and penalties accrued at December 31, 2008 and 2007, respectively.

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The following table reports the difference between US GAAP and Italian GAAP as regards the accounting for uncertainty in income taxes:

	US GAAP	IT GAAP	Difference
Balance at January 1, 2008	1,460	1,460	
Additions based on tax positions related to the current year	2	2	
Additions for tax positions of prior years	483	483	
Reductions due to statute of limitations expiration	(230)	(230)	
Settlements			
Balance at December 31, 2008	1,715	1,715	

	US GAAP	IT GAAP	Difference
Balance at January 1, 2007	941	941	
Additions based on tax positions related to the current year	435	435	
Additions for tax positions of prior years	358	358	
Reductions due to statute of limitations expiration	(274)	(274)	
Settlements			
Balance at December 31, 2007	1,460	1,460	

Under Italian GAAP the Company includes the provisions for income tax contingent liabilities under the line other liabilities of the non current part of the balance sheet. For the years ended December 31, 2008 and 2007 the above provisions for income tax contingent liabilities amount to 3,216 and 2,919, respectively. Under US GAAP these amounts would be classified in part in the line income taxes of the current part of the balance sheet for the income taxes (1,715 and 1,460 for the years ended December 31, 2008 and 2007, respectively), and for the other part in the line accounts payable-other for penalties and interest (1,501 and 1,459 for the years ended December 31, 2008 and 2007, respectively) of the current part of the balance sheet.

(v) The consolidated statements of cash flows for the years ended December 31, 2008, 2007 and 2006 prepared by the Company under Italian GAAP is in conformity with US GAAP (FASB Statement 95, *Statement of Cash Flow*).

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Comprehensive Income

The Company has adopted FASB Statement No. 130, *Reporting Comprehensive Income*, which established standards for the reporting and presentation of comprehensive income and its components in a full set of financial statements. Comprehensive income/(loss) generally encompasses all changes in shareholders equity (except those arising from transactions with owners). The Company s comprehensive income (loss) does not differ from its US GAAP net income (loss).

Recently issued but not yet adopted U.S. Accounting pronouncements relevant for the Company are as follows:

SFAS No. 141R and SFAS No. 160:

In December 2007, the FASB issued FASB Statement No. 141R, *Business Combinations* (Statement 141R) and FASB Statement No. 160, *Non controlling Interest in Consolidated Financial Statements an amendment to ARB No. 51* (Statement 160). Statement 141R and 160 require most identifiable assets, liabilities, non controlling interest, and goodwill acquired in a business combination to be recorded at full fair value and require non controlling interest (previously referred to as minority interest) to be reported as a component of equity, which changes the accounting for transactions with non controlling interest holders. Both Statements are effective for periods beginning on or after December 15, 2008, and earlier adoption is prohibited. Statement 141R will be applied to business combinations occurring after the effective date. Statement 160 will be applied prospectively to all non controlling interests, including any that arose before the effective date. The Company is currently evaluating the provisions of these standards, but does not expect adoption to have a material impact on its financial position and results of operations.

SFAS No. 157:

On January 1, 2008, the Company adopted the provisions of FASB Statement No. 157, *Fair Value Measurements* (Statement 157), for fair value measurements of financial assets and financial liabilities and for fair value measurements of nonfinancial items that are recognized or disclosed at fair value in the financial statements on a recurring basis. Statement 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Statement 157 also established a framework for measuring fair value and expands disclosures about fair value measurements. FASB Staff Position FAS 157-2, *Effective Date of FASB Statement No. 157*, delays the effective date of Statement 157 until fiscal year beginning after November 15, 2008 for all nonfinancial assets and nonfinancial liabilities that are recognized or disclosed at fair value in the financial statements on a nonrecurring basis. In accordance with FSP FAS 157-2, the Company has not applied the provisions of Statement 157 to the measurement of long-lived assets upon recognition of an impairment charge during 2008 (see notes 9, 24 and 27 (k)).

On January 1, 2009, the Company will be required to apply the provisions of Statement 157 to fair value measurements of nonfinancial assets and nonfinancial liabilities that are recognized or disclosed at fair value in the financial statements on a nonrecurring basis. The Company has evaluated these provisions and it has concluded that the adoption will not have a material impact on its financial position and results of operations.

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In October 2008, the FASB issued FASB Staff Position FAS 157-3, *Determining the Fair Value of a Financial Asset When the Market for That Asset is Not Active*, which was effective immediately. FSP FAS 157-3 clarifies the application of Statement 157 in cases where the market for a financial instrument is not active and provides an example to illustrate key considerations in determining fair value in those circumstances. The Company has evaluated the provisions of this FSP FAS 157-3 and it has concluded that the adoption will not have a material impact on its financial position and results of operations.

SFAS No. 159:

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities including an amendment of FASB Statement No. 115* (Statement 159). Statement 159 gives the Company the irrevocable option to carry most financial assets and liabilities at fair value that are not currently required to be measured at fair value. If the fair value option is elected, changes in fair value would be recorded in earnings at each subsequent reporting date. Statement 159 is effective for the Company s 2008 fiscal year. The adoption of Statement 159 did not have any impact on the Company s consolidated financial statements.

SFAS No. 161:

In March 2008, the FASB issued Statement of Financial Accounting Standards No. 161, *Accounting for Derivative Instruments and Hedging Activities* (Statement 161), which amends FASB Statement No. 133. Statement 161 requires companies with derivative instruments to disclose information about how and why a company uses derivative instruments, how derivative instruments and related hedged items are accounted for under FASB Statement No.133, and how derivative instruments and related hedged items affect a company s financial position, financial performance, and cash flows. The required disclosures include the fair value of derivative instruments and their gains or losses in tabular format, information about credit-risk-related contingent features in derivative agreements, counterparty credit risk, and the company s strategies and objectives for using derivative instruments. The Statement expands the current disclosure framework in FASB Statement No.133. Statement 161 is effective prospectively for periods beginning on or after November 15, 2008. The Company has evaluated the provisions of this standard and it has concluded that the adoption will not have a material impact on its financial position and results of operations.

SFAS No. 165:

In May 2009, the FASB issued Statement of Financial Accounting Standard No. 165, *Subsequent Events* (Statement 165) addressing accounting and disclosure requirements related to subsequent events. Statement 165 requires management to evaluate subsequent events through the date the financial statements are either issued or available to be issued, depending on the company s expectation of whether it will widely distribute its financial statements to its shareholders and other financial statement users. Companies will be required to disclose the date through which subsequent events have been evaluated. Statement 165 refers to subsequent events that provide additional evidence about conditions that existed at the balance-sheet date as recognized subsequent events. These have historically been called Type I subsequent events. Nonrecognized subsequent events, historically called Type II subsequent events, provide evidence about conditions that arose after the balance-sheet date. Statement 165 requires companies to reflect in their financial statements the effects

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of subsequent events that provide additional evidence about conditions at the balance-sheet date (recognized subsequent events). Statement 165 prohibits companies from reflecting in their financial statements the effects of subsequent events that provide evidence about conditions that arose after the balance-sheet date (non recognized subsequent events), but requires information about the events to be disclosed if the financial statements would otherwise be misleading. These disclosures include the nature of the event and either an estimate of its financial effect or a statement that an estimate cannot be made. Statement 165 does not change subsequent-events guidance included in other US GAAP. Statement 165 is effective for interim or annual financial periods ending after June 15, 2009 and should be applied prospectively. The Company has evaluated the provisions of this standard and it has concluded that the adoption will not have a material impact on its financial position and results of operations.

FSP FAS No. 142-3:

In April 2008, the FASB issued FASB Staff Position FAS 142-3, *Determination of the Useful Life of Intangible Assets (FSP 142-3)*. FSP FAS 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under Statement 142. FSP FAS 142-3 is effective for fiscal years beginning after December 15, 2008. The Company has evaluated the provisions of this FSP and it has concluded that its adoption will not have a material impact on its financial position and results of operations.

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SIGNATURE

The registrant, Natuzzi S.p.A., hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

NATUZZI S.p.A.

By /s/ Pasquale Natuzzi
Name: Pasquale Natuzzi
Title: Chief Executive Officer

Date: June 29, 2009

Exhibit Index

1.1 English translation of the by-laws (*Statuto*) of the Company, as amended and restated as of January 24, 2008 (incorporated by reference to the Form 20-F filed by Natuzzi S.p.A. with the Securities and Exchange Commission on June 30, 2008, file number 1-11854).

2.1 Deposit Agreement dated as of May 15, 1993, as amended and restated as of December 31, 2001, among the Company, The Bank of New York, as Depositary, and owners and beneficial owners of ADRs (incorporated by reference to the Form 20-F filed by Natuzzi S.p.A. with the Securities and Exchange Commission on July 1, 2002, file number 1-11854).

8.1 List of Significant Subsidiaries.

12.1 Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

12.2 Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

13.1 Certifications pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.