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DELTA REPORT

10-Q

CULP - CULP INC

10-Q - JULY 28, 2024 COMPARED TO 10-Q - JANUARY 28, 2024

The following comparison report has been automatically generated

TOTAL DELTAS	2584
CHANGES	501
DELETIONS	1033
ADDITIONS	1050

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended January July 28, 2024
Commission File No. 1-12597

CULP, INC.

(Exact name of registrant as specified in its charter)

NORTH CAROLINA	**56-1001967**
(State or other jurisdiction of incorporation or other organization)	(I.R.S. Employer Identification No.)
1823 Eastchester Drive	
High Point, North Carolina	**27265-1402**
(Address of principal executive offices)	(zip code)

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

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

Title of Each Class	Trading Symbol(s)	Name of Each Exchange On Which Registered
Common Stock, par value $.05/ Share	CULP	New York Stock Exchange

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. ☒ YES NO ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period after the registrant was required to submit such files). ☒ YES NO ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	☐	**Accelerated filer**	☐
Non-accelerated filer	☒	**Smaller Reporting Company**	☒
		Emerging Growth Company	☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date:

Common shares outstanding as of March 6, 2024 September 5, 2024: 12,469,903 12,490,280
Par Value: $0.05 per share

INDEX TO FORM 10-Q

For the period ended January 28, 2024 July 28, 2024

Part II - Other Information

Item 1: Financial Statements

CULP, INC.
CONSOLIDATED STATEMENTS OF NET LOSS
FOR THE THREE MONTHS ENDED JANUARY JULY 28, 2024, AND JANUARY 29, JULY 30, 2023
UNAUDITED
(Amounts in Thousands, Except for Per Share Data)

	THREE MONTHS ENDED		THREE MONTHS ENDED	
	January 28, 2024	January 29, 2023	**July 28, 2024**	July 30, 2023
Net sales	**$ 60,418**	$ 52,523	**$ 56,537**	$ 56,662
Cost of sales	**(52,715)**	(50,430)	**(51,461)**	(49,577)
Gross profit	**7,703**	2,093	**5,076**	7,085
Selling, general and administrative expenses	**(9,493)**	(9,165)	**(9,296)**	(9,829)
Restructuring credit (expense)	**50**	(711)		
Restructuring expense	**(2,631)**	(338)		
Loss from operations	**(1,740)**	(7,783)	**(6,851)**	(3,082)
Interest expense	**(28)**	—		
Interest income	**284**	196	**262**	345
Other expense	**(705)**	(1,095)		
Other (expense) income	**(404)**	96		
Loss before income taxes	**(2,161)**	(8,682)	**(7,021)**	(2,641)
Income tax expense	**(1,027)**	(286)	**(240)**	(701)
Net loss	**(3,188)**	(8,968)	**(7,261)**	$ (3,342)
Net loss per share - basic	**$ (0.26)**	$ (0.73)	**$ (0.58)**	$ (0.27)
Net loss per share - diluted	**$ (0.26)**	$ (0.73)	**$ (0.58)**	$ (0.27)
Average shares outstanding, basic	**12,470**	12,299	**12,470**	12,332
Average shares outstanding, diluted	**12,470**	12,299	**12,470**	12,332

See accompanying notes to consolidated financial statements.

CULP, INC.

CONSOLIDATED STATEMENTS OF NET LOSS

FOR THE NINE MONTHS ENDED JANUARY 28, 2024, AND JANUARY 29, 2023

UNAUDITED

(Amounts in Thousands, Except for Per Share Data)

	NINE MONTHS ENDED	
	January 28, 2024	January 29, 2023
Net sales	**$ 175,804**	$ 173,508
Cost of sales	**(153,067)**	(169,500)
Gross profit	**22,737**	4,008
Selling, general and administrative expenses	**(29,366)**	(27,133)
Restructuring expense	**(432)**	(1,326)
Loss from operations	**(7,061)**	(24,451)
Interest income	**911**	292
Other expense	**(560)**	(348)
Loss before income taxes	**(6,710)**	(24,507)
Income tax expense	**(2,244)**	(2,332)
Net loss	**$ (8,954)**	$ (26,839)
Net loss per share - basic	**$ (0.72)**	$ (2.19)
Net loss per share - diluted	**$ (0.72)**	$ (2.19)
Average shares outstanding, basic	**12,419**	12,272
Average shares outstanding, diluted	**12,419**	12,272

See accompanying notes to consolidated financial statements.

CULP, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

FOR THE THREE AND NINE MONTHS ENDED JANUARY JULY 28, 2024, AND JANUARY 29, JULY 30, 2023

UNAUDITED

(Amounts in Thousands)

	THREE MONTHS ENDED		THREE MONTHS ENDED	
	January 28, 2024	January 29, 2023	**July 28, 2024**	**July 30, 2023**
Net loss	**$ (3,188)**	$ (8,968)	**$ (7,261)**	$ (3,342)
Unrealized holding gain on investments, net of tax	**94**	42	**80**	57
Comprehensive loss	**$ (3,094)**	$ (8,926)	**$ (7,181)**	$ (3,285)

	NINE MONTHS ENDED	
	January 28, 2024	January 29, 2023
Net loss	**$ (8,954)**	$ (26,839)
Unrealized holding gain (loss) on investments, net of tax	**69**	(11)
Comprehensive loss	**$ (8,885)**	$ (26,850)

See accompanying notes to consolidated financial statements. statements.

CULP, INC.

CONSOLIDATED BALANCE SHEETS

JANUARY JULY 28, 2024, JANUARY 29, JULY 30, 2023, AND APRIL 30, 2023 28, 2024

UNAUDITED

(Amounts in Thousands)

	January 28, 2024	January 29, 2023	April 30, 2023*	July 28, 2024	July 30, 2023	April 28, 2024*
Current assets:						
Cash and cash equivalents	**$ 12,585**	$ 16,725	$ 20,964	**$ 13,472**	$ 16,812	$ 10,012
Short-term investments - rabbi trust	**937**	2,420	1,404	**954**	791	903
Accounts receivable, net	**23,686**	21,241	24,778	**21,587**	22,612	21,138
Inventories	**46,877**	47,627	45,080	**41,668**	43,817	44,843
Short-term note receivable	**260**	—	219	**268**	252	264
Assets held for sale	**—**	1,950	—	**607**	—	—
Current income taxes receivable	**476**	238	—	**532**	202	350
Other current assets	**4,237**	2,839	3,071	**3,590**	3,578	3,371
Total current assets	**89,058**	93,040	95,516	**82,678**	88,064	80,881
Property, plant and equipment, net	**34,021**	37,192	36,111	**30,476**	34,929	33,182
Right of use assets	**6,952**	8,913	8,191	**4,483**	7,466	6,203
Intangible assets	**1,970**	2,346	2,252	**1,782**	2,158	1,876
Long-term investments - rabbi trust	**7,083**	7,725	7,067	**7,089**	7,204	7,102
Long-term note receivable	**1,530**	—	1,726	**1,394**	1,661	1,462
Deferred income taxes	**531**	463	480	**528**	476	518
Other assets	**853**	919	840	**709**	944	830
Total assets	**$ 141,998**	$ 150,598	$ 152,183	**$ 129,139**	$ 142,902	$ 132,054
Current liabilities:						
Line of credit	**$ 4,017**	$ -	$ -			
Accounts payable - trade	**$ 29,793**	$ 22,540	$ 29,442	**26,540**	26,468	25,607
Accounts payable - capital expenditures	**19**	25	56	**56**	257	343
Operating lease liability - current	**2,524**	2,785	2,640	**1,565**	2,558	2,061
Deferred compensation - current	**937**	2,420	1,404	**954**	791	903
Deferred revenue	**1,798**	1,430	1,192	**1,600**	1,026	1,495
Accrued expenses	**7,300**	6,701	8,533	**6,097**	6,615	6,726
Accrued restructuring	**633**	10	—			
Income taxes payable - current	**1,070**	467	753	**759**	526	972
Total current liabilities	**43,441**	36,368	44,020	**42,221**	38,251	38,107
Operating lease liability - long-term	**2,656**	4,399	3,612	**2,219**	2,994	2,422
Income taxes payable - long-term	**2,072**	2,648	2,675	**2,180**	2,710	2,088
Deferred income taxes	**6,177**	6,089	5,954	**6,449**	5,864	6,379

Deferred compensation - long-term	**6,856**	7,590	6,842	**6,946**	6,966	6,929
Total liabilities	**61,202**	57,094	63,103	**60,015**	56,785	55,925
Commitments and Contingencies (Notes 10, 16, and 17)						
Shareholders' equity						
Preferred stock, $0.05 par value, authorized 10,000,000	**—**	—	—	**—**	—	—
Common stock, $0.05 par value, authorized 40,000,000 shares, issued and outstanding 12,469,903 at January 28, 2024; 12,311,583 at January 29, 2023, and 12,327,414 at April 30, 2023	**624**	616	616			
Common stock, $0.05 par value, authorized 40,000,000 shares, issued and outstanding 12,469,903 at July 28, 2024; 12,344,030 at July 30, 2023, and 12,469,903 at April 28, 2024	**624**	617	624			
Capital contributed in excess of par value	**44,843**	43,992	44,250	**45,187**	44,571	45,011
Accumulated earnings	**35,241**	48,875	44,195	**23,115**	40,853	30,376
Accumulated other comprehensive income	**88**	21	19	**198**	76	118
Total shareholders' equity	**80,796**	93,504	89,080	**69,124**	86,117	76,129
Total liabilities and shareholders' equity	**$ 141,998**	$ 150,598	$ 152,183	**$ 129,139**	$ 142,902	$ 132,054

* Derived from audited consolidated financial statements.

See accompanying notes to consolidated financial statements. statements.

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CULP, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE NINE THREE MONTHS ENDED JANUARY JULY 28, 2024, AND JANUARY 29, JULY 30, 2023
UNAUDITED
(Amounts in Thousands)

	NINE MONTHS ENDED		THREE MONTHS ENDED	
	January 28, 2024	January 29, 2023	**July 28, 2024**	July 30, 2023
Cash flows from operating activities:				

Net loss	**$ (8,954)**	$ (26,839)	**$ (7,261)**	$ (3,342)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:				
Adjustments to reconcile net loss to net cash used in operating activities:				
Depreciation	**4,897**	5,228	**1,581**	1,635
Non-cash inventory (credit) charge	**(1,978)**	6,301		
Non-cash inventory credit	**(268)**	(717)		
Amortization	**291**	323	**99**	96
Stock-based compensation	**747**	887	**176**	322
Deferred income taxes	**172**	150	**60**	(86)
Gain on sale of equipment	**(284)**	(312)	**(4)**	(270)
Non-cash restructuring expenses	**330**	791	**1,643**	237
Foreign currency exchange gain	**(347)**	(362)		
Foreign currency exchange (loss) gain	**45**	(372)		
Changes in assets and liabilities:				
Accounts receivable	**1,040**	954	**(445)**	2,112
Inventories	**-**	12,477	**3,458**	1,792
Other current assets	**(1,190)**	(39)	**(221)**	(526)
Other assets	**(107)**	(76)	**90**	(134)
Accounts payable – trade	**963**	3,051	**884**	(2,353)
Deferred revenue	**606**	910	**105**	(166)
Accrued restructuring	**640**	10		
Accrued expenses and deferred compensation	**(1,437)**	885	**(478)**	(2,311)
Income taxes	**(719)**	254	**(310)**	(362)
Net cash (used in) provided by operating activities	**(5,970)**	4,583		
Net cash used in provided by operating activities	**(206)**	(4,435)		
Cash flows from investing activities:				
Capital expenditures	**(3,249)**	(1,602)	**(501)**	(513)
Proceeds from the sale of equipment	**363**	465	**37**	294
Proceeds from note receivable	**240**	—	**90**	60
Proceeds from the sale of investments (rabbi trust)	**1,224**	70	**229**	780
Purchase of investments (rabbi trust)	**(704)**	(870)	**(187)**	(247)
Net cash used in investing activities	**(2,126)**	(1,937)		
Net cash (used in) provided by investing activities	**(332)**	374		
Cash flows from financing activities:				
Common stock surrendered for withholding taxes payable	**(146)**	(33)		
Payments of debt issuance costs	**—**	(289)		

Net cash used in financing activities	**(146)**	(322)		
Procceds from line credit - China	**4,010**	—		
Net cash provided by financing activities	**4,010**	—		
Effect of exchange rate changes on cash and cash equivalents	**(137)**	(149)	**(12)**	(91)
(Decrease) increase in cash and cash equivalents	**(8,379)**	2,175		
Increase (decrease) in cash and cash equivalents	**3,460**	(4,152)		
Cash and cash equivalents at beginning of period	**20,964**	14,550	**10,012**	20,964
Cash and cash equivalents at end of period	**$ 12,585**	$ 16,725	**$ 13,472**	$ 16,812

See accompanying notes to consolidated financial statements.

CULP, INC.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

FOR THE NINE THREE MONTHS ENDED JANUARY JULY 28, 2024

UNAUDITED

(Dollars in thousands, except share data)

	Common Stock		Capital Contributed in Excess of Par	Accumulated	Accumulated Other Comprehensive	Total Shareholders'	Common Stock		Capital Contributed in Excess of Par	Accumulated	Accumulated Other Comprehensive	Total Shareholders'
	Shares	Amount	Value	Earnings	Income (Loss)	Equity	Shares	Amount	Value	Earnings	Income	Equity
Balance, April 30, 2023 *	12,327,414	$ 616	$ 44,250	$ 44,195	$ 19	$ 89,080						
Balance, April 28, 2024 *	12,469,903	$ 624	$ 45,011	$ 30,376	$ 118	$ 76,129						
Net loss	—	—	—	(3,342)	—	(3,342)	—	—	—	(7,261)	—	(7,261)
Stock-based compensation	—	—	322	—	—	322	—	—	176	—	—	176

	Shares	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total						
Unrealized gain on investments	—	—	—	—	57	57	—	—	—	—	80	80
Immediately vested common stock award	16,616	1	(1)	—	—	—						
Balance, July 30, 2023	12,344,030	$ 617	$ 44,571	$ 40,853	$ 76	$ 86,117						
Net loss	—	—	—	(2,424)	—	(2,424)						
Stock-based compensation	—	—	163	—	—	163						
Unrealized loss on investments	—	—	—	—	(82)	(82)						
Common stock issued in connection with the vesting of time-based restricted stock units	151,653	8	(8)	—	—	—						
Common stock surrendered in connection with payroll withholding taxes	(25,780)	(1)	(145)	—	—	(146)						
Balance, October 29, 2023	12,469,903	$ 624	$ 44,581	$ 38,429	$ (6)	$ 83,628						
Net loss	—	—	—	(3,188)	—	(3,188)						
Stock-based compensation	—	—	262	—	—	262						
Unrealized gain on investments	—	—	—	—	94	94						

Balance, January 28, 2024	12,469,903	$	624	$	44,843	$	35,241	$	88	$	80,796
Balance, July 28, 2024	12,469,903	$	624	$	45,187	$	23,115	$	198	$	69,124

* Derived from audited consolidated financial statements.

See accompanying notes to consolidated financial statements

CULP, INC.
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
FOR THE NINE THREE MONTHS ENDED JANUARY 29, JULY 30, 2023
UNAUDITED
(Dollars in thousands, except share data)

	Common Stock			Capital Contributed in Excess		Accumulated		Accumulated Other Comprehensive		Total Shareholders'	
	Shares		Amount		of Par Value		Earnings		Income (Loss)		Equity
Balance, May 1, 2022 *	12,228,629	$	611	$	43,143	$	75,715	$	32	$	119,501
Net loss	—		—		—		(5,699)		—		(5,699)
Stock-based compensation	—		—		252		—		—		252
Unrealized loss on investments	—		—		—		—		(7)		(7)
Common stock issued in connection with the vesting of performance-based restricted stock units	913		—		—		—		—		—
Common stock issued in connection with the vesting of time-based restricted stock units	32,199		2		(2)		—		—		—
Common stock surrendered in connection with payroll withholding taxes	(6,708)		—		(52)		—		—		(52)
Fully vested common stock award	19,753		1		(1)		—		—		—

Balance, July 31, 2022	12,274,786	$ 614	$ 43,340	$ 70,016	$ 25	$ 113,995
Net loss	—	—	—	(12,173)	—	(12,173)
Stock-based compensation	—	—	313	—	—	313
Unrealized loss on investments	—	—	—	—	(46)	(46)
Common stock issued in connection with the vesting of performance-based restricted stock units	669	—	—	—	—	—
Common stock surrendered in connection with payroll withholding taxes	(20)	—	19	—	—	19
Fully vested common stock award	18,327	1	(1)	—	—	—
Balance, October 30, 2022	12,293,762	$ 615	$ 43,671	$ 57,843	$ (21)	$ 102,108
Net loss	—	—	—	(8,968)	—	(8,968)
Stock-based compensation	—	—	322	—	—	322
Unrealized gain on investments	—	—	—	—	42	42
Fully vested common stock award	17,821	1	(1)	—	—	—
Balance, January 29, 2023	12,311,583	$ 616	$ 43,992	$ 48,875	$ 21	$ 93,504

	Common Stock		Capital Contributed in Excess of Par Value	Accumulated Earnings	Accumulated Other Comprehensive Income	Total Shareholders' Equity
	Shares	Amount				
Balance, April 30, 2023 *	12,327,414	$ 616	$ 44,250	$ 44,195	$ 19	$ 89,080
Net loss	—	—	—	(3,342)	—	(3,342)
Stock-based compensation	—	—	322	—	—	322
Unrealized gain on investments	—	—	—	—	57	57
Immediately vested common stock award	16,616	1	(1)	—	—	—
Balance, July 30, 2023	12,344,030	$ 617	$ 44,571	$ 40,853	$ 76	$ 86,117

* Derived from audited consolidated financial statements.

See accompanying notes to consolidated financial statements. statements.

Culp, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of Culp, Inc. and its majority-owned subsidiaries (the "company") include all adjustments that are, in the opinion of management, necessary for fair presentation of the results of operations and financial position. All these adjustments are of a normal recurring nature. Results of operations for interim periods may not be indicative of future results. The unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements that are included in the company's annual report on Form 10-K filed with the Securities and Exchange Commission on July 14, 2023 July 12, 2024, for the fiscal year ended April 30, 2023 April 28, 2024.

The company's nine-months company's three-months ended January 28, 2024 July 28, 2024, and January 29, 2023 July 30, 2023, each represent 39-week 13-week periods.

2. Significant Accounting Policies

As of January 28, 2024 July 28, 2024, there were no changes in the nature of our significant accounting policies or the application of those policies from those reported in our annual report on Form 10-K for the year then ended April 30, 2023 April 28, 2024.

Recently Adopted Accounting Pronouncements

There were no recently adopted accounting pronouncements during the first nine months quarter of fiscal 2024. 2025.

Recently Issued Accounting Pronouncements

Effective November 27, 2023, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2023-07 *Improvements to Reportable Segment Disclosures* which enhances disclosure requirements to segment reporting including (i) significant segment expenses that are regularly provided to the Chief Operating Decision Maker (CODM) that are included within each measure of segment profit or loss, (ii) other segment items by reportable segment as defined by ASU 2023-07, and (iii) the title and position of the CODM and an explanation of how the CODM uses the reported measure(s) of each segment's profit or loss in assessing segment performance and deciding how to allocate resources. ASU 2023-07 is effective for public entities starting in annual periods beginning after December 15, 2023 (i.e., our fiscal 2025 annual report) and interim periods beginning after December 15, 2024 (i.e., first quarter of fiscal 2026 interim report). Management is currently evaluating The company expects that the effects adoption ASU 2023-07 will not have an impact on our results of operations and financial condition, but will have a material impact on the disclosures required in the notes to the consolidated financial statements. statements, which are disclosed in Note 13.

Effective December 14, 2023, the FASB issued ASU 2023-09 *Improvements to Income Tax Disclosures,* which is an update to Topic 740, Income Taxes. The amendments in this update relate to improvements regarding the transparency of income tax disclosures by requiring consistent categories and greater disaggregation by jurisdiction of information included in the effective income tax rate rate reconciliation and for income taxes paid. Also, the amendments allow investors to better assess an entity's (i) capital allocation decisions, (ii) worldwide operations, and (iii) related tax risks, tax planning, and operational opportunities that affect the effective income tax rate and prospects for future cash flows. The other amendments in this update improve the effectiveness and comparability of disclosures relating to pretax income (or loss) and income tax expense (or benefit) and remove disclosures that are no longer considered cost beneficial or relevant. ASU 2023-09 is effective for public entities starting in annual periods beginning after December 15, 2024 (i.e., our fiscal 2026 annual report). Early adoption is permitted. The company expects that the adoption ASU 2023-09 will not have an impact on our results of operations and financial condition, but will have a material impact on the disclosures required in the notes to the consolidated financial statements, which are disclosed in Note 14.

Currently, there are no new accounting pronouncements that are expected to have a material effect on our consolidated financial statements.

3. Allowance for Doubtful Accounts

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

	Nine Months Ended	
(dollars in thousands)	January 28, 2024	January 29, 2023
Beginning balance	$ 342	$ 292
Provision for bad debts	349	33
Write-offs, net of recoveries	(30)	(72)
Ending balance	$ 661	$ 253

	Three months ended	
(dollars in thousands)	July 28, 2024	July 30, 2023
Beginning balance	$ 356	$ 342

Provision for bad debts	57	129
Write-offs, net of recoveries	—	(30)
Ending balance	$ 413	$ 441

During the nine-month three-month periods ended January 28, 2024 July 28, 2024, and January 29, 2023 July 30, 2023, we assessed the credit risk of our customers within our accounts receivable portfolio. Our risk assessment includes the respective customers' (i) financial position; (ii) past payment history; (iii) management's general ability; and (iv) historical loss experience; as well as (v) any other ongoing economic conditions. After our risk assessment was completed, we assigned credit grades to our customers, which in turn, were used to determine our allowance for doubtful accounts totaling $661,000 413,000 and $253,000 441,000 as of January 28, 2024 July 28, 2024, and January 29, 2023 July 30, 2023, respectively.

4. Revenue from Contracts with Customers

Nature of Performance Obligations

Our operations are classified into two business segments: mattress fabrics and upholstery fabrics. The mattress fabrics segment manufactures, sources, and sells fabrics and mattress covers primarily to bedding manufacturers. The upholstery fabrics segment develops, sources, manufactures, sources, and sells fabrics primarily to residential, commercial, and commercial hospitality furniture manufacturers. In addition, the upholstery fabrics segment includes Read Window Products LLC ("Read"), which provides window treatments and sourcing of upholstery fabrics and other products, as well as measuring and installation services for Read's products, to customers in the hospitality and commercial industries. Read also supplies soft goods such as decorative top sheets, coverlets, duvet covers, bed skirts, bolsters, and pillows.

Our primary performance obligations include the sale of mattress fabrics and upholstery fabrics, as well as the performance of customized fabrication and installation services for Read's products associated with window treatments.

Contract Assets & Liabilities

Certain contracts, primarily those for customized fabrication and installation services associated with Read, require upfront payments in advance in the form of customer deposits that result in a contract liability which is recorded in the Consolidated Balance Sheets as deferred revenue. If payments in advance are not required, customers may be granted terms which generally range from 15-60 days. Our terms are customary within the industries in which we operate and are not considered financing arrangements. There were no contract assets recognized as of January 28, 2024 July 28, 2024, January 29, 2023 July 30, 2023, or April 30, 2023 April 28, 2024.

A summary of the activity associated with deferred revenue follows:

	Nine months ended		Three months ended	
(dollars in thousands)	January 28, 2024	January 29, 2023	July 28, 2024	July 30, 2023
Beginning balance	$ 1,192	$ 520	$ 1,495	$ 1,192
Revenue recognized on contract liabilities	(2,893)	(3,496)	(781)	(1,087)

Payments received for services not yet rendered	3,499	4,406	886	921
Ending balance	$ 1,798	$ 1,430	$ 1,600	$ 1,026

Disaggregation of Revenue

The following table presents our disaggregated revenue by segment, timing of revenue recognition, and product sales versus services rendered for the three-month period ending January 28, 2024 July 28, 2024:

(dollars in thousands)	Mattress Fabrics	Upholstery Fabrics	Total	Mattress Fabrics	Upholstery Fabrics	Total
Products transferred at a point in time	$ 30,021	$ 28,604	$ 58,625	$ 28,076	$ 25,465	$ 53,541
Services transferred over time	—	1,793	1,793	—	2,996	2,996
Total Net Sales	$ 30,021	$ 30,397	$ 60,418	$ 28,076	$ 28,461	$ 56,537

The following table presents our disaggregated revenue by segment, timing of revenue recognition, and product sales versus services rendered for the three-month period ending January 29, 2023 July 30, 2023:

(dollars in thousands)	Mattress Fabrics	Upholstery Fabrics	Total
Products transferred at a point in time	$ 24,697	$ 25,575	$ 50,272
Services transferred over time	—	2,251	2,251
Total Net Sales	$ 24,697	$ 27,826	$ 52,523

The following table presents our disaggregated revenue by segment, timing of revenue recognition, and product sales versus services rendered for the nine-month period ending January 28, 2024:

(dollars in thousands)	Mattress Fabrics	Upholstery Fabrics	Total
Products transferred at a point in time	$ 90,619	$ 77,572	$ 168,191
Services transferred over time	—	7,613	7,613
Total Net Sales	$ 90,619	$ 85,185	$ 175,804

The following table presents our disaggregated revenue by segment, timing of revenue recognition, and product sales versus services rendered for the nine-month period ending January 29, 2023:

(dollars in thousands)	Mattress Fabrics	Upholstery Fabrics	Total	Mattress Fabrics	Upholstery Fabrics	Total
Products transferred at a point in time	$ 80,299	$ 86,981	$ 167,280	$ 29,222	$ 24,774	$ 53,996
Services transferred over time	—	6,228	6,228	—	2,666	2,666
Total Net Sales	$ 80,299	$ 93,209	$ 173,508	$ 29,222	$ 27,440	$ 56,662

5. Inventories

Inventories are carried at the lower of cost or net realizable value. Cost is determined using the FIFO (first-in, first-out) method.

A summary of inventories follows:

(dollars in thousands)	January 28, 2024	January 29, 2023	April 30, 2023	July 28, 2024	July 30, 2023	April 28, 2024
Raw materials	$ 8,214	$ 9,623	$ 7,908	$ 7,076	$ 8,408	$ 6,214
Work-in-process	2,388	3,164	2,602	1,876	2,430	1,854
Finished goods	36,275	34,840	34,570	32,716	32,979	36,775
	$ 46,877	$ 47,627	$ 45,080	$ 41,668	$ 43,817	$ 44,843

Measurement of Inventory to Net Realizable Value

We recorded a non-cash inventory (credit) charge credit of $(2.0) million and $6.3 268,000 million for the nine three months ended January 28, 2024 July 28, 2024, and January 29, 2023, respectively. The non-cash inventory credit of $(2.0) million for the nine months ended January 28, 2024, represents a credit of $(2.0) million related to adjustments made to our inventory markdown markdowns reserve estimated based on our policy for aged inventory for both the mattress and upholstery fabrics segments.

We recorded a non-cash inventory credit of $717,000 for the three months ended July 30, 2023, representing an $896,000 credit related to adjustments made to our inventory markdowns reserve estimated based on our policy for aged inventory for both our mattress and upholstery fabrics operating segments, partially offset by a charge of $40,000 179,000 which represents markdowns of inventory related to the discontinuance of production of cut and sewn upholstery kits at our facility in Ouanaminthe, Haiti. The non-cash inventory charge of $6.3 million for the nine months ended January 29, 2023, represented a $2.9 million charge for the write down of inventory to its net realizable value associated with our mattress fabrics segment, a $3.3 million charge related to markdowns of inventory estimated based on our policy for aged inventory for both our mattress and upholstery fabrics segments, and a $98,000 charge related to the loss on disposal and markdowns of inventory related to the exit of our cut and sew upholstery fabrics operation located in Shanghai, China. Of the $(2.0) million non-cash inventory credit for the first nine months of fiscal 2024, $(1.9) million and $(163,000) pertained to our mattress fabrics and upholstery fabrics segments, respectively. Of the $6.3 million non-cash inventory charge for the first nine months of fiscal 2023, $3.9 million and $2.4 million pertained to our mattress fabrics and upholstery fabrics segments, respectively.

Mattress Fabrics Segment - Net Realizable Value

During the second quarter of fiscal 2023, our mattress fabrics segment experienced a 35.8% decline in net sales compared with the second quarter of fiscal 2022. This decline in net sales led to a significant decrease in gross margin to (8.7%) (excluding a non-cash inventory charge of $3.8 million recorded during the second quarter of fiscal 2023), as compared with gross margin of 15.0% during the second quarter of fiscal 2022. The significant decline in net sales and profitability during the second quarter of fiscal 2023 stemmed from a greater than anticipated decline in consumer discretionary spending on mattress products, which we believe was driven by the following factors: (i) inflationary effects of commodities such as gas, food, and other necessities; (ii) a significant increase in interest rates; (iii) the pulling forward of demand for home goods products during the early years of the COVID-19

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pandemic, which demand then shifted to travel, leisure, and other services; and (iv) excess inventory held by customers due to the decline in consumer demand. Based on this evidence, management conducted a thorough review of its mattress fabrics inventory and, as a result, recorded a charge of $2.9 million within cost of sales to write down inventory to its net realizable value. This $2.9 million charge was based on management's best estimates of product sales prices, customer demand trends, and its plans to transition to new products.

Ouanaminthe, Haiti.

Assessment

As of January 28, 2024 July 28, 2024, we reviewed our mattress fabrics and upholstery fabrics inventories to determine if any additional write-downs, in excess of the amount recorded based on our policy for aged inventory, were necessary. Based on our assessment, no additional write-downs of inventories to their net realizable value were recorded for the three months and nine months ended January 28, 2024 July 28, 2024, other than the markdowns of inventory associated with our upholstery fabrics segment restructuring activity activities described more fully in Note 9 of the consolidated financial statements.

Based on the current unfavorable macroeconomic conditions, it is possible that estimates used by management to determine the write down of inventory to its net realizable value could be materially different from the actual amounts or our results. These differences could result in higher than expected markdowns of inventory provisions, which could adversely affect the company's results of operations and financial condition in the near term.

6. Intangible Assets

A summary of intangible assets follows:

(dollars in thousands)	January 28, 2024	January 29, 2023	April 30, 2023	July 28, 2024	July 30, 2023	April 28, 2024
Tradename	$ 540	$ 540	$ 540	$ 540	$ 540	$ 540
Customer relationships, net	1,110	1,411	1,335	960	1,260	1,035
Non-compete agreement, net	320	395	377	282	358	301
	$ 1,970	$ 2,346	$ 2,252	$ 1,782	$ 2,158	$ 1,876

Tradename

Our tradename pertains to Read, a separate reporting unit within the upholstery fabrics segment. This tradename was determined to have an indefinite useful life at the time of its acquisition, and therefore is not being amortized. However, we are required to assess this tradename annually or between annual tests if we believe indicators of impairment exist. Based on our assessment as of January 28, 2024 July 28, 2024, no indicators of impairment existed, and therefore we did not record any asset impairment charges associated with our tradename through during the third first quarter of fiscal 2024. 2025.

Customer Relationships

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

	Nine months ended		Three months ended	
(dollars in thousands)	January 28, 2024	January 29, 2023	July 28, 2024	July 30, 2023
Beginning balance	$ 1,335	$ 1,636	$ 1,035	$ 1,335
Amortization expense	(225)	(225)	(75)	(75)
Ending balance	$ 1,110	$ 1,411	$ 960	$ 1,260

Our customer relationships are amortized on a straight-line basis over useful lives ranging from nine to seventeen years.

The gross carrying amount of our customer relationships was $3.1 million as of January 28, 2024July 28, 2024, January 29, 2023July 30, 2023, and April 30, 2023April 28, 2024, respectively. Accumulated amortization for these customer relationships was $2.02.1 million, $1.71.9 million, and $1.82.1 million as of January 28, 2024July 28, 2024, January 29, 2023July 30, 2023, and April 30, 2023April 28, 2024, respectively.

The remaining amortization expense for the next five fiscal years and thereafter are as follows: FY 2024 - $76,000; FY 2025 - $301,000226,000; FY 2026 - $301,000; FY 2027 - $278,000280,000; FY 2028 - $52,00051,000; FY 2029 - $51,000; and thereafter - $102,00051,000.

The weighted average amortization period for our customer relationships was 4.13.6 years as of January 28, 2024July 28, 2024.

Non-Compete Agreement

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

	Nine months ended		Three months ended	
(dollars in thousands)	January 28, 2024	January 29, 2023	July 28, 2024	July 30, 2023
Beginning balance	$ 377	$ 452	$ 301	$ 377
Amortization expense	(57)	(57)	(19)	(19)
Ending balance	$ 320	$ 395	$ 282	$ 358

Our non-compete agreement is associated with a prior acquisition by our mattress fabrics segment and is amortized on a straight-line basis over the fifteen-year life of the agreement.

The gross carrying amount of our non-compete agreement was $2.0 million as of January 28, 2024July 28, 2024, January 29, 2023July 30, 2023, and April 30, 2023April 28, 2024, respectively. Accumulated amortization for our non-compete agreement was $1.71.8 million, $1.61.7 million, and $1.61.7 million as of January 28, 2024July 28, 2024, January 29, 2023July 30, 2023, and April 30, 2023April 28, 2024, respectively.

The remaining amortization expense for the next five years and thereafter follows: FY 2024 - $19,000; FY 2025 - $76,00057,000; FY 2026 - $76,000; FY 2027 - $76,000; FY 2028 - $73,000.

The weighted average amortization period for the non-compete agreement was 4.33.8 years as of January 28, 2024July 28, 2024.

Impairment of Definite Lived Assets - Mattress Fabrics Segment

As of January 28, 2024 July 28, 2024, management reviewed the long-lived assets associated with our mattress fabrics segment, which consisted of property, plant, and equipment, right of use assets, and finite-lived definite-lived intangible assets (collectively known as the "Mattress Asset Group"), for impairment, as events and changes in circumstances occurred that indicated the carrying amount of the Mattress Asset Group may not be recoverable. The mattress fabrics segment experienced a significant cumulative operating loss totaling $19.7 28.8 million commencing in the second quarter of fiscal 2023, and continuing through the third first quarter of fiscal 2024. 2025. We believe the this significant decline in profitability for the mattress fabrics segment cumulative operating loss stemmed from a decline in consumer discretionary spending on mattress products, which we

believe was driven by the following factors: (i) inflationary effects of commodities such as gas, food, and other necessities; (ii) a significant increase in interest rates; (iii) the pulling forward of demand for home goods products during the early years of the COVID-19 pandemic, which demand has now shifted to travel, leisure, and other services; and (iv) excess inventory held by customers due to the decline in consumer demand.

Based on the above evidence, we were required to determine the recoverability of the Mattress Asset Group, which is classified as held and used, by comparing the carrying amount of the Mattress Asset Group to the sum of the future undiscounted cash flows expected to result from its use and eventual disposition. If the carrying amount of an asset group exceeds its estimated future cash flows, an impairment charge is recognized for the excess of the carrying amount over the sum of the undiscounted future cash flows fair value of the asset group. The carrying amount of the Mattress Asset Group totaled $34.7 30.0 million, which relates to represents property, plant, and equipment of $32.3 28.8 million, right of use assets of $1.8 568,000 million, , customer relationships of $319,000 294,000, and a non-compete agreement of $320,000 282,000. The total carrying amount of the Mattress Asset Group did not exceed the sum of its future undiscounted cash flows from its use and disposition. As a result, we determined there was no impairment associated with the Mattress Asset Group existed as of January 28, 2024 July 28, 2024.

7. Note Receivable

In connection with the restructuring activity of our upholstery fabrics cut and sew operation located in Ouanaminthe, Haiti, effective January 24, 2023, Culp Upholstery Fabrics Haiti, Ltd. (“CUF Haiti”) entered into an agreement to terminate a lease of a facility (“Termination Agreement”). See Note 9 of the consolidated financial statements for further details regarding this restructuring activity.

Pursuant to the terms of the original lease agreement (the “Original Lease”), CUF Haiti was required to pay in advance $2.8 million for the full amount of rent due prior to the commencement of the Original Lease, with and the initial lease term was set to expire on December 31, 2029. Pursuant to the terms of the Termination Agreement, the Original Lease was formally terminated when CUF Haiti vacated and returned possession of the leased facility to the lessor. After CUF Haiti vacated and returned possession of the leased facility, a third party (the “Lessee”) took possession of this facility, and the Lessee agreed to pay CUF Haiti $2.4 million in the form of a note receivable over a period commencing on April 1, 2023, and ending on December 31, 2029, based on the terms stated in the Termination Agreement. In connection with Termination Agreement, an affiliate of the Lessee has guaranteed payment

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in full of all amounts due and payable to CUF Haiti by the Lessee, and CUF Haiti has been fully and unconditionally discharged from all of its remaining obligations under the Original Lease.

As of the end of our third quarter of fiscal 2023, the gross carrying amount of the note receivable totaling $2.4 million was recorded at its fair value of $2.0 million, which represented the present value of future discounted cash flows based on the payment amounts and timing of such payments due from the Lessee as stated in the Termination Agreement. Consequently, since the fair value of the note receivable was less than its carrying amount, we recorded a restructuring charge of $434,000 during the third quarter of fiscal 2023 to reduce the note receivable’s carrying amount to its reported fair value.
We used an interest rate of 6.0 6% to determine the present value of the future discounted cash flows, which was based on significant unobservable inputs and assumptions determined by management such as (i) the credit characteristics of the Lessee and guarantor of the Termination Agreement; (ii) the length of the payment terms as defined in the Termination Agreement; (iii) the payment terms as defined in the Termination Agreement being denominated in USD; and (iv) the fact that the facility is located in, and the Lessee and guarantor conduct business in, Haiti, a foreign country. Since management used significant unobservable inputs and assumptions to determine the fair value of this note receivable, this note receivable was classified as Level 3 within the fair value hierarchy (see Note 11 for further explanation of the fair value hierarchy).

Effective May 1, 2024, CUF Haiti formally assigned the $2.4 million note receivable to Culp, Inc (US. Parent).
The following table represents the remaining future principal payments as of January 28, 2024 July 28, 2024:

(dollars in thousands)		
2024	$ 90	
2025	360	$ 270
2026	360	360
2027	360	360
2028	360	360
2029	360	
Thereafter	600	240
Undiscounted value of note receivable	$ 2,130	$ 1,950

Less: unearned interest income	(340)	(288)
Present value of note receivable	$ 1,790	$ 1,662

As of January 28, 2024 July 28, 2024, note receivable totaled $1.7 million, of which $268,000 and $1.4 million were classified as short-term note receivable and long-term note receivable, respectively. As of July 30, 2023, note receivable totaled $1.9 million, of which $252,000 and $1.7 million were classified as short-term note receivable and long-term note receivable, respectively. As of April 28, 2024, note receivable totaled $1.7 million, of which $264,000 and $1.5 million were classified as short-term note receivable and long-term note receivable, respectively.

We classified amortization of unearned interest income totaling $26,000 and $29,000 within interest income on our consolidated statements of net loss during the three-month periods ending July 28, 2024, and July 30, 2023, respectively.

As of July 28, 2024, we believe there is no expected credit loss related to the collectibility of our note receivable, as the Lessee has made all of the required principal payments stated in the Termination Agreement. We will continue to evaluate the facts and circumstances at the end of each reporting period to determine if an expected credit loss is deemed necessary. necessary.

8. Accrued Expenses

A summary of accrued expenses follows:

(dollars in thousands)	January 28, 2024	January 29, 2023	April 30, 2023	July 28, 2024	July 30, 2023	April 28, 2024
Compensation, commissions and related benefits	$ 3,771	$ 3,571	$ 5,800	$ 3,310	$ 3,375	$ 4,204
Other accrued expenses	3,529	3,130	2,733	2,787	3,240	2,522
	$ 7,300	$ 6,701	$ 8,533	$ 6,097	$ 6,615	$ 6,726

9. Restructuring Activities

Mattress Fabrics Segment, Upholstery Fabrics Segment, and Unallocated Corporate

Fiscal 2025 Restructuring *Plan*

On April 29, 2024 (first quarter of fiscal 2025), our board of directors made a decision to (1) consolidate the company's North American mattress fabrics operations, including a gradual discontinuation of operations and sale of the company's manufacturing facility located in Quebec, Canada; (2) move a portion of the knitting and finishing capacity from the company's manufacturing facility located in Quebec, Canada to the company's manufacturing facility located in Stokesdale, NC; (3) transition the mattress fabrics segment's weaving operation to a strategic sourcing model through the company's long standing supply partners; (4) consolidate the company's two leased facilities related to the sewn mattress cover operation located in Ouanaminthe, Haiti, and reduce other operating expenses at this location; as well as (5) reduce unallocated corporate expenses and shared service expenses.

We expect the gradual discontinuance of operations and the closure of the facility located in Quebec, Canada will be completed by December 31, 2024. The consolidation activity associated with the sewn mattress cover operation located in Haiti was completed during the first quarter of fiscal 2025. During fiscal 2025, these actions are expected to result in restructuring and restructuring related charges of approximately $5.1 million, of which approximately $3.0 million is expected to be cash expenditures. The $5.1 million of estimated restructuring and restructuring related charges represents approximately $5.0 million and $118,000 associated with the mattress fabrics and upholstery fabrics segments, respectively.

The $5.0 million of estimated restructuring and restructuring related charges associated with our mattress fabrics segment represents (i) other associated costs of $1.7 million mostly related to relocating equipment from our facility in Quebec, Canada to our facility in Stokesdale, NC, (ii) additional depreciation expense related to the shortening of useful lives of equipment associated with the gradual discontinuance of our operations located in Canada noted above totaling $1.4 million, (ii) employee termination benefits of $1.2 million, (iii) lease termination costs of $531,000, (iv) writedowns and other inventory related adjustments of $116,000, (v) impairment charges and losses on the disposal of equipment totaling $95,000. These restructuring and restructuring related charges exclude any expected gain on the sale of real estate associated with the closure of the Canadian facility, the amount of which is currently undetermined but which will ultimately reduce the amount of the restructuring charges incurred. Based on management's internal analysis we expect cash proceeds from the sale of real estate (net of all taxes and commissions) to exceed the amount of restructuring charges incurred.

Based on changes in business and current industry economic conditions, it is possible that the above estimates provided by management to determine restructuring and restructuring related charges incurred during fiscal 2025, and proceeds generated from the sale of the manufacturing facility located in Quebec, Canada, could be materially different from our actual results, and therefore could adversely affect the success of this restructuring plan.

The following summarizes accrued restructuring costs for the three-month period ending July 28, 2024:

(dollars in thousands)	Employee Termination Benefits	Other Associated Costs	Total
Beginning balance	$ —	$ —	$ —
Expenses incurred	689	288	977
Change in estimate adjustments	—	—	—
Payments	(72)	(276)	(348)
Foreign currency exchange remeasurement	(7)	—	(7)

Ending balance	$ 610	$ 12	$ 622

The following summarizes the restructuring and restructuring related charges for the three-month period ending July 28, 2024:

(dollars in thousands)	Three Months Ended July 28, 2024
Additional depreciation expense for shortened useful lives of equipment	$ 875
Employee termination benefits	689
Lease termination costs	670
Other Associated Costs	288
Loss on disposal and markdowns of inventory	116
Impairment and loss on disposal of equipment	95
Restructuring expense and restructuring related charges (1)	$ 2,733

(1) Of the total $2.7 million restructuring and restructuring related charges, $2.6 million and $116,000 were classified within restructuring expense and cost of sales, respectively, in the Consolidated Statement of Net Loss for the three-month period ending July 28, 2024. Of the total $2.7 million, $2.6 million and $118,000 relate to the mattress fabrics and upholstery fabrics segments, respectively.

A summary of assets held for sale as of July 28, 2024 follows:

(dollars in thousands)	July 28, 2024
Equipment (1)	$ 357
Right of use asset (2)	250
Ending Balance	$ 607

(1) In connection with the Fiscal 2025 Restructuring Plan noted above, equipment with a carrying value totaling $357,000 was classified as held for sale as of July 28, 2024. We determined that the fair value of this equipment exceeded its carrying value based on quoted market prices from dealers of this type of equipment. Therefore, no impairment charge was recorded during the first quarter of fiscal 2025. The carrying value of these assets held for sale are presented in the first quarter fiscal 2025 Consolidated Balance Sheet are are no longer being depreciated.

(2) In connection with the Fiscal 2025 Restructuring Plan noted above, we entered into an agreement ("Termination Agreement") on August 2, 2024, to terminate a lease of a plant facility ("Right of Use Asset") located in Ouanaminthe, Haiti. Accordingly, as of July 28, 2024, we classified this Right of Use Asset as held for sale at its fair value of $250,000, which was lower than its carrying value totaling $656,000. Consequently, we recorded an impairment charge of $406,000 reflected as lease termination costs in the table above, that was classified within restructuring expense in our Consolidated Statement of Net Loss for the three-month period ending July 28, 2024. The fair value of this Right of Use Asset represents the amount due from the Lessor totaling $250,000, which is the amount stated in the Termination Agreement, and is expected to be paid no later than February 28, 2025. We believe the fair value amount of $250,000 as stated in the Termination Agreement, represents a significant observable input, and therefore this Right of Use Asset was classified as level two within the fair value hierarchy (see Note 11 for criteria for the classifications within the fair value hierarchy).

Upholstery Fabrics Segment

Shanghai, China

Upholstery Fabrics Finishing Operation

During the fourth quarter of fiscal 2024, we closed our upholstery fabrics finishing operation to align with current demand trends and will continue to leverage our strategic supply relationships to meet customer finishing needs in China. This restructuring activity was completed during the first quarter of fiscal 2025 and resulted in cumulative restructuring and restructuring related charges totaling $218,000.

The following summarizes the activity in accrued restructuring costs for the three-month period ending July 28, 2024:

(dollars in thousands)		Total
Beginning balance (1)	$	3
Expenses incurred (2)		14
Payments		(6)
Ending balance (3)	$	11

(1) Accrued restructuring expense of $3,000 was reported within accrued expenses in the Consolidated Balance Sheet for the period ending April 28, 2024.

(2) Expenses incurred represents other associated costs.

(3) Accrued restructuring expense of $11,000 was reported within accrued restructuring in the Consolidated Balance Sheet for the period ending July 28, 2024.

Ouanaminthe, Haiti

Cut and Sew Upholstery Fabrics Operation

During the third quarter of fiscal 2023, Culp Upholstery Fabrics Haiti, Ltd. ("CUF Haiti Haiti") entered into an agreement to terminate a lease associated with a facility, located in Ouanaminthe, Haiti and in turn moved the production of upholstery cut and sewn kits to an existing facility leased by Culp Home Fashions Haiti, Ltd. (“ ("CHF Haiti” Haiti") during the fourth quarter of fiscal 2023. Both CUF Haiti and CHF Haiti are indirect indirectly wholly-owned subsidiaries of the company. During the first quarter of fiscal 2024, demand for upholstery cut and sewn kits

declined more than previously anticipated, resulting in the strategic action to discontinue the production of upholstery cut and sew kits in Haiti.

Shanghai, China

During the second quarter of fiscal 2023, we closed our cut and sew upholstery fabrics operation located in Shanghai, China, which included the termination of an agreement to lease a building. This strategic action, along with the further use of our Asian supply chain, was taken in order to adjust our operating costs to better align with the declining customer demand for cut and sewn products.

The following summarizes our restructuring expense and restructuring related charges from both our restructuring activities noted above for the nine three months ending January 28, 2024, and January 29, 2023 July 30, 2023:

		Nine Months Ended January 28, 2024		Nine Months Ended January 29, 2023
Lease termination costs	$	—	$	481
Employee termination benefits		103		468
Impairment loss - leasehold improvements and equipment		329		357
Loss on disposal and markdowns of inventory		40		98
Other associated costs		—		20
Restructuring expense and restructuring related charges (1) (2)	$	472	$	1,424

(dollars in thousands)		Three Months Ended July 30, 2023
Employee termination benefits	$	101
Impairment loss - equipment		237
Loss on disposal and markdowns of inventory		179
Restructuring expense and restructuring related charges (1)	$	517

(1) Of the total $472,000 517,000, $432,000 338,000 and $40,000 179,000 were recorded within restructuring expense and cost of sales, respectively, in the Consolidated Statement of Net Loss for the nine-month three-month period ending January 28, 2024.

(2) Of the total $ July 30, 20231.4 million, $1.3 million and $98,000 were recorded within restructuring expense and cost of sales, respectively, in the Consolidated Statement of Net Loss for the nine-month period ending January 29, 2023.

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This restructuring activity related to the discontinuation of production of upholstery cut and sewn kits located in Haiti was mostly completed as of January 28, 2024. As a result of our strategic decision to discontinue this production, we incurred a cumulative charge of $1.3 million in restructuring expense and restructuring related charges from this start of the restructuring activity during the third quarter of fiscal 2023 through January 28, 2024.

The restructuring activity related to the closure of our cut and sew upholstery fabrics operation located in China was completed during the third quarter of fiscal 2023, 2024 and this restructuring activity incurred resulted in a cumulative charge of $713,000 in restructuring expense and restructuring related charges. charges of $1.3 million.

The following summarizes the activity in accrued restructuring costs for both our restructuring activities for the nine-month period ending January 28, 2024:

	Employee

(dollars in thousands)	Termination Benefits	Total
Beginning balance	$ —	$ —
Expenses incurred	103	103
Payments	(103)	(103)
Ending balance	$ —	$ —

The following summarizes the activity in accrued restructuring costs for both our restructuring activities for the nine-month period ending January 29, 2023: 10

(dollars in thousands)	Employee Termination Benefits	Lease Termination Costs	Other Associated Costs	Total
Beginning balance	$ —	$ —	$ —	$ —
Accrual established in fiscal 2023	468	47	—	515
Expenses incurred	—	—	20	20
Payments	(468)	(47)	(20)	(535)
Ending balance	$ —	$ —	$ —	$ —

I-14

10.. Lines of Credit

Revolving Credit Agreement – United States

On January 19, 2023, I-14

Culp, Inc., as borrower (the “company” “borrower”), and Read, as the guarantor (the “Guarantor”), entered into a Second Amended and Restated an agreement (the "ABL Credit Agreement (the “ABL Credit Agreement” Agreement"), by and among the company, borrower, the Guarantor and Wells Fargo Bank, National Association, as the lender (the “Lender”), to establish an asset-based revolving credit facility (the “ABL Facility”). The proceeds from the ABL Facility may be used to pay fees and expenses related to the ABL Facility and will provide funding for ongoing working capital and general corporate purposes.

The ABL Credit Agreement amends, restates and supersedes, and serves as a replacement for, the Amended and Restated Credit Agreement (the “Amended Agreement”), dated as of June 24, 2022, and the First Amendment to the Amended Agreement dated as of August 19, 2022, as amended, by and between the company and the Lender.

The ABL Facility may be used for revolving credit loans and letters of credit from time to time up to a maximum principal amount of $35.0 million, subject to the limitations described below. The ABL Facility contains a sub-facility that allows the company to issue letters of credit in an aggregate amount not to exceed $1 million. The amount available under the ABL Facility is limited by a borrowing base consisting of certain eligible accounts receivable and inventory, reduced by specified reserves, as follows:

- 85% of eligible accounts receivable, plus
- the least of:
  - o the sum of:
    - ▪ lesser of (i) 65% of eligible inventory valued at cost based on a first-in first-out basis (net of intercompany profits) and (ii) 85% of the net-orderly-liquidation value percentage of eligible inventory, plus
    - ▪ the least of (i) 65% of eligible in-transit inventory valued at cost based on a first-in first-out basis (net of intercompany profits), (ii) 85% of the net-orderly-liquidation value percentage of eligible in-transit inventory, and (iii) $5.0 million, plus
    - ▪ the lesser of (i) 65% of eligible raw material inventory valued at cost based on a first-in first-out basis (net of intercompany profits) and (ii) 85% of the net-orderly-liquidation value percentage of eligible raw material inventory

    In each case, the net-orderly-liquidation value is calculated based on the lower of (i) a first-in first-out basis and (ii) market value, and is (A) net of intercompany profits, (B) net of write-ups and write-downs in value with respect to foreign currency exchange rates and (C) consistent with most recent appraisals received and acceptable to Lender.
  - o $22.5 million; and
  - o An amount equal to 200% of eligible accounts receivable,

  minus
- applicable reserves.

The ABL Facility permits both base rate borrowings and borrowings based upon daily simple SOFR (the secured overnight financing rate administered by the Federal Reserve Bank of New York (or its successor)). Borrowings under the ABL Facility bear interest at an annual rate equal to daily simple SOFR plus 150 basis points (if the average monthly excess availability under the ABL Facility is greater than 50%) or 175 basis points (if the average monthly excess availability under the ABL Facility is less than or equal to 50%) or 50 basis points above base rate (if the average monthly excess availability under the ABL Facility is greater than 50%) or 75 basis points above base rate (if the average monthly excess availability under the ABL Facility is less than or equal to 50%), as applicable, with a fee on unutilized commitments at an annual rate of 37.5 basis points and an annual servicing fee of $12,000.

The ABL Facility matures on January 19, 2026. The ABL Facility may be prepaid from time to time, in whole or in part, without a prepayment penalty or premium. In addition, customary mandatory prepayments of the loans under the ABL Facility are required upon the occurrence of certain events including, without limitation, outstanding borrowing exposures exceeding the borrowing base and certain dispositions of assets outside of the ordinary course of business. Accrued interest is payable monthly in arrears.

The company's borrower's obligations under the ABL Facility (and certain related obligations) are (a) guaranteed by the Guarantor and each of Guarantor. In addition, the company's ABL Credit Agreement requires that the borrower's future domestic subsidiaries is required to guarantee the ABL Facility on a senior secured basis (such guarantors future domestic subsidiaries, together with the Guarantor and the company, borrower, the "Loan Parties" "Loan Parties"). The borrower's obligations under the ABL Facility are secured by first priority liens and (b) secured by other security interests on all assets of the Loan Parties, subject to certain exceptions. The liens exceptions and other security interests granted by the Loan Parties on the collateral for the benefit of the Lender under the ABL Facility are, subject to certain permitted liens, first-priority. liens.

Cash Dominion. Under the terms of the ABL Facility, if (i) an event of default has occurred or (ii) excess borrowing availability under the ABL Facility (based on the lesser of $35.0 million and the borrowing base) (the "Excess Availability") falls below $7.0 million, at such time, the Loan Parties will become subject to cash dominion, which will require prepayment of loans under the ABL Facility with the cash deposited in certain deposit accounts of the Loan Parties, including a concentration account, and will restrict the Loan Parties' ability to transfer cash from their concentration account. Such cash dominion period (a "Dominion Period") shall end when Excess Availability shall be equal to or greater than $7.0 million for a period of 60 consecutive days and no event of default is continuing.

Financial Covenants. The ABL Facility contains a springing covenant requiring that the company's fixed charge coverage ratio be no less than 1.10 to 1.00 during any period that (i) an event of default has occurred or (ii) Excess Availability under the ABL Facility falls below $5.25 million at such time. million. Such compliance period shall end when Excess Availability shall be equal to or greater than $5.25 million for a period of 60 consecutive days and no event of default is continuing.

Affirmative and Restrictive Covenants. The ABL Credit Agreement governing the ABL Facility contains customary representations and warranties, affirmative and negative covenants (subject, in each case, to exceptions and qualifications), and events of defaults, including covenants that limit the company's ability to, among other things:

- incur additional indebtedness;
- make investments;
- pay dividends and make other restricted payments;
- sell certain assets;

- create liens;
- consolidate, merge, sell or otherwise dispose of all or substantially all of the company's assets; and
- enter into transactions with affiliates.

Overall

Effective January 19, 2023, interest was Interest is charged under the ABL Credit Agreement at a rate (applicable interest rate of 6.81%, 5.81 6.84%, and 6.30 6.56% and 6.81% as of January 28, 2024 July 28, 2024, January 29, 2023 July 30, 2023, and April 30, 2023 April 28, 2024, respectively) calculated using the Applicable Margin over SOFR based on the company's borrower's excess availability under the ABL Facility, as defined in the ABL Credit Agreement.

There were $535,000, $275,000, and $275,000 535,000 of outstanding letters of credit provided by the ABL Credit Agreement as of January 28, 2024 July 28, 2024, January 29, 2023 July 30, 2023, and April 30, 2023 April 28, 2024, respectively. As of January 28, 2024 July 28, 2024, we the borrower had $465,000 remaining for the issuance of additional letters of credit under the ABL Credit Agreement.

There were no borrowings outstanding under the ABL Credit Agreement as of January 28, 2024 July 28, 2024, January 29, 2023 July 30, 2023, or April 30, 2023 April 28, 2024, respectively.

As of January 28, 2024 July 28, 2024, our available borrowings calculated under the provisions of the ABL Credit Agreement totaled $26.2 19.2 million.

Revolving Credit Agreement – China Operations

Denominated in Chinese Yuan Renminbi ("RMB")

Agricultural Bank of China

Effective on March 20, 2024, we entered into an unsecured credit agreement denominated in RMB, that provides for a line of credit up to 29 million RMB ($4.0 million USD as of July 28, 2024). The 29 million RMB line of credit expires on March 18, 2025.

Interest charged under this agreement is based on the Loan Prime Rate ("LPR") in China minus 50 basis points (2.85% as of July 28, 2024).

As of July 28, 2024, the amount outstanding was 29 million RMB ($4.0 million USD). There were no borrowings outstanding under this agreement as of April 28, 2024.

Bank of China

We have an unsecured credit agreement denominated in RMB with a bank located in China that provides for a line of credit of up to 35 million RMB ($4.9 4.8 million USD as of January 28, 2024 July 28, 2024). Interest charged under this agreement is based on an interest rate determined by the Chinese government at the time of borrowing. borrowing. This agreement is set to expire on October 24, 2024. Our borrowing capacity of 35 million RMB is restricted to certain consolidated net sales and consolidated profitability requirements as defined in the agreement. These requirements relate to our total consolidated Culp Inc. entity as a whole. Currently, Culp Inc. the company does not meet the consolidated net sales and consolidated profitability requirements set forth in the agreement; and therefore, we cannot borrow conditions required for borrowing under this agreement.
There were no borrowings outstanding under this agreement as of January 28, 2024 July 28, 2024, January 29, 2023 July 30, 2023, or April 30, 2023, respectively. and April 28, 2024.

Overall

Our loan agreements require, among other things, that we maintain compliance with certain financial covenants. As of January 28, 2024 July 28 , 2024, we complied were in compliance with our financial covenants.

No interest payments were made during the first nine months of fiscal 2024. Interest paid during the first nine months of fiscal 2023 totaled $8,000.three-month periods ending July 28, 2024, and July 30, 2023, respectively.

11. Fair Value

Accounting Standard Codification ("ASC") ASC Topic 820*Fair Value Measurement* establishes a fair value hierarchy that distinguishes between assumptions based on market data (observable inputs) and the company's assumptions (unobservable inputs). Determining where an asset or liability falls within that hierarchy depends on the lowest level input that is significant to the fair value measurement as a whole. An adjustment to the pricing method used within either level 1 or level 2 inputs could generate a fair value measurement that effectively falls in a lower level in the hierarchy.

The hierarchy consists of three broad levels as follows:

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

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

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

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

Recurring Basis

The following tables present information about assets measured at fair value on a recurring basis:

	Fair value measurements as of January 28, 2024, using:				Fair value measurements as of July 28, 2024, using:			
	Quoted prices in active markets for identical assets	Significant other observable inputs	Significant unobservable inputs		Quoted prices in active markets for identical assets	Significant other observable inputs	Significant unobservable inputs	
(amounts in thousands)	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets:								
U.S. Government Money Market Fund	$ 6,995	N/A	N/A	$ 6,995	$ 6,823	N/A	N/A	$ 6,823
Growth Allocation Mutual Funds	656	N/A	N/A	656	756	N/A	N/A	756
S&P 500 Index Fund	212	N/A	N/A	212				
Moderate Allocation Mutual Fund	48	N/A	N/A	48	112	N/A	N/A	112
Other	321	N/A	N/A	321	140	N/A	N/A	140

	Fair value measurements as of January 29, 2023, using:			
	Quoted prices in active markets for identical assets	Significant other observable inputs	Significant unobservable inputs	
(amounts in thousands)	Level 1	Level 2	Level 3	Total
Assets:				
U.S. Government Money Market Fund	$ 9,364	N/A	N/A	$ 9,364
Growth Allocation Mutual Funds	508	N/A	N/A	508
Moderate Allocation Mutual Fund	85	N/A	N/A	85
Other	188	N/A	N/A	188

	Fair value measurements as of April 30, 2023, using:			
	Quoted prices in active markets for identical assets	Significant other observable inputs	Significant unobservable inputs	
(amounts in thousands)	Level 1	Level 2	Level 3	Total
Assets:				
U.S. Government Money Market Fund	$ 7,649	N/A	N/A	$ 7,649
Growth Allocation Mutual Funds	528	N/A	N/A	528
Moderate Allocation Mutual Fund	86	N/A	N/A	86
Other	208	N/A	N/A	208

	Fair value measurements as of July 30, 2023, using:			
	Quoted prices in active markets for identical assets	Significant other observable inputs	Significant unobservable inputs	
(amounts in thousands)	Level 1	Level 2	Level 3	Total
Assets:				
U.S. Government Money Market Fund	$ 7,113	N/A	N/A	$ 7,113
Growth Allocation Mutual Funds	585	N/A	N/A	585
S&P 500 Index Fund	120	N/A	N/A	120
Moderate Allocation Mutual Fund	52	N/A	N/A	52
Other	125	N/A	N/A	125

	Fair value measurements as of April 28, 2024, using:			
	Quoted prices in active markets for identical assets	Significant other observable inputs	Significant unobservable inputs	
(amounts in thousands)	Level 1	Level 2	Level 3	Total
Assets:				

U.S. Government Money Market Fund	$	6,910	N/A	N/A	$ 6,910
Growth Allocation Mutual Funds		691	N/A	N/A	691
S&P 500 Index Fund		176	N/A	N/A	176
Moderate Allocation Mutual Fund		46	N/A	N/A	46
Other		182	N/A	N/A	182

Investments - Rabbi Trust

We have a rabbi trust (the “Trust”) for the participants of our deferred compensation plan (the “Plan”), that enables participants to direct their contributions to various investment options under the Plan. The investments associated with the Trust consist of a money market fund and various mutual funds that are classified as available-for-sale.

As of January 28, 2024 July 28, 2024, our investments associated with the Trust totaled $8.0 million, of which $937,000 954,000 and $7.1 million were classified as short-term and long-term, respectively. As of January 29, 2023 July 30, 2023, our investments associated with the Trust totaled $10.1 8.0 million, of which $2.4 791,000 million and $7.7 7.2 million were classified as short-term and long-term, respectively. As of April 30, 2023 April 28, 2024, our investments associated with the Trust totaled $8.5 8.0 million, of which $1.4 903,000 million and $7.1 million were classified as short-term and long-term, respectively. The investments associated with the Trust had an accumulated unrealized gain of $88,000 198,000, $21,000 76,000, and $19,000 118,000 as of January 28, 2024 July 28, 2024, January 29, 2023 July 30, 2023, and April 30, 2023 April 28, 2024, respectively.

The fair value of our long-term investments associated with the Trust approximates their cost basis.

Other

The carrying amount of our cash and cash equivalents, accounts receivable, other current assets, accounts payable, and accrued expenses approximated their fair value because of the short maturity of these financial instruments.

12. Net Loss Per Share

Basic net loss per share is computed using the weighted-average number of shares outstanding during the period. Diluted net loss per share uses the weighted-average number of shares outstanding during the period plus the dilutive effect of stock-based compensation calculated using the treasury stock method.

Weighted average shares used in the computation of basic and diluted net loss per share were 12,470,000 and 12,299,000 12,332,000 for the three months ending January 28, 2024, July 28, 2024 and January 29, 2023 July 30, 2023, respectively.

Shares of unvested common stock that were not included in the computation of diluted net loss per share consist of the following:

	Three Months Ended	
(in thousands)	January 28, 2024	January 29, 2023
antidilutive effect from decrease in the price per share of our common stock	15	22
antidilutive effect from net loss incurred during the fiscal quarter	81	87
total unvested shares of common stock not included in computation of diluted net loss per share	96	109

Weighted average shares used in the computation of basic and diluted net loss per share were 12,419,000 and 12,272,000 for the nine months ending January 28, 2024, and January 29, 2023, respectively. I-18

Shares of unvested common stock that were not included in the computation of diluted net loss per share consist of the following:

	Nine Months Ended	
(in thousands)	January 28, 2024	January 29, 2023
antidilutive effect from decrease in the price per share of our common stock	4	31
antidilutive effect from net loss incurred during the fiscal year	126	68
total unvested shares of common stock not included in computation of diluted net loss per share	130	99

	Three Months Ended	
(in thousands)	July 28, 2024	July 30, 2023
Antidilutive effect from decrease in the price per share of our common stock	1	2
Antidilutive effect from net loss incurred during the fiscal quarter	137	166
Total unvested shares of common stock not included in computation of diluted net loss per share	138	168

13. Segment Information

Overall

Our operations are classified into two business segments: mattress fabrics and upholstery fabrics.

Mattress Fabrics

The mattress fabrics segment manufactures, sources, and sells fabrics and mattress covers primarily to bedding manufacturers.

Upholstery Fabrics

The upholstery fabrics segment develops, manufactures, sources, and sells fabrics primarily to customers in the residential, commercial, and commercial furniture manufacturers. hospitality industries. In addition, this segment includes Read, which provides window treatments and sourcing of upholstery fabrics and other products, as well as measuring and installation services for Read's products, to customers in the hospitality and commercial industries. Read also supplies soft goods such as decorative top sheets, coverlets, duvet covers, bed skirts, bolsters, and pillows.

Financial Information

We evaluate the operating performance of our business segments based upon (loss) income from operations before certain unallocated corporate expenses and other items that are not expected to occur on a regular basis. Cost of sales for each segment includes costs to develop, manufacture, or source our products, including costs such as raw material and finished goods purchases, direct and indirect labor, overhead, and incoming freight charges. Unallocated corporate expenses primarily represent compensation and benefits for certain executives and their support staff, all costs associated with being a public company, amortization of intangible assets, and other miscellaneous expenses. Segment assets include assets used in the operations of each segment and consist of accounts receivable, inventory, inventories, property, plant, and equipment, and right of use assets. Also, total assets related to our upholstery The mattress fabrics segment include also includes assets held for sale associated with a right of use asset classified as held and equipment related to the fiscal 2025 restructuring plan announced on April 29, 2024 (see Note 9 to the consolidated financial statements for sale as of January 29, 2023 further details regarding this restructuring plan). Intangible assets are not included in segment assets as these assets are not used by the Chief Operating Decision Maker to evaluate the respective segment's operating performance, allocate resources to individual segments, or determine executive compensation.

Statements of operations for our operating segments are as follows:

	Three months ended	
	January 28, 2024	January 29, 2023
net sales by segment:		
mattress fabrics	$ 30,021	$ 24,697
upholstery fabrics	30,397	27,826

net sales	$ 60,418	$ 52,523
gross profit (loss):		
mattress fabrics	$ 1,520	$ (1,237)
upholstery fabrics	6,122	3,330
segment gross profit	7,642	2,093
restructuring related credit (1)	61	—
gross profit	$ 7,703	$ 2,093
selling, general, and administrative expenses by segment:		
mattress fabrics	$ 3,102	$ 2,992
upholstery fabrics	4,030	3,750
unallocated corporate expenses	2,361	2,423
selling, general, and administrative expenses	$ 9,493	$ 9,165
(loss) income from operations by segment:		
mattress fabrics	$ (1,582)	$ (4,229)
upholstery fabrics	2,092	(420)
unallocated corporate expenses	(2,361)	(2,423)
total segment loss from operations	$ (1,851)	$ (7,072)
restructuring related credit (1)	61	—
restructuring credit (expense) (2)	50	(711)
loss from operations	$ (1,740)	$ (7,783)
interest income	284	196
other expense	(705)	(1,095)
loss before income taxes	$ (2,161)	$ (8,682)

	Three months ended	
	July 28, 2024	July 30, 2023
Net sales by segment:		
Mattress fabrics	$ 28,076	$ 29,222
Upholstery fabrics	28,461	27,440
Net sales	$ 56,537	$ 56,662
Gross (loss) profit:		
Mattress fabrics	$ (326)	$ 1,994
Upholstery fabrics	5,518	5,270
Segment gross profit	5,192	7,264
Restructuring related charge (1) (3)	(116)	(179)
Gross profit	$ 5,076	$ 7,085
Selling, general, and administrative expenses by segment:		

Mattress fabrics	$	3,223	$	3,393
Upholstery fabrics		3,806		3,941
Unallocated corporate expenses		2,267		2,495
Selling, general, and administrative expenses	$	9,296	$	9,829
(Loss) income from operations by segment:				
Mattress fabrics	$	(3,549)	$	(1,398)
Upholstery fabrics		1,712		1,328
Unallocated corporate expenses		(2,267)		(2,495)
Total segment loss from operations	$	(4,104)	$	(2,565)
Restructuring related charge (1) (3)		(116)		(179)
Restructuring expense (2) (4)		(2,631)		(338)
Loss from operations	$	(6,851)	$	(3,082)
Interest expense		(28)		—
Interest income		262		345
Other (expense) income		(404)		96
Loss before income taxes	$	(7,021)	$	(2,641)

(1) GrossDuring the three-month period ending July 28, 2024, gross profit and loss from operations for the three months ending January 28, 2024, includes included a restructuring related credit of charge totaling $61,000 116,000 for losses on the gain on disposal of obsolete inventory related to the gradual discontinuation of production of cut and sewn upholstery kits operations at our manufacturing facility located in Ouanaminthe, Haiti. Quebec, Canada.

(2) TheDuring the three-month period ending July 28, 2024, restructuring credit of $50,000 for the three months ended January 28, 2024, represents a gain on disposal of equipment related to the discontinuation of production of cut and sewn upholstery kits in Ouanaminthe, Haiti. Restructuring expense of $711,000 2.6 for million represents $2.5 million and $132,000, related to the three months ended January 29, 2023 mattress fabrics and upholstery fabrics segments, respectively. The $2.6 million represents (i) $1.9 million related to the gradual discontinuation of operations and the process of selling the manufacturing facility located in Quebec, Canada, which includes $875,000 of additional depreciation related to the shortening of useful lives of equipment, employee termination benefits of $539,000, represents lease termination costs of $434,000 264,000, impairment charges and an impairment loss regarding leasehold improvements losses on the disposal of equipment totaling $277,000 95,000 that, and other associated costs of $90,000; (ii) $470,0000 related to the consolidation of certain two leased facilities at our mattress cover operation located in Ouanaminthe, Haiti. Haiti, which includes lease termination costs of $

406,000

, employee termination benefits of $

48,000, and other associated costs of $16,000; (iii) $167,000 of other associated costs related to the relocation of certain equipment from the mattress fabrics manufacturing facility located in Quebec, Canada to the U.S. facility located in Stokesdale, N.C; (iv) $

132,000 related to reducing costs within our upholstery fabrics segment which includes employee termination benefits of $

	Nine months ended	
	January 28, 2024	January 29, 2023
net sales by segment:		
mattress fabrics	$ 90,619	$ 80,299
upholstery fabrics	85,185	93,209
net sales	$ 175,804	$ 173,508
gross profit (loss):		
mattress fabrics	$ 5,997	$ (7,330)
upholstery fabrics	16,780	11,436
total segment gross profit	$ 22,777	$ 4,106
restructuring related charge (1)	(40)	(98)
gross profit	$ 22,737	$ 4,008
selling, general, and administrative expenses by segment:		
mattress fabrics	$ 9,913	$ 8,821
upholstery fabrics	11,969	11,053
unallocated corporate expenses	7,484	7,259
selling, general, and administrative expenses	$ 29,366	$ 27,133
(loss) income from operations by segment:		
mattress fabrics	$ (3,916)	$ (16,151)
upholstery fabrics	4,811	383
unallocated corporate expenses	(7,484)	(7,259)
total segment loss from operations	$ (6,589)	$ (23,027)
restructuring related charge (1)	(40)	(98)
restructuring expense (2)	(432)	(1,326)
loss from operations	$ (7,061)	$ (24,451)
interest income	911	292
other expense	(560)	(348)
loss before income taxes	$ (6,710)	$ (24,507)

102,000 and other associated costs from our U.S. and China operations of $30,000.

(1) Gross (3) During the three-month period ending July 30, 2023, gross profit and loss from operations for the nine months ending January 28, 2024, includes included a restructuring related charge of totaling $40,000 179,000, representing for markdowns of inventory related to the discontinuation of production of cut and sewn upholstery kits at our the company's

facility located in Ouanaminthe, Haiti. Gross profit and loss from operations for the nine months ending January 29, 2023, includes a restructuring related charge of $98,000 that represents a loss on disposal and markdowns of inventory related to the exit of our cut and sew upholstery fabrics operation located in Shanghai, China, which occurred during the second quarter of fiscal 2023.

(2) Restructuring (4) During the three-month period ending July 30, 2023, restructuring expense of $432,000 338,000 for the nine months ending January 28, 2024, represents a $329,000an impairment charge associated with of $237,000 related mostly to machinery and equipment and $103,000 101,000 for of employee termination benefits related to the discontinuation of production of cut and sewn upholstery kits in Ouanaminthe, Haiti. Restructuring expense of $1.3 million for at the nine months ending January 29, 2023, relates to both our restructuring activities for our cut and sew upholstery fabrics operations located in Shanghai, China, which occurred during the second quarter of fiscal 2023, and company's facility located in Ouanaminthe, Haiti, which occurred during the third quarter of fiscal 2023. Restructuring expense consists of lease termination costs of $481,000, employee termination benefits of $468,000, impairment losses totaling $357,000 that relate to leasehold improvements and equipment, and $20,000 for other associated costs. Haiti.

Balance sheet information for our operating segments follows: follows:

(dollars in thousands)	January 28, 2024	January 29, 2023	April 30, 2023	July 28, 2024	July 30, 2023	April 28, 2024
Segment assets:						
Mattress Fabrics:						
Accounts receivable	$ 11,463	$ 8,314	$ 12,396	$ 10,094	$ 11,058	$ 10,003
Inventory	27,925	28,757	25,674	25,278	24,579	27,671
Property, plant and equipment (1) (5)	32,263	34,661	33,749	28,844	32,792	31,472
Right of use assets (2) (6)	1,798	2,476	2,308	568	2,139	1,627
Assets held for sale	607	—	—			
Total mattress fabrics assets	73,449	74,208	74,127	65,391	70,568	70,773
Upholstery Fabrics:						
Accounts receivable	12,223	12,927	12,382	11,493	11,554	11,135
Inventory	18,952	18,870	19,406	16,390	19,238	17,172
Property, plant and equipment (3)	1,155	1,794	1,671			
Right of use assets (4)	2,345	2,995	2,618			
Assets held for sale (5)	—	1,950	—			

Property, plant and equipment (7)	1,098	1,491	1,125			
Right of use assets (8)	1,478	2,237	1,952			
Total upholstery fabrics assets	34,675	38,536	36,077	30,459	34,520	31,384
Total segment assets	108,124	112,744	110,204	95,850	105,088	102,157
Non-segment assets:						
Cash and cash equivalents	12,585	16,725	20,964	13,472	16,812	10,012
Short-term investments - rabbi trust	937	2,420	1,404	954	791	903
Short-term note receivable	260	—	219	268	252	264
Current income taxes receivable	476	238	—	532	202	350
Other current assets	4,237	2,839	3,071	3,590	3,578	3,371
Long-term note receivable	1,530	—	1,726	1,394	1,661	1,462
Deferred income taxes	531	463	480	528	476	518
Property, plant and equipment (6) (9)	603	737	691	534	646	585
Right of use assets (7)	2,809	3,442	3,265			
Right of use assets (10)	2,437	3,090	2,624			
Intangible assets	1,970	2,346	2,252	1,782	2,158	1,876
Long-term investments - rabbi trust	7,083	7,725	7,067	7,089	7,204	7,102
Other assets	853	919	840	709	944	830
Total assets	$ 141,998	$ 150,598	$ 152,183	$ 129,139	$ 142,902	$ 132,054

(1) (5)The $32.3 28.8 million as of January 28, 2024 July 28, 2024, represents property, plant, and equipment of $21.9 20.9 million, $9.8 7.4 million, and $600,000 511,000 located in the U.S., Canada, and Haiti, respectively. The $34.7 32.8 million as of January 29, 2023 July 30, 2023, represents property, plant, and equipment of $23.1 22.1 million, $10.9 10.1 million, and $651,000 594,000 located in the U.S., Canada, and Haiti, respectively. The $33.7 31.5 million as of April 30, 2023 April 28, 2024, represents property, plant, and equipment of $22.7 21.5 million, $10.4 9.4 million, and $608,000 555,000 located in the U.S., Canada, and Haiti, respectively.

(2) (6)The $1.8 568,000 as of July 28, 2024, represents right of use assets of $350,000 and $218,000 located in Haiti and Canada, respectively. The $2.1 million as of January 28, 2024 July 30, 2023, represents right of use assets of $1.4 million and $720,000 located in Haiti, and Canada, respectively. The $1.6 million as of April 28, 2024, represents right of use assets of $1.1 million and $545,000 located in Haiti and Canada, respectively.

(7) The $1.1 million as of July 28, 2024, represents property, plant, and equipment of $990,000 and $108,000 located in the U.S., and China, respectively. The $1.5 million as of July 30, 2023, represents property, plant, and equipment of $1.0 million, $327,000, and $159,000 located in the U.S., Haiti, and China, respectively. The $1.1 million as of April 28, 2024, represents property, plant, and equipment of $1.0 million and $120,000 located in the U.S., and China, respectively.

(8) The $1.5 million as of July 28, 2024, represents right of use assets of $1.1 million and $393,000 located in the U.S., and China, respectively. The $2.2 million as of July 30, 2023, represents right of use assets of $1.2 million and $604,000 977,000 located in Haiti and Canada, respectively. The $2.5 million as of January 29, 2023, represents right of

use assets of $1.6 million and $833,000 located in Haiti and Canada, respectively. The $2.3 million as of April 30, 2023, represents right of use assets of $1.5 million and $776,000 located in Haiti and Canada, respectively.

(3) The $1.2 million as of January 28, 2024, represents property, plant, and equipment of $1.1 million and $134,000 located in the U.S. and China, respectively. The $1.8 million as of January 29, 2023, represents property, plant, and equipment of $1.0 million, $630,000, and $121,000 located in the U.S., Haiti, and China, respectively. The $1.7 million as of April 30, 2023, represents property, plant, and equipment of $974,000, $592,000, and $105,000 located in the U.S., Haiti, and China, respectively.

(4) The $2.3 million as of January 28, 2024, represents right of use assets of $944,000 and $1.4 million located in China and the U.S., respectively. The $3.0 2.0 million as of January 29, 2023 April 28, 2024, represents right of use assets of $1.7 1.3 million and $1.3 709,000 million located in China and the U.S., respectively. The $2.6 million as of April 30, 2023, represents right of use assets of $1.5 million and $1.1 million located in China and the U.S., respectively.

(5) (9)The $2.0 million as of January 29, 2023, represents a right of use asset classified as held for sale located in Haiti.

(6) The $603,000 534,000, $737,000 646,000, and $691,000 585,000 as of January 28, 2024 July 28, 2024, January 29, 2023 July 30, 2023, and April 30, 2023 April 28, 2024, respectively, represent represents property, plant, and equipment associated with the unallocated corporate department departments and corporate departments shared by our mattress fabrics and upholstery fabrics segments. Property, plant, and equipment associated with our corporate departments reside in the U.S.

(7) (10)The $2.8 2.4 million, $3.4 3.1 million, and $3.3 2.6 million as of January 28, 2024 July 28, 2024, January 29, 2023 July 30, 2023, and April 30, 2023 April 28, 2024, respectively, represent right of use assets located in the U.S.

Information about capital expenditures and depreciation expense for our operating segments follows:

	Nine months ended				Three months ended			
(dollars in thousands)	January 28, 2024		January 29, 2023		July 28, 2024		July 30, 2023	
Capital expenditures (1):								
Capital expenditures (11):								
Mattress Fabrics	$	2,828	$	612	$	134	$	523
Upholstery Fabrics		219		465		68		158
Unallocated Corporate		167		75		12		33
Total capital expenditures	$	3,214	$	1,152	$	214	$	714
Depreciation expense:								

Mattress Fabrics	$	4,422	$	4,624				
Mattress Fabrics (12)	$	2,297	$	1,455				
Upholstery Fabrics		475		604		159		180
Total depreciation expense	$	4,897	$	5,228	$	2,456	$	1,635

(1)(11)Capital expenditure amounts are stated on the accrual basis. See Consolidated Statements of Cash Flows for cap expenditure amounts on a cash basis.

(12) During the three-month period ending July 28, 2024, depreciation expense for the mattress fabrics segment included additional depreciation expense related to the shortening of useful lives of equipment associated with the gradual discontinuation of operations regarding our manufacturing facility located in Quebec, Canada. The amount of additional depreciation expense was $875,000 and was classified as restructuring expense.

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14. Income Taxes

Effective Income Tax Rate

We recorded income tax expense of $2.2240,000 million,, or (33.43.4%) of loss before income taxes, for the nine-monththree-month period ending January 28, 2024July 28, 2024, compared with income tax expense of $2.3701,000 million,, or (9.526.5%) of loss before income taxes, for the nine-monththree-month period ending January 29, 2023July 30, 2023.

Our effective income tax rates for the nine-monththree-month periods ended January 28, 2024July 28, 2024, and January 29, 2023July 30, 2023, were based upon the estimated effective income tax rate applicable for the full year after giving effect to any significant items related specifically to interim periods. When calculating the annual estimated effective income tax rates for the nine-monththree-month periods ended January 28, 2024July 28, 2024, and January 29, 2023July 30, 2023, we were subject to loss limitation rules. These loss limitation rules require any taxable loss associated with our U.S. or foreign operations to be excluded from the annual estimated effective income tax rate calculation if it was determined that no income tax benefit could be recognized during the current fiscal year. The effective income tax rate can be affected over the fiscal year by the mix and timing of actual earnings from our U.S. operations and foreign subsidiaries located in China, Canada, Haiti, and Haiti as compared toVietnam versus annual projections, as well as changes in foreign currency exchange rates in relation to the U.S. dollar.

The following schedule summarizes the principal differences between income tax expense at the U.S. federal income tax rate and the effective income tax rate reflected in the consolidated financial statements for the nine-monththree-month periods ending January 28, 2024July 28, 2024, and January 29, 2023July 30, 2023:

	January 28, 2024	January 29, 2023	July 28, 2024	July 30, 2023

U.S. federal income tax rate	21.0 %	21.0 %	21.0 %	21.0 %
U.S. valuation allowance	(42.0)	(29.3)	(23.5)	(34.1)
Withholding taxes associated with foreign jurisdictions	(8.1)	(2.0)	(1.0)	(9.7)
Capital expenditure deduction - Quebec, Canada	—	(1.6)		
Foreign income tax rate differential	(5.2)	1.4	0.7	(6.0)
Stock-based compensation	(2.9)	(0.4)	(0.9)	—
Tax effects of local currency foreign exchange gains	3.8	1.3	(0.4)	2.3
Uncertain income tax positions	1.2	(0.1)		
Other	—	0.1	(0.5)	0.1
	(33.4)%	(9.5)%	(3.4)%	(26.5)%

Our consolidated effective income tax rates during the first nine months quarter of fiscal 2024 2025 and the first nine months quarter of fiscal 2023 2024 were both adversely affected by the mix of earnings between our U.S. operations and foreign subsidiaries, as our taxable income stems mostly from our operations located in China, during fiscal 2024 and both our operations located in China and Canada during fiscal 2023, which have has a higher income tax rates rate than the U.S. In addition, during the first nine months quarters of fiscal 2024 2025 and the first nine months of fiscal 2023, 2024, we incurred pre-tax losses associated with our U.S. operations, for which an income tax benefit was not recorded due to the full valuation allowance applied against our U.S. net deferred income tax assets. The income tax charge associated with the full valuation allowance applied against our U.S. net deferred income tax assets was lower higher during the first nine months quarter of fiscal 2024 2025 compared with the first nine months quarter of fiscal 2023, 2024, as our $(11.3) million U.S. pre-tax loss incurred during

the first nine months of fiscal 2024 was significantly lower than the $(28.8 7.0) million U.S. pre-tax loss incurred during the first nine months quarter of fiscal 2023. 2025 was significantly greater than the $(3.3) million U.S. pre-tax loss incurred during the first quarter of fiscal 2024.

During the first nine months quarter of fiscal 2024, 2025, we incurred a lower greater consolidated pre-tax loss totaling $(6.7 7.0) million, compared with $(24.5 2.6) million during the first nine months quarter of fiscal 2023. 2024. As a result, the principal differences between income tax expense at the U.S. federal income tax rate and the effective income tax rate reflected in the consolidated financial statements were more pronounced during the first nine months quarter of fiscal 2024, as compared with the first nine months quarter of fiscal 2023. 2025.

U.S. Valuation Allowance

We evaluate the realizability of our U.S. net deferred income tax assets to determine if a valuation allowance is required. We assess whether a valuation allowance should be established based on the consideration of all available evidence using a "more-likely-than-not" standard, with significant weight being given to evidence that can be objectively verified. Since the company operates in multiple jurisdictions, we assess the need for a valuation allowance on a jurisdiction-by-jurisdiction basis, considering the effects of local tax law.

As of January 28, 2024 July 28, 2024, we evaluated the realizability of our U.S. net deferred income tax assets to determine if a full valuation allowance was required. Based on our assessment, we determined we still have a recent history of significant cumulative U.S. pre-tax losses, in that we experienced U.S. pre-tax losses during each of the last three fiscal years from 2021 2022 through 2023, 2024, and we are currently expecting significant U.S. pre-tax losses to continue during fiscal 2024. 2025. As a result of the significant weight of this

negative evidence, we believe it is more likely than not that our U.S. deferred income tax assets will not be fully realizable, and therefore we provided for a full valuation allowance against our U.S. net deferred income tax assets.

Based on our assessments as of January 28, 2024 July 28, 2024, January 29, 2023 July 30, 2023, and April 30, 2023 April 28, 2024, valuation allowances against our net deferred income tax assets pertain to the following:

(dollars in thousands)	January 28, 2024	January 29, 2023	April 30, 2023	July 28, 2024	July 30, 2023	April 28, 2024
U.S. federal and state net deferred income tax assets	$ 19,162	$ 15,741	$ 16,345	$ 21,326	$ 17,246	$ 19,674
U.S. capital loss carryforward	2,330	2,330	2,330	2,330	2,330	2,330
	$ 21,492	$ 18,071	$ 18,675	$ 23,656	$ 19,576	$ 22,004

Undistributed Earnings

We assess whether the undistributed earnings from our foreign subsidiaries will be reinvested indefinitely or eventually distributed to our U.S. parent company and whether we are required to record a deferred income tax liability for those undistributed earnings from foreign subsidiaries that will not be reinvested indefinitely. As of January 28, 2024 July 28, 2024, we assessed the liquidity requirements of our U.S. parent company and determined that our undistributed earnings and profits from our foreign subsidiaries would not be reinvested indefinitely and would eventually be distributed to our U.S. parent company. The conclusion reached from this assessment was consistent with prior reporting periods.

As a result of the 2017 Tax Cuts and Jobs Act, a U.S. corporation is allowed a 100% dividend received deduction for earnings and profits received from a 10% owned foreign corporation. Therefore, a deferred income tax liability will be required only for unremitted withholding taxes associated with earnings and profits generated by our foreign subsidiaries that will ultimately be repatriated to the U.S. parent company. As a result, as of January 28, 2024 July 28, 2024, January 29, 2023 July 30, 2023, and April 30, 2023 April 28, 2024, we recorded a deferred income tax liability of $4.7 4.9 million, $4.1 4.4 million, and $4.2 4.8 million, respectively.

Uncertain Income Tax Positions

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

As of January 28, 2024 July 28, 2024, January 29, 2023 July 30, 2023, and April 30, 2023, April 28, 2024 we had a $1.3 million, $1.2 million, and $1.3 million total of gross unrecognized income tax benefit, benefits, of which the entire amount was classified as income taxes payable – long-term in the accompanying Consolidated Balance Sheets. These unrecognized income tax benefits would favorably affect income tax expense in future periods by $1.3 million, $1.2 million, and $1.3 million, as of January 28, 2024 July 28, 2024, January 29, 2023 July 30, 2023, and April 30, 2023. April 28, 2024, respectively.

Our gross unrecognized income tax benefit of $1.2 1.3 million as of January 28, 2024 July 28, 2024, relates to income tax positions for which significant change is currently not expected within the next year.

Income Taxes Paid

The following table sets forth income taxes paid by jurisdiction:

(dollars in thousands)	Nine Months Ended January 28, 2024	Nine Months Ended January 29, 2023	Three Months Ended July 28, 2024	Three Months Ended July 30, 2023
United States Transition Tax Payment	$ 499	$ 265		
China Income Taxes, Net of Refunds	1,803	1,680	561	915
Canada - Income Taxes, Net of Refunds	468	(9)	—	197
	$ 2,770	$ 1,936	$ 561	$ 1,112

15. Stock-Based Compensation

Equity Incentive Plan Description

On September 16, 2015, our shareholders approved an equity incentive plan titled the Culp, Inc. 2015 Equity Incentive Plan (the “2015 Plan”). The 2015 Plan authorizes the grant of stock options intended to qualify as incentive stock options, nonqualified stock options, stock appreciation rights, restricted stock, restricted stock units, performance-based units, and other equity and cash related

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awards as determined by the Compensation Committee of our board of directors. An aggregate of 1,200,000 shares of common stock were authorized for issuance under the 2015 Plan, with certain sub-limits that would apply with respect to specific types of awards that may be issued as defined in the 2015 Plan. Effective September 27, 2023, our shareholders approved an amendment and restatement of the 2015 Plan (the "Amended and Restated Plan"). The Amended and Restated Plan authorizes the issuance of an additional 960,000 shares of common stock in addition to the shares of common stock still available for the issuance under of the 2015 Plan. The Amended and Restated Plan also removed certain sub-limits that previously applied with respect to specific type types of awards that may be issued under the plan. plan

As of January 28, 2024 July 28, 2024, there were 765,399 1,016,425 shares available for future equity-based grants under the Amended and Restated 2015 Plan.

Performance-Based Restricted Stock Units

Senior Executives

We grant performance-based restricted stock units to senior executives which could earn up to a certain number of shares of common stock if certain performance targets are met over a three-fiscal year performance period as defined in the related restricted stock unit award agreements. The number of shares of common stock that are earned based on performance targets that have been achieved may be adjusted based on a market-based total shareholder return component as defined in the related restricted stock unit award agreements.

Our performance-based restricted stock units granted to senior executives were measured based on their fair market value on the date of grant. The fair market value per share was determined using the Monte Carlo simulation model for the market-based total shareholder return component and the closing price of our common stock for the performance-based component.

The following table provides assumptions used to determine the fair market value of the market-based total shareholder return component using the Monte Carlo simulation model on our outstanding There were no performance-based restricted stock units granted issued to senior executives on January 8, 2024, September 28, 2023, August 10, 2022 and July 22, 2021: during the first quarter of fiscal 2025 or the first quarter of fiscal 2024.

	January 8, 2024	September 28, 2023	August 10, 2022	July 22, 2021
Closing price of our common stock	$5.61	$5.59	$5.06	$14.75
Expected volatility of our common stock	33.5%	37.3%	48.2%	54.2%
Expected volatility of peer companies	33.7% - 102.6%	35.7% - 91.5%	41.6% - 105.1%	45.7% - 101.5%
Risk-free interest rate	4.30%	4.90%	3.13%	0.33%
Dividend yield	0.00%	0.00%	0.00%	3.00%
Correlation coefficient of peer companies	0.01 - 0.21	0.01 - 0.21	0.05 - 0.23	0.03 - 0.35

Key Employees

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

There were no performance-based restricted stock units issued to key employees in the first quarter of fiscal 2025 or the first quarter of fiscal 2024.

Overall

The following table summarizes information related to our grants of performance-based restricted stock units associated with senior executives and key employees that were unvested as of January 28, 2024 July 28, 2024:

Date of Grant	(3) Performance-Based Restricted Stock Units Awarded	(4) Restricted Stock Units Expected to Vest	Price Per Share		Vesting Period	(2) Performance-Based Restricted Stock Units Awarded	(3) Restricted Stock Units Expected to Vest	Price Per Share		Vesting Period
January 8, 2024 (1)	24,597	14,663	$ 6.23	(5)	31 months	24,597	9,190	$ 6.23	(4)	31 months
September 28, 2023 (1)	202,900	83,055	$ 6.43	(6)	34 months	202,900	—	$ 6.43	(5)	34 months

August 10, 2022 (1)	178,714	—	$	5.77	(7)	3 years	146,048	—	$	5.77	(6)	3 years
July 22, 2021 (1)	122,476	—	$	15.93	(8)	3 years						
July 22, 2021 (2)	20,500	—	$	14.75	(9)	3 years						

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

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

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

(4) (3) Compensation cost is based on an assessment each reporting period to determine the probability of whether or not cert performance goals will be met and how many shares are expected to be earned as of the end of the vesting period. The amounts represent the number of shares that were expected to vest as of January 28, 2024 July 28, 2024.

(5) I-25

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(4) Price per share represents the fair market value per share ($1.11 per $1, or an increase of $0.62 to the closing price of our common stock on the date of grant) determined using the Monte Carlo simulation model for the market-based total shareholder return component and the closing price of our common stock ($5.61) for the performance-based component of the performance-based restricted stock units granted to a senior executives executive on January 8, 2024.

(6) (5) Price per share represents the fair market value per share ($1.15 per $1, or an increase of $0.84 to the closing price of our common stock on the date of grant) determined using the Monte Carlo simulation model for the market-based total shareholder return component and the closing price of our common stock ($5.59) for the performance-based component of the performance-based restricted stock units granted to senior executives on September 28, 2023.

(7) (6) Price per share represents the fair market value per share ($1.14 per $1, or an increase of $0.71 to the closing price of our common stock on the date of grant) determined using the Monte Carlo simulation model for the market-based total shareholder return component and the closing price of our common stock ($5.06 5.59) for the performance-based component of the performance-based restricted stock units granted to senior executives on August 10, 2022.

(8) Price per share represents the fair market value per share ($1.08 per $1, or an increase of $1.18 to the closing price of our common stock on the date of grant) determined using the Monte Carlo simulation model for the market-based total shareholder

I-26

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return component and the closing price of our common stock ($14.75) for the performance-based component of the performance-based restricted stock units granted to senior executives on July 22, 2021.

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

There were no performance-based restricted stock units that vested during the nine-month period three-month periods ended January 28, 2024. The following table summarizes information related to our performance-based restricted stock units that vested during the nine-month period ended January 29, 2023:July 28, 2024 and July 30, 2023, respectively.

Fiscal Year	Performance-Based Restricted Stock Units Vested	(3) Fair Value	(4) Price Per Share
Fiscal 2023 (1)	545	$ 3	$ 5.10
Fiscal 2023 (2)	437	$ 2	$ 5.10

(1) Performance-based restricted stock units vested by senior executives.

(2) Performance-based restricted stock units vested by key employees.

(3) Dollar amounts are in thousands.

(4) Price per share is derived from the closing price of our common stock on the date the respective performance-bas restricted stock units vested.

We recorded compensation expense of $67,000 and $2,000 6,000 within selling, general, and administrative expenses associated with our performance-based restricted stock unit awards for the three-month period ended July 28, 2024. No compensation expense was recorded during the three-month period ended July 30, 2023, associated with the performance-based restrictive stock units for the nine-month periods ended January 28, 2024, and January 29, 2023, respectively. units. Compensation expense is recorded based on an assessment each reporting period to determine the probability of whether or not certain performance targets will be met and how many shares are expected to be earned as of the end of the vesting period. If certain performance goals are not expected to be achieved, compensation expense would not be recorded, and any previously recognized compensation expense would be reversed.

As of January 28, 2024 July 28, 2024, the remaining unrecognized compensation expense related to our performance-based restricted stock units was $558,000 44,000, which is expected to be recognized over a weighted average vesting period of 2.5 2.0 years. As of January 28, 2024 July 28, 2024, the performance-based restricted stock units that are expected to vest had a fair value totaling $498,000 46,000.

Time-Based Restricted Stock Units

The following table summarizes information related to our grants of time-based restricted stock unit awards associated with senior executives and key employees and outside directors that were unvested as of January 28, 2024 July 28, 2024:

Date of Grant	Time-Based Restricted Stock Units Awarded	(1) Price Per Share	Vesting Period	Time-Based Restricted Stock Units Awarded	(1) Price Per Share	Vesting Period

January 8, 2024 (2)	14,758	$	5.61	31 months	14,758	$	5.61	31 months
September 28, 2023 (2)	100,068	$	5.59	34 months	100,068	$	5.59	34 months
September 28, 2023 (3)	59,928	$	5.59	1 year	59,928	$	5.59	1 year
September 6, 2022 (2)	25,114	$	4.58	2 to 3 years	25,114	$	4.58	2 to 3 years
August 10, 2022 (2)	78,225	$	5.06	3 years	64,753	$	5.06	3 years
July 22, 2021 (2)	30,835	$	14.75	3 years				

(1) Price per share represents closing price of common stock on the date the respective award was granted.
(2) Time-based restricted stock units awarded to senior executives and key employees.
(3) Time-based restricted stock units awarded award to outside directors.

The following table summarizes information related to our During the three-month period ending July 28, 2024, time-based restricted stock units totaling 30,835, vested at a fair value of $157,000, or $5.10 per share. There were no time-based restricted stock units that vested during the nine-month periods three-month period ending January 28, 2024, and January 29, 2023, respectively: July 30, 2023.

Fiscal Year	Time-Based Restricted Stock Units Vested		(1) Fair Value		(2) Price Per Share
Fiscal 2024	151,653	$	857	$	5.65
Fiscal 2023	32,799	$	167	$	5.10

(1) Dollar amounts are in thousands.

(2) Price per share is derived from the closing price of our common stock on the date the respective time-based restricted stc units vested.

We recorded compensation expense of $597,000 170,000 and $634,000 238,000 within selling, general, and administrative expenses associated with our time-based restricted stock unit awards for the nine-month periods three-month period ended January 28, 2024 July 28, 2024, and January 29, 2023 July 30, 2023, respectively.

As of January 28, 2024 July 28, 2024, the remaining unrecognized compensation expense related to our time-based restricted stock units was $1.1 638,000 million, , which is expected to be recognized over a weighted average vesting period of 1.8 1.6 years. As of January 28, 2024 July 28, 2024, the time-based restricted stock units that are expected to vest had a fair value totaling $1.6 1.4 million.

Immediately Vested Common Stock Awards

We granted a total of 16,616 shares of common stock to our outside directors on July 3, 2023. These shares of common stock vested immediately and were measured at their fair value on the date of the grant. The fair value of these awards was $5.04 per share on July 3, 2023, respectively, which represents the closing price of our common stock on the date of grant.

We granted a total of 17,819, 18,326, and 19,753 shares of common stock to our outside directors on January 3, 2023, October 3, 2022, and July 1, 2022, respectively. These shares of common stock vested immediately and were measured at their fair value on the date of the grant. The fair value of these awards was $4.70, $4.57, and $4.24 per share on January 3, 2023, October 3, 2022, and July 1, 2022, respectively, which represents the closing price of our common stock on the date of grant.

We recorded $84,000 and $251,000of compensation expense within selling, general, and administrative expenses for common stock awards that immediately vested to our outside directors for the nine-month three-month periods ended January 28, 2024, and January 29, 2023, respectively. July 30, 2023.

16. Leases

Overview

We lease manufacturing facilities, showroom and office space, distribution centers, and equipment under operating lease arrangements. Our operating leases have remaining lease terms of one to eight seven years, with renewal options for additional periods ranging up to twelve years.

Balance Sheet

The right of use assets and lease liabilities associated with our operating leases as of January 28, 2024 July 28, 2024, January 29, 2023 July 30, 2023, and April 30, 2023 April 28, 2024, are as follows:

(dollars in thousands)	January 28, 2024	January 29, 2023	April 30, 2023	July 28, 2024	July 30, 2023	April 28, 2024
Right of use assets	$ 6,952	$ 8,913	$ 8,191	$ 4,483	$ 7,466	$ 6,203
Operating lease liability - current	2,524	2,785	2,640	1,565	2,558	2,061
Operating lease liability – noncurrent	2,656	4,399	3,612	2,219	2,994	2,422

Supplemental Cash Flow Information

	Nine Months Ended	Nine Months Ended	Three Months Ended	Three Months Ended

(dollars in thousands)	January 28, 2024	January 29, 2023	July 28, 2024	July 30, 2023
Operating lease liability payments	$ 1,992	$ 1,704	$ 592	$ 656
Right of use assets exchanged for lease liabilities	978	731	—	—

Operating lease expense for the three-month periods ended January 28, 2024 July 28, 2024, and January 29, 2023 July 30, 2023, was $789,000 791,000 and $921,000 774,000, respectively. Operating lease expense for the nine-month periods ended January 28, 2024, and January 29, 2023, was $2.3 million

and $2.9 million, respectively. Short-term lease and variable lease expenses were immaterial for the three-month and nine-month periods ended January 28, 2024 July 28, 2024, and January 29, 2023 July 30, 2023.

Other Information

Maturity of our operating lease liabilities for the remainder of fiscal 2024, 2025, the subsequent next four fiscal years, and thereafter follows:

(dollars in thousands)		
2024	614	
2025	2,248	1,390
2026	950	942
2027	609	608
2028	225	225
2029	227	
Thereafter	804	577
	$ 5,450	$ 3,969
Less: interest	(270)	(185)
Present value of lease liabilities	$ 5,180	$ 3,784

As of January 28, 2024 July 28, 2024, the weighted average remaining lease term and discount rate for our operating leases follows:

	January July 28, 2024
Weighted average lease term (in years)	3.72 3.99

Weighted average discount rate	4.00 3.49 %

I-27

17. Commitments and Contingencies

Litigation

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

Accounts Payable – Capital Expenditures

As of January 28, 2024 July 28, 2024, January 29, 2023 July 30, 2023, and April 30, 2023 April 28, 2024, we had amounts due regarding capital expenditures totaling $19,000 56,000, $25,000 257,000, and $56,000 343,000, respectively, which pertained to outstanding vendor invoices, none of which were financed.

Purchase Commitments – Capital Expenditures

As of January 28, 2024 July 28, 2024, we had open purchase commitments to acquire equipment for our mattress fabrics segment totaling $880,000 275,000.

18. Statutory Reserves

Our subsidiary located in China was required to transfer 10% of its net income, as determined in accordance with the People's Republic of China (PRC) accounting rules and regulations, to a statutory surplus reserve fund until such reserve balance reached 50% of the company's registered capital. As of January 28, 2024 July 28, 2024, the statutory surplus reserve fund represents the 50% registered capital requirement, and therefore, our subsidiary located in China is no longer required to transfer 10% of its net income in accordance with PRC accounting rules and regulations.

The transfer to this reserve must be made before distributions of any dividend to shareholders. As of January 28, 2024 July 28, 2024, the company's statutory surplus reserve was $4.1 4.0 million. The statutory surplus reserve fund is non-distributable other than during liquidation and can be used to fund previous years' losses, if any. The statutory surplus reserve fund may be utilized for business expansion or converted into share capital by issuing new shares to existing shareholders in proportion to their shareholding or by increasing the par value of the shares currently held by them provided that the remaining reserve balance after such issue is not less than 25% of the registered capital.

The company's subsidiary located in China can transfer funds to the parent company, except for the statutory surplus reserve of $4.1 4.0 million, to assist with debt repayment, capital expenditures, and other expenses of the company's business.

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19. Common Stock Repurchase Program

In March 2020, our board of directors approved an authorization for us to acquire up to $5.0 million of our common stock. Under the common stock repurchase program, shares may be purchased from time to time in open market transactions, block trades, through plans established under the Securities Exchange Act Rule 10b5-1, or otherwise. The number of shares purchased and the timing of such purchases are based on working capital requirements, market and general business conditions, and other factors, including alternative investment opportunities.

We did not repurchase any shares of common stock during the nine-month three-month periods ending January 28, 2024 July 28, 2024, and January 29, 2023 July 30, 2023, respectively.

As of January 28, 2024 July 28, 2024, $3.2 million is available for additional repurchases of our common stock.

CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING INFORMATION

This report and the exhibits attached hereto contain contains "forward-looking statements" within the meaning of the federal securities laws, including the Private Securities Litigation Reform Act of 1995 (Section 27A of the Securities Act of 1933 and Section 21E of the Securities and Exchange Act of 1934). Such statements are inherently subject to risks and uncertainties that may cause actual events and results to differ materially from such statements. Further, forward looking statements are intended to speak only as of the date on which they are made, and we disclaim any duty to update or alter such statements to reflect any changes in management's expectations or any change in the assumptions or circumstances on which such statements are based, whether due to new information, future events, or otherwise. Forward-looking statements are statements that include projections, expectations, or beliefs about future events or results or otherwise are not statements of historical fact. Such statements are often but not always characterized by qualifying words such as "expect," "believe," "will," "may," "should," "could," "potential," "continue," "target," "predict", "seek," "anticipate," "estimate," "intend," "plan," "project," and their derivatives, and include but are not limited to statements about expectations, projections, or trends for our future operations, strategic initiatives and plans, restructuring actions, production levels, new product launches, sales, profit margins, profitability, operating (loss) income, capital expenditures, working capital levels, cost savings (including, without limitation, anticipated cost savings from restructuring actions), income taxes, SG&A or other expenses, pre-tax (loss) income, earnings, cash flow, and other performance or liquidity measures, as well as any statements regarding dividends, share repurchases, liquidity, use of cash and cash requirements, borrowing capacity, investments, potential acquisitions, restructuring and restructuring-related charges, expenses, and/or credits, future economic or industry trends, public health epidemics, or future developments. There can be no assurance that we will realize these expectations or meet our guidance, or that these beliefs will prove correct.

Factors that could influence the matters discussed in such statements include the level of housing starts and sales of existing homes, consumer confidence, trends in disposable income, and general economic conditions. Decreases in these economic indicators could have a negative effect on our business and prospects. Likewise, increases in interest rates, particularly home mortgage rates, and increases in consumer debt or the general rate of inflation, could affect us adversely. The future performance of our business depends in part on our success in conducting and finalizing acquisition negotiations and integrating acquired businesses into our existing operations. Changes in consumer tastes or preferences toward products not produced by us could erode demand for our products. Changes in tariffs or trade policy, including changes in U.S. trade enforcement priorities, or changes in the value of the U.S. dollar versus other currencies, could affect our financial results because a significant portion of our operations are located outside the United States. Strengthening of the U.S. dollar against other currencies could make our products less competitive on the basis of price in markets outside the United States, and strengthening of currencies in Canada and China can have a negative impact on our sales of products produced in those places. In addition, because our foreign operations use the U.S. dollar as their functional currency, changes in the exchange rate between the local currency of those operations and the U.S dollar can affect our reported profits from those foreign operations. Also, economic or political instability in international areas could affect our operations or sources of goods in those areas, as well as demand for our products in international markets. The impact of public health epidemics on employees, customers, suppliers, and the global economy, such as the global recent coronavirus pandemic, currently affecting countries around the world, could also adversely affect our operations and financial performance. In addition, the impact of potential goodwill asset impairments, including impairments of property, plant, and equipment, inventory, or intangible asset impairments assets, as well as the impact of valuation allowances applied against our net deferred income tax assets, could affect our financial results. Increases in freight costs, labor costs, and raw material prices, including increases in market prices for petrochemical products, can also significantly affect the prices we pay for shipping, labor, and raw materials, respectively, and in turn, increase our operating costs and decrease our profitability. Finally, Also, our success in diversifying our supply chain with reliable partners to effectively service our global platform could affect our operations and adversely affect our financial results. Finally, the future performance of our business also depends on our ability to successfully restructure our mattress fabric operations and return the segment to profitability. Further information about these factors, as well as other factors that could affect our future operations or financial results and the matters discussed in forward-looking statements, are is included in Item 1A “Risk Factors” section in our most recent Form 10-K and Form 10-Q reports filed with the Securities and Exchange Commission.

Many of these factors are macroeconomic in nature and are, therefore, beyond our control. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, our actual results, performance or achievements may vary materially from those described in this report as anticipated, believed, estimated, expected, intended, planned or projected. The forward-looking statements included in this report are made only as of the date of of this report. Unless required by United States federal securities laws, we neither intend nor assume any obligation to update these forward-looking statements for any reason after the date of this report to conform these statements to actual results or to changes in our expectations. A forward-looking statement is neither a prediction nor a guarantee of future events or circumstances, and those future events or circumstances may not occur. Additional risks and uncertainties that we do not presently know about or that we currently consider to be immaterial may also affect our business operations and or financial results.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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

General

Our fiscal year is the 52 or 53-week period ending on the Sunday closest to April 30. The nine three months ended January 28, 2024 July 28, 2024, and January 29, 2023 July 30, 2023, both represent 39-week 13-week periods.

Our operations are classified into two business segments: mattress fabrics and upholstery fabrics.

Mattress Fabrics

The mattress fabrics segment manufactures, sources, and sells fabrics and mattress covers primarily to bedding manufacturers. Currently, we have mattress fabric manufacturing operations located in Stokesdale, NC, North Carolina, and Quebec, Canada. We also have a mattress cover operation located in Ouanaminthe, Haiti.

On April 29, 2024 (the first quarter of fiscal 2025), our board of directors made a decision to (1) consolidate the company's North American mattress fabrics operations, including a gradual discontinuation of operations and sale of the company's manufacturing facility located in Quebec, Canada; (2) move a portion of the knitting and finishing capacity from the company's manufacturing facility located in Quebec, Canada to the company's manufacturing facility located in Stokesdale, North Carolina; (3) transition the mattress fabrics segment's weaving operation to a strategic sourcing model through the company's long standing supply partners; and (4) consolidate the company's sewn mattress cover operation located in Ouanaminthe, Haiti. Haiti, from two leased facilities into one building and reduce other operating expenses at this location. See Note 9 of the consolidated financial statements for further details regarding our restructuring activities.

Upholstery Fabrics

The upholstery fabrics segment develops, sources, manufactures, and sells fabrics primarily to residential, commercial, and commercial hospitality furniture manufacturers. Currently, we We have upholstery fabric operations located in Shanghai, China, and Burlington, NC. North Carolina. During the third quarter of fiscal 2022, we commenced operation of a new leased facility located in Ouanaminthe, Haiti, dedicated to the production of cut and sewn upholstery kits. However, due to a decline in demand, we (i) terminated the agreement to lease this new facility during the third quarter of fiscal 2023, (ii) relocated a scaled-down upholstery cut and sew operation into our existing mattress cover facility located in Ouanaminthe, Haiti, during the fourth quarter of fiscal 2023, 2024, we established a wholly-owned subsidiary, Culp Fabrics Vietnam Limited, with an administrative office located in Ho Chi Minh City, Vietnam, for the purpose of enhancing our strategic sourcing opportunities and (iii) thereafter discontinued the production of cut and sewn upholstery kits to further diversify our supply chain in Haiti during the latter part of the first quarter of fiscal 2024. (See Note 9 to the consolidated financial statements for further details.) Asia.

Additionally, Read Window Products, LLC ("Read"), a wholly-owned subsidiary with operations located in Knoxville, TN, Tennessee, and Burlington, North Carolina (within an existing upholstery fabrics facility), provides window treatments and sourcing of upholstery fabrics and other products, as well as measuring and installation services for Read's products, to customers in the hospitality and commercial industries. Read also supplies soft goods such as decorative top sheets, coverlets, duvet covers, bed skirts, bolsters, and pillows.

Executive Summary

We evaluate the operating performance of our business segments based upon (loss) income from operations before certain unallocated corporate expenses and other items that are not expected to occur on a regular basis. Cost of sales for each business segment includes costs to develop, manufacture, or source our products, including costs such as raw material and finished good purchases, direct and indirect labor, overhead, and incoming freight charges. Unallocated corporate expenses primarily represent compensation and benefits for certain executive officers and their support staff, all costs associated with being a public company, amortization of intangible assets, and other miscellaneous expenses.

Results of Operations

	Three Months Ended		
(dollars in thousands)	January 28, 2024	January 29, 2023	Change
Net sales	$ 60,418	$ 52,523	15.0%
Gross profit	7,703	2,093	268.0%
Gross margin	12.7 %	4.0 %	876bp
Selling, general, and administrative expenses	9,493	9,165	3.6%
Restructuring (credit) expense	(50)	711	(107.0)%
Loss from operations	(1,740)	(7,783)	(77.6)%
Operating margin	(2.9)%	(14.8)%	1194bp
Loss before income taxes	(2,161)	(8,682)	(75.1)%
Income tax expense	1,027	286	259.1%
Net loss	(3,188)	(8,968)	(64.5)%

Results of Operations

	Nine Months Ended		
(dollars in thousands)	January 28, 2024	January 29, 2023	Change
Net sales	$ 175,804	$ 173,508	1.3%
Gross profit	22,737	4,008	467.3%
Gross margin	12.9 %	2.3 %	1062bp
Selling, general, and administrative expenses	29,366	27,133	8.2%
Restructuring expense	432	1,326	(67.4)%
Loss from operations	(7,061)	(24,451)	(71.1)%
Operating margin	(4.0)%	(14.1)%	1008bp
Loss before income taxes	(6,710)	(24,507)	(72.6)%
Income tax expense	2,244	2,332	(3.8)%
Net loss	(8,954)	(26,839)	(66.6)%
	Three Months Ended		
(dollars in thousands)	July 28, 2024	July 30, 2023	Change
Net sales	$ 56,537	$ 56,662	(0.2)%
Gross profit	5,076	7,085	(28.4)%
Gross margin	9.0 %	12.5 %	(350)bp
Selling, general, and administrative expenses	9,296	9,829	(5.4)%
Restructuring expense	2,631	338	678.4%
Loss from operations	(6,851)	(3,082)	122.3%
Operating margin	(12.1)%	(5.4)%	(670)bp
Loss before income taxes	(7,021)	(2,641)	165.8%
Income tax expense	240	701	(65.8)%
Net loss	(7,261)	(3,342)	117.3%

Net Sales

Overall, our consolidated net sales for the third first quarter of fiscal 2024 increased by 15% 2025 were flat compared with the same period a year ago, with mattress fabrics sales increasing 21.6% decreasing 3.9% and upholstery fabrics sales increasing 9.2% 3.7%. Our

The decrease in net sales for the first nine months of fiscal 2024 increased by 1.3% compared with the same period a year ago, with mattress fabrics sales increasing 12.9% and upholstery fabrics sales decreasing 8.6%.

The increase in net sales in our mattress fabrics segment, for both as compared to the third quarter and prior-year period, reflects reduced demand as a result of weakness in the first nine months of fiscal 2024 was primarily driven by new fabric

and sewn cover placements that are priced in line with current costs, and, to a lesser extent, SKU rationalization and the re-pricing of some underperforming SKUs to reflect current costs, resulting in higher average selling prices overall.
domestic mattress industry. The increase in net sales for our upholstery fabrics segment reflects improved demand for the third quarter of fiscal 2024 was driven by the timing of the Chinese New Year holiday (which falls primarily in the fourth quarter of fiscal 2024, our residential and hospitality/commercial upholstery fabric products as compared to the third quarter of fiscal 2023), as well as improved residential home furnishing sales during the period.
The decrease in net sales for our upholstery fabrics segment for the first nine months of fiscal 2024 reflects reduced demand for our residential upholstery fabrics products during the first half of the year, driven by a slowdown in new retail business in the residential home furnishings industry during this prior-year period.

See the Segment Analysis section below for further details.

Loss Before Income Taxes

Overall, our loss before income taxes for the third first quarter of fiscal 2024 2025 was $(2.2) $(7.0) million, compared with loss before income taxes of $(8.7) $(2.6) million for the prior-year period, while our loss before income taxes for the first nine months of fiscal 2024 was $(6.7) million, compared with loss before income taxes of $(24.5) for the prior-year period.

Operating performance for the third first quarter of fiscal 2024, 2025, as compared to the prior-year period, was positively negatively affected by higher sales volume and a more profitable mix of sales for both manufacturing inefficiencies primarily related to the significant restructuring activity underway in the mattress fabrics segment, along with $2.7 million in restructuring and upholstery fabrics segment; a more favorable foreign exchange rate associated restructuring-related charges during the period (compared with our upholstery fabrics operation $517,000 in China; restructuring and fixed cost savings in restructuring-related charges during the upholstery fabrics segment. prior-year period). These factors were partially offset by higher SG&A expense during the period, improved operating performance from our upholstery fabrics segment, as well as production inefficiencies relating to the start up of certain new product launches in the mattress fabrics segment. Notably, operating performance for the third quarter of fiscal 2023 was negatively affected by restructuring and related charges associated with our upholstery fabrics segment. lower SG&A expenses.

Operating performance for the first nine months of fiscal 2024 was positively affected by the same factors that affected the third quarter, as well as better inventory management. These factors were partially offset by higher SG&A expense over the nine-month period; lower residential upholstery fabrics sales during the first six months of fiscal 2024; and production inefficiencies that negatively affected our mattress fabrics segment during the third quarter of fiscal 2024. Notably, operating performance for the first nine months of fiscal 2023 was negatively affected by inventory impairment charges and inventory closeout sales for our mattress fabrics segment; higher than normal markdowns of inventory for our upholstery fabrics segment; and restructuring and related charges associated with our upholstery fabrics segment.

See the Segment Analysis section below for further details.

Income Taxes

We recorded income tax expense of $2.2 million, $240,000, or (33.4% (3.4%) of loss before income taxes, for the nine-month three-month period ending January 28, 2024 ended July 28, 2024, compared with income tax expense of $2.3 million, $701,000, or (9.5% (26.5%) of loss before income taxes, for the nine-month three-month period ending January 29, 2023 ended July 30, 2023.

Our consolidated effective income tax rates during the first nine months quarter of fiscal 2024 2025 and the first nine months of fiscal 2023 2024 were both adversely affected by the mix of earnings between our U.S. operations and foreign subsidiaries, as our taxable income stems mostly from our operations located in China, operations during fiscal 2024 and from our China and Canada operations during fiscal 2023, which have has a higher income tax rates rate than the U.S. In addition, during both the first nine months quarters of fiscal 2024 2025 and fiscal 2023, 2024, we incurred pre-tax losses associated with our U.S. operations, for which an income tax benefit was not recorded due to the full valuation allowance applied against our U.S. net deferred income tax assets. The income tax charge associated with the full valuation allowance applied against our U.S. net deferred income tax assets was lower higher during the first nine months quarter of fiscal 2024 2025 as compared with the first nine months quarter of fiscal 2023, 2024, as our $(11.3) $(7.0) million U.S. pre-tax loss incurred during the first nine months quarter of fiscal 2024 2025 was significantly lower greater than the $(28.8) $(3.3) million U.S. pre-tax loss incurred during the first nine months quarter of fiscal 2023. 2024.

During the first nine months quarter of fiscal 2024, 2025, we incurred a lower greater consolidated pre-tax loss totaling $(6.7) $(7.0) million, compared with $(24.5) $(2.6) million during the first nine months quarter of fiscal 2023. 2024. As a result, the principal differences between income tax expense at the U.S. federal income tax rate and the effective income tax rate reflected in the consolidated financial statements were more pronounced during the first nine months quarter of fiscal 2024, as compared with the first nine months quarter of fiscal 2023. 2025.

Refer to Note 14 of the consolidated financial statements for further details regarding our provision for income taxes.

I-31

Liquidity

As of January 28, 2024 July 28, 2024, our cash and cash equivalents (collectively, “cash”) totaled $12.6 million $13.5 million, a decrease an increase of $8.4 million $3.5 million compared with cash of $21.0 million $10.0 million as of April 30, 2023 April 28, 2024. This decrease increase was mostly due to net $4.0 million in cash used proceeds from borrowings on our line of credit associated with our operations located in operating activities totaling $(6.0) million and capital expenditures mostly related to our mattress fabrics segment totaling $(3.2) million, China, partially offset by proceeds from the sale of rabbi trust investments capital expenditures totaling $1.2 million to fund withdrawals from our deferred compensation plan for certain retired employees (see offsetting decrease to the decrease in deferred compensation liability in item (iii) of the below paragraph). $501,000.

Our net cash used in operating activities was $(6.0) million $206,000 during the first nine months quarter of fiscal 2024, 2025, a decrease of $10.6 million $4.2 million compared with net cash provided by used in operating activities of $4.6 million $4.4 million during the first nine months quarter of fiscal 2023. 2024. This trend primarily mostly reflects (i) a significant decrease in inventory during the first nine months of fiscal 2023 due to improved alignment of inventory purchases with customer demand trends, promotional programs to reduce aged raw materials accounts payable and finished goods inventory, and a significant decline in net sales (27.1%) during the period, which did not recur during the first nine months of fiscal 2024; (ii) annual incentive payments made accrued expenses during the first quarter of fiscal 2024 due to a decline in net sales for the first quarter of fiscal 2024 as compared with the first quarter of fiscal 2023, which decline did not occur recur during the first quarter of fiscal 2023; (iii) payments to certain retired employees totaling $1.2 million for withdrawals from our deferred compensation plan during the first nine months of fiscal 2024; partially offset by (iv) an increase in cash earnings during the first nine months of fiscal 2024 2025 as compared with the first nine months quarter of fiscal 2023. 2024; (ii) a decrease in inventory due to improved inventory management for both the mattress fabrics and upholstery fabrics segments and due to the gradual wind down of operations at the company's manufacturing facility in Quebec, Canada, as described below in the section below titled "—Segment Analysis — Mattress Fabrics Segment — Restructuring Activities" of this Item 2 – MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION ; and (iii) a decrease in accounts receivable during the first quarter of fiscal 2024 due to a decline in net sales during the first quarter of fiscal 2024 as compared with the first quarter of fiscal 2023, which decline did not recur during the first quarter of fiscal 2025 as compared with the first quarter of fiscal 2024.

As of January 28, 2024 July 28, 2024, there were no we had outstanding borrowings totaling $4.0 million under a line of credit agreement associated with our lines of credit. operations located in China.

Segment Analysis

Mattress Fabrics Segment

	Three Months Ended			Three Months Ended		
(dollars in thousands)	January 28, 2024	January 29, 2023	Change	July 28, 2024	July 30, 2023	Change
Net sales	$ 30,021	$ 24,697	21.6%	$ 28,076	$ 29,222	(3.9)%
Gross profit (loss)	1,520	(1,237)	(222.9)%			
Gross (loss) profit	(326)	1,994	(116.3)%			
Gross profit margin	5.1%	(5.0)%	1007bp	(1.2)%	6.8%	(800)bp

Selling, general, and administrative expenses	3,102	2,992	3.7%	3,223	3,393	(5.0)%
Loss income from operations	(1,582)	(4,229)	(62.6)%			
Restructuring expense	2,499	—	100.0%			
Loss from operations	(3,549)	(1,398)	153.9%			
Operating margin	(5.3)%	(17.1)%	1185bp	(12.6)%	(4.8)%	(780)bp

	Nine Months Ended		
	January 28,	January 29,	
(dollars in thousands)	2024	2023	Change
Net sales	$ 90,619	$ 80,299	12.9%
Gross profit (loss)	5,997	(7,330)	(181.8)%
Gross margin	6.6%	(9.1)%	1575bp
Selling, general, and administrative expenses	9,913	8,821	12.4%
Loss from operations	(3,916)	(16,151)	(75.8)%
Operating margin	(4.3)%	(20.1)%	1579bp

Net Sales

Mattress fabrics sales increased 21.6% in decreased 3.9% during the third first quarter of fiscal 2024 2025 compared to the prior-year period. Mattress fabrics sales increased 12.9% in the first nine months of fiscal 2024 compared to the first nine months of fiscal 2023.

The increase This decrease in net sales in for our mattress fabrics segment for both reflects reduced demand due to weakness in the third quarter domestic mattress industry, driven by a challenging macroeconomic environment that has affected consumer discretionary spending and housing markets.

Based on demand trends and ongoing macroeconomic challenges, we took aggressive action during the first nine months quarter of fiscal 2024 was primarily driven by new fabric 2025 to bring our manufacturing costs and sewn cover placements that are priced capacity in line with current raw material and operational costs, expected demand. We announced a major restructuring plan primarily focused on the mattress fabrics segment early in the quarter, and we are making steady progress on the execution of this restructuring plan, which is expected to a lesser extent, SKU rationalization and be mostly completed by the re-pricing end of some underperforming SKUs to reflect current costs, resulting in higher average selling prices as compared to historical average selling prices. this calendar year. See “—Restructuring Activities” below for further details.

During the third quarter, we maintained our focus on executing our product-driven strategy with an ongoing emphasis on innovation, design creativity, and customer relationships. The strength and flexibility of our global manufacturing and sourcing operations in the U.S., Canada, Haiti, Asia, and Turkey continued to support the evolving needs of our mattress fabrics and cover customers during the period. We also continued to implement improvement initiatives to support future profitable sales growth and enhance operating efficiencies.

Looking ahead, we are diligently focused on winning new placements to drive increase revenue and increase margins. We are optimistic about However, with no ascertainable catalysts that might be expected to drive recovery in the mid-to-long near term, growth potential for our business and believe our market position is strong. However, we expect the industry demand backdrop has deteriorated further than expected during the first few weeks of the fourth quarter. We expect current macro-economic conditions macroeconomic environment will continue to affect pressure consumer spending and housing market trends (and our net sales) for some time, resulting in ongoing industry softness that could affect near-term sales results. time. In the face of these macro headwinds, we are working to manage the aspects of our business we can control. control, including the execution of our restructuring plan. We believe the strategic actions we are taking will mitigate demand pressures to some extent by the continued rollout of new programs priced in line with current costs, along with position us for profitable growth opportunities, to make additional gains with customers. However, but greater macro-industry and end-consumer support will be needed to drive recovery in the mattress industry and support our future sales growth. Additionally, the potential ongoing geopolitical disruptions related to wars in Ukraine and the Middle East as well as possible economic and health effects from additional surges in the coronavirus, remain unknown and depend on factors beyond our knowledge or control. These situations could cause disruption to global markets that could adversely affect our operations and financial performance.

I-32

Gross Profit, Selling, General & Administrative Expenses, and Loss from Operations

The decrease in this segment's operating loss during Loss from operations was $3.5 million for the third first quarter of fiscal 2024, 2025, compared to loss from operations of $1.4 million for the first quarter of fiscal 2024.

Operating performance for the first quarter of fiscal 2025, as compared to the prior-year period, was pressured by lower sales volumes and manufacturing inefficiencies primarily due related to higher sales of products with better pricing our significant restructuring initiatives to gradually wind down our Canadian operation and margins, as well as a more favorable product mix. move certain knitting equipment to our Stokesdale, North Carolina, manufacturing facility. These factors were partially offset by production inefficiencies mostly relating to the start up of certain new product launches, as well as higher SG&A expense.

The decrease in operating loss during the first nine months of fiscal 2024, as compared to the prior-year period (which was negatively affected by certain inventory impairment charges and losses from inventory close out sales), was primarily due to the same factors that positively affected the third quarter, along with better inventory management. These factors were partially offset

I-35

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by higher lower SG&A expense during for the period, as well as the production inefficiencies relating to the start up of certain new product launches that negatively affected the third quarter.

Higher SG&A expense during both the third quarter and the first nine months of fiscal 2024, as compared to the prior-year periods, was due mostly to an increase in provision for bad debts (reflecting current unfavorable macro-economic conditions relating to bedding products), an increase in sampling expense driven by new product roll outs; and an increase in personnel; partially offset by lower compensation expense.

We expect the manufacturing inefficiencies related our restructuring initiatives, as well as ongoing (and further deteriorating) industry softness affecting sales volumes, will continue to affect profitability for this segment, although we believe these headwinds will be mitigated to some extent by our ongoing efforts to improve operational efficiencies and control internal costs, as well as our continued roll out of new products priced in line with current costs. Additionally, through at least the internal inefficiencies relating to the start up and production of certain new products that negatively affected this segment's operating performance during the third second quarter of fiscal 2024 are also 2025, as we work to implement our restructuring plan to align capacity with current and expected demand. However, we expect these restructuring initiatives, once fully implemented, will enable the mattress fabrics segment to affect operating performance during grow more efficiently and profitably with a lower level of fixed costs, even at currently depressed sales levels. See "—Restructuring Activities" below for further details. Importantly, these strategic steps do not limit our ability to grow the fourth quarter.

Looking ahead, with the uncertainty of consumer demand in the near term, we are evaluating strategic actions mattress fabrics business, but instead allow us to adjust and right-size better optimize our global platform mix of manufacturing capabilities and long-term sourcing partners. We will also consider further adjustments to right-size and restructure our operations as necessary to align with current demand levels, while still supporting our valued customers. We will also consider as well as additional reasonable pricing actions as competitive conditions permit to further mitigate and manage inflation.

Restructuring Activities

On April 29, 2024 (first quarter of fiscal 2025), our board of directors made a decision to (1) consolidate the company's North American mattress fabrics operations, including a gradual discontinuation of operations and sale of the company's manufacturing facility located in Quebec, Canada; (2) move a portion of the knitting and finishing capacity from the company's manufacturing facility located in Quebec, Canada to the company's manufacturing facility located in Stokesdale, North Carolina; (3) transition the mattress fabrics segment's weaving operation to a strategic sourcing model through the company's long standing supply partners; and (4) consolidate the company's two leased facilities related to the sewn mattress cover operation into one facility located in Ouanaminthe, Haiti, and reduce other operating expenses at this location.

We expect the gradual discontinuance of operations and the closure of the facility located in Quebec, Canada, will be completed by December 31, 2024. The consolidation activity associated with the sewn mattress cover operation located in Haiti was completed during the first quarter of fiscal 2025. These actions are expected to result in restructuring and restructuring related charges of approximately $5.0 million during fiscal 2025, of which approximately $2.9 million is expected to be cash expenditures.

The $5.0 million of estimated restructuring and restructuring related charges associated with our mattress fabrics segment represents (i) other associated costs of $1.7 million mostly related to relocating equipment from our facility in Quebec, Canada, to our facility in Stokesdale, North Carolina; (ii) additional depreciation expense of $1.4 million related to the shortening of useful lives of equipment resulting from the gradual discontinuation of our Canadian operations; (iii) employee termination benefits of $1.2 million; (iv) lease termination costs of $531,000; (v) writedowns and other inventory related adjustments of $116,000; and (vi) impairment charges and losses on the disposal of equipment totaling $95,000. These restructuring and restructuring related charges exclude any expected gain on the sale of real estate associated with the closure of the Canadian facility, the amount of which is currently undetermined but which will ultimately reduce the amount of the restructuring charges incurred. Based on management's internal analysis we expect cash proceeds from the sale of real estate (net of all taxes and commissions) to exceed the amount of restructuring charges incurred.

Based on changes in business and current industry economic conditions, it is possible that the above estimates provided by management to determine restructuring and restructuring related charges incurred during fiscal 2025, and proceeds generated from the sale of the manufacturing facility located in Quebec, Canada, could be materially different from our actual results, and therefore could adversely affect the success of this restructuring plan.

The following summarizes the restructuring and restructuring related charges for the mattress fabrics segment for the three-month period ending July 28, 2024:

(dollars in thousands)	Three Months Ended July 28, 2024
Additional depreciation expense for shortened useful lives of equipment	$ 875
Employee termination benefits	587
Lease termination costs	670
Other Associated Costs	272
Loss on disposal and markdowns of inventory	116
Impairment and loss on disposal of equipment	95
Restructuring expense and restructuring related charges (1)	$ 2,615

(1) Of the total $2.6 million restructuring and restructuring related charges, $2.5 million and $116,000 were classified within restructuring expense and cost of sales, respectively, in the Consolidated Statement of Net Loss for the three-month period ending July 28, 2024.

Refer to Note 9 of the the consolidated financial statements for further details.

Segment assets

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

(dollars in thousands)	January 28, 2024	January 29, 2023	April 30, 2023	July 28, 2024	July 30, 2023	April 28, 2024
Accounts receivable	$ 11,463	$ 8,314	$ 12,396	$ 10,094	$ 11,058	$ 10,003

Inventory	27,925	28,757	25,674	25,278	24,579	27,671
Property, plant & equipment	32,263	34,661	33,749	28,844	32,792	31,472
Right of use assets	1,798	2,476	2,308	568	2,139	1,627
Assets held for sale	607	—	—			
	$ 73,449	$ 74,208	$ 74,127	$ 65,391	$ 70,568	$ 70,773

Refer to Note 13 of the consolidated financial statements for disclosures regarding determination of our segment assets.

Accounts Receivable

As of January 28, 2024, accounts receivable increased by $3.1 million, or 37.9%, compared with January 29, 2023. This increase reflects the increase in net sales during the third quarter of fiscal 2024 compared with fiscal 2023, as described in the *Net Sales* section above. In addition, we experienced slower cash collections as customers did not take advantage of cash discounts as much during the third quarter of fiscal 2024, as compared with the third quarter of fiscal 2023, and more customers elected to source our products from China, (where we have longer payment terms) as opposed to the U.S. This led to an increase in days' sales outstanding to 35 days for the third quarter of fiscal 2024, as compared with 31 days for the third quarter of fiscal 2023.

As of January 28, 2024 July 28, 2024, accounts receivable decreased by $933,000, $964,000, or 7.5% 8.7%, compared with April 30, 2023 July 30, 2023. This reflects the decrease in net sales noted above and faster cash collections from a significant customer who utilized more cash discounts during the first quarter of fiscal 2025, as compared with the first quarter of fiscal 2024. Accordingly, days' sales outstanding decreased to 33 days for the first quarter of fiscal 2025, as compared to 34 days for the first quarter of fiscal 2024.

As of July 28, 2024, accounts receivable remained flat compared with April 28, 2024. This primarily reflects an increase in net sales for the first quarter of fiscal 2025, as compared to the fourth quarter of fiscal 2024, offset by faster cash collections, as we had experienced faster cash collections from a mix of higher sales to customers with longer credit terms significant customer who utilized more cash discounts during the fourth first quarter of fiscal 2023, 2025, as compared with the third first quarter of fiscal 2024. Net sales for the first quarter of fiscal 2025 were $28.1 million, an increase of 9.0% compared with net sales of $25.8 million during the fourth quarter of fiscal 2024. As a result, days' sales outstanding decreased to 35 33 days during for the third first quarter of fiscal 2024, a decrease from 37 2025, as compared to 35 days during for the fourth quarter of fiscal 2023. 2024.

Inventory

As of January 28, 2024 July 28, 2024, inventory modestly increased by $699,000, or 2.8%, compared with July 30, 2023. In connection with the restructuring activity described above in "—Restructuring Activities," this trend represents an increase in finished goods inventory to accommodate customers while the weaving operation is transitioned to a strategic sourcing model and knitting and finishing capacity is relocated from the manufacturing facility in Quebec, Canada, to our facility in Stokesdale, North Carolina. This increase in finished goods inventory was partially offset by lower raw material purchases related to the gradual discontinuation of operations of the company's manufacturing facility located in Quebec, Canada, as described above in "—Restructuring Activities," and also by the decrease in net sales described above.

As of July 28, 2024, inventory decreased by $832,000, $2.4 million, or 2.9% 8.6%, compared with January 29, 2023 April 28, 2024. Although net sales increased by 21.6% This decrease stems from the gradual discontinuation of operations of the company's manufacturing facility located in Quebec, Canada, as described above in

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“—Restructuring Activities,”and from improved inventory management during the third first quarter of fiscal 2024, 2025 as compared with the third quarter of fiscal 2023, inventory modestly decreased during the third quarter of fiscal 2024, as compared with the prior-year period, due to improved raw materials inventory management in relation to current customer demand trends and promotional programs to reduce aged raw materials and finished goods.

As of January 28, 2024, inventory increased by $2.3 million, or 8.8%, compared with April 30, 2023. This trend primarily reflects lower than anticipated demands trends during the third quarter of fiscal 2024, compared with the fourth quarter of fiscal 2024. Net sales 2024, taking into account current and expected future demand trends.

Inventory turns were 4.3 for the third first quarter of fiscal 2025, as compared with 4.4 for the first quarter of fiscal 2024 were $30.0 million, a decrease of 2.2%, compared with net sales of $30.7 million during the fourth quarter of fiscal 2023.

Inventory turns were 4.0 for the third quarter of fiscal 2024, compared with 3.5 for the third quarter of fiscal 2023 and 4.4 3.6 for the fourth quarter of fiscal 2023. 2024.

Property, Plant, & Equipment

As During fiscal 2024 and continuing through the first quarter of January 28, 2024, fiscal 2025, property, plant, and equipment has steadily decreased compared to January 29, 2023, and April 30, 2023, due to reduced capital spending stemming from the current and expected unfavorable macro-economic conditions within the home furnishings and our strategic focus on limited capital projects that will increase efficiencies and improve bedding industries, as well as the quality of our products.
actions taken as described above in “—Restructuring Activities.”

The $32.3 million $28.8 million as of January 28, 2024 July 28, 2024, represents property, plant, and equipment of $21.9 million $20.9 million, $9.8 million $7.4 million, and $600,000 $511,000 located in the U.S., Canada, and Haiti, respectively. The $34.7 million $32.8 million as of January 29, 2023 July 30, 2023, represents property, plant, and equipment of $23.1

million $22.1 million, $10.9 million $10.1 million, and $651,000 $594,000 located in the U.S., Canada, and Haiti, respectively. The $33.7 million $31.5 million as of April 30, 2023 April 28, 2024, represents property, plant, and equipment of $22.7 million $21.5 million, $10.4 million $9.4 million, and $608,000 $555,000 located in the U.S., Canada, and Haiti, respectively.

Right of Use Assets

As During fiscal 2024 and continuing through the first quarter of January 28, 2024, fiscal 2025, right of use assets have steadily decreased due to rent expense incurred over the terms of the existing lease agreements. In addition, in connection with the restructuring activity described above in "—Restructuring Activities," right of use assets (i) decreased due to the termination of an agreement to lease a facility located in Ouanaminthe, Haiti, and (ii) shortened the period of use associated with two leased facilities located in Quebec, Canada.

The $1.8 million $568,000 as of January 28, 2024 July 28, 2024, represents right of use assets of $1.2 million $350,000 and $604,000 $218,000 located in Haiti and Canada, respectively. The $2.5 million $2.1 million as of January 29, 2023 July 30, 2023, represents right of use assets of $1.6 million $1.4 million and $833,000 $720,000 located in Haiti, and Canada, respectively. The $2.3 million $1.6 million as of April 30, 2023 April 28, 2024, represents right of use assets of $1.5 million $1.1 million and $776,000 $545,000 located in Haiti and Canada, respectively.

Assets Held for Sale

As of July 28, 2024, and in connection with actions described above in "—Restructuring Activities," we classified certain equipment located at our mattress fabric facility in Quebec, Canada, totaling $357,000 and a right of use asset of $250,000 located at our sewn mattress cover facility located in Ouanaminthe, Haiti, as held for sale. Refer to Note 9 of the the consolidated financial statements for further details.

<u>Upholstery Fabrics Segment</u>

Net Sales

	Three Months Ended				
(dollars in thousands)	January 28, 2024		January 29, 2023		% Change
Non-U.S. Produced	$28,425	94%	$25,514	92%	11.4%
U.S. Produced	1,972	6%	2,312	8%	(14.7)%
Total	$30,397	100%	$27,826	100 %	9.2%

	Nine Months Ended					Three Months Ended				
(dollars in thousands)	January 28, 2024		January 29, 2023		% Change	July 28, 2024		July 30, 2023		% Change
Non-U.S. Produced	$77,187	91%	$86,633	93%	(10.9)%	$ 25,337	89%	$ 24,633	90%	2.9 %
U.S. Produced	7,998	9%	6,576	7%	21.6%	3,124	11%	2,807	10%	11.3 %
Total	$85,185	100%	$93,209	100%	(8.6)%	$ 28,461	100%	$ 27,440	100%	3.7 %

Net Sales

Upholstery fabrics sales increased 9.2% 3.7% in the third first quarter of fiscal 2024 2025 compared to the prior-year period. Upholstery fabrics sales decreased 8.6% in the first nine months of fiscal 2024 compared to the first nine months of fiscal 2023.

The This increase in net sales for our upholstery fabrics net sales during the third quarter was driven by the timing of the Chinese New Year holiday (which falls primarily in the fourth quarter of fiscal 2024, segment reflects improved demand for our residential upholstery fabrics business and our hospitality/commercial business as opposed compared to the third quarter of fiscal 2023), as well as some improvement in prior-year period, although overall industry weakness continues to affect the residential home furnishing sales during the period. This increase was partially offset by moderately lower sales in our hospitality/contract fabric business primarily due to the impact of winter weather events in January; short-term supply chain issues that affected production in our Read business; and increased construction costs affecting demand for new and ongoing hospitality/contract projects. furnishings industry.

The decrease in upholstery fabrics net sales during Looking ahead, we expect the first nine months of fiscal 2024 reflects softness in the residential home furnishings industry, where demand was pressured during the first half of the year by a challenging macro-economic environment.
Although we saw a year over year increase in residential fabric sales during the third quarter, the soft industry demand backdrop for residential home furnishings has deteriorated further than expected during the first few weeks of the fourth quarter, and we expect this ongoing softness may affect demand for our residential business for some period of time. Despite this challenge, we believe our business is well positioned for the long term with our product-driven strategy and innovative product offerings, including our popular portfolio of LiveSmart® performance products, supported by our flexible Asian platform and our long-term supplier relationships. We also believe overall demand remains solid for our hospitality/contract commercial business.

Notably, the potential ongoing geopolitical disruptions related to wars in Ukraine and the Middle East as well as the economic and health effects from possible additional surges in the coronavirus, remain unknown and depend on factors beyond our control. At this time, we cannot reasonably estimate the impact on our upholstery fabrics segment, but we note that if conditions worsen in any of these situations, including additional COVID-related shutdowns of our China operations, shipping disruptions related to wars in the Middle East, the impact on our operations, and/or on our suppliers, customers, consumers, and the global economy, could adversely affect our financial performance.

Gross Profit, Selling, General & Administrative Expenses, and Income (Loss) from Operations

	Three Months Ended

(dollars in thousands)	January 28, 2024	January 29, 2023	Change
Gross profit	6,122	3,330	83.8%
Gross margin	20.1 %	12.0 %	817bp
Selling, general, and administrative expenses	4,030	3,750	7.5%
Restructuring (credit) expense	(50)	711	(107.0)%
Income (loss) from operations	2,092	(420)	(598.1)%
Operating margin	6.9 %	(1.5)%	839bp

	Nine Months Ended			Three Months Ended		
(dollars in thousands)	January 28, 2024	January 29, 2023	Change	July 28, 2024	July 30, 2023	Change
Gross profit	16,780	11,436	46.7%	5,518	5,270	4.7%
Gross margin	19.7 %	12.3 %	740bp	19.4 %	19.2 %	20bp
Selling, general, and administrative expenses	11,969	11,053	8.3%	3,806	3,941	(3.4)%
Restructuring expense	432	1,326	(67.4)%	132	338	(60.9)%
Income from operations	4,811	383	1156.1%	1,712	1,328	28.9%
Operating margin	5.6 %	0.4 %	525bp	6.0 %	4.8 %	120bp

The increase in upholstery fabrics profitability Income from operations was $1.7 million for the third first quarter of fiscal 2024, as 2025, compared to income from operations of $1.3 million for the prior year period (which was negatively affected by restructuring and related charges), primarily reflects higher sales volume; a more profitable mix first quarter of sales; a more favorable foreign exchange rate in China; and lower fixed costs resulting from the previous restructuring of the upholstery fabrics segment's cut and sew platforms. These factors were partially offset by lower hospitality/contract sales and higher SG&A expense during the period. fiscal 2024.

The increase in upholstery fabrics profitability for the first nine months quarter of fiscal 2024, 2025, as compared to the prior-year period, (which was negatively affected by higher than normal inventory markdowns and restructuring and related charges), primarily reflects a more profitable mix of sales; better inventory management; a more favorable foreign exchange rate in China; higher sales, lower fixed costs, resulting from the previous restructuring of the upholstery fabrics cut and sew platform; and lower freight costs. These factors were partially offset by lower residential fabric sales and higher SG&A expense, offset somewhat by higher freight costs during the period.

The increase in SG&A expense Based on market dynamics, we took action during both the third fourth quarter and the first nine months of fiscal 2024 as compared to restructure our upholstery fabrics finishing operation in China to align with current demand and further leverage our strategic supply relationships. We completed this restructuring initiative during the prior-year periods, was mostly due first quarter of fiscal 2025 (see “—Restructuring Activities—Shanghai, China—Upholstery Fabrics Finishing Operation” below). We believe this move will allow us to wage inflation, higher professional and consulting fees, higher travel and tradeshow reduce our operating costs as business travel and industry tradeshows have resumed, and an increase in sampling expense driven by new product roll outs. while maintaining our ability to support our customers.

Looking ahead, the residential home furnishings industry remains under pressure and we expect further deterioration during the fourth quarter of fiscal 2024 due to shifting consumer demand spending trends, inflation, reduced home sales, and inflation other macroeconomic conditions affecting overall discretionary consumer spending. As a result, we expect lower sales volumes in our residential business will continue to may affect our profitability. profitability until market conditions improve. However, for fiscal 2025, we still expect to benefit from continued solid demand in fiscal 2024 our hospitality/commercial fabrics business; improvement in our Read business; and fixed cost savings from (i) our strategic decision to discontinue production of cut rationalize our upholstery fabric finishing operation in China and sewn upholstery kits in Haiti; (ii) improved inventory management; (iii) a solid hospitality/contract fabric business; and (iv) improvement in further leverage our Read business. long-term supply relationships. We will also continue our ongoing cost reduction efforts and will consider further adjustments to right-size and restructure rationalize our operations as necessary to align with current demand levels, while maintaining our ability to service our customers.

Restructuring Activities

Shanghai, China

Upholstery Fabrics Finishing Operation

During the fourth quarter of fiscal 2024, we rationalized our upholstery fabrics finishing operation in Shanghai, China, to align with current demand trends and further leverage our strategic supply relationships to meet customer finishing needs. This restructuring activity was completed during the first quarter of fiscal 2025 and resulted in cumulative restructuring and restructuring related charges totaling $218,000.

Ouanaminthe, Haiti

Cut and Sew Upholstery Fabrics Operation

During the third quarter of fiscal 2023, Culp Upholstery Fabrics Haiti, Ltd. ("CUF Haiti") entered into an agreement to terminate a lease associated with a facility, located in Ouanaminthe, Haiti, and in turn moved its the production of upholstery cut and sew sewn kits to an existing facility leased by Culp Home Fashions Haiti, Ltd. (“ ("CHF Haiti” Haiti") during the fourth quarter of fiscal 2023. Both CUF Haiti and CHF Haiti are

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Haiti and CHF Haiti are indirect indirectly wholly-owned subsidiaries of the company. During the first quarter of fiscal 2024, demand for upholstery cut and sewn kits declined more than previously anticipated, resulting in the strategic action to discontinue the production of upholstery cut and sew kits in Haiti.

Shanghai, China

During This restructuring activity was completed during the second third quarter of fiscal 2023, we closed our cut 2024 and sew upholstery fabrics operation located resulted in Shanghai, China, which included the termination a cumulative restructuring and restructuring related charges of an agreement to lease a building. This strategic action, along with the further use of our Asian supply chain, was taken in order to adjust our operating costs to better align with the declining customer demand for cut and sewn products. $1.3 million.

The following summarizes our restructuring expense and restructuring related charges from both our for all restructuring activities noted above for the nine upholstery fabrics segment for the three- months ending January 28, 2024 July 28, 2024, and January 29, 2023 July 30, 2023:

	Nine Months Ended January 28, 2024	Nine Months Ended January 29, 2023
Lease termination costs	$ —	$ 481
Employee termination benefits	103	468
Impairment loss - leasehold improvements and equipment	329	357
Loss on disposal and markdowns of inventory	40	98
Other associated costs	—	20
Restructuring expense and restructuring related charges (1) (2)	$ 472	$ 1,424
	(1)	(2)
(dollars in thousands)	Three Months Ended July 28, 2024	Three Months Ended July 30, 2023
Employee termination benefits	$ 102	$ 101
Impairment loss and disposal of equipment	—	237
Loss on disposal and markdowns of inventory	—	179
Other associated costs	30	—
Restructuring expense and restructuring related charges (3) (4)	$ 132	$ 517

(1) Of the $132,000 total, $472,000, $432,000 $118,000 affected our U.S. upholstery fabrics operations and $40,000 were related to cost reductions under the *Fiscal 2025 Restructuring Plan,* which is described in Note 9 of the consolidated financial statements. In addition, the $132,000 includes $14,000 related to the rationalization of our upholstery fabrics finishing operation located in Shanghai, China, as described above.

(2) The total $517,000 related to the closure of our upholstery cut and sewn kits operation located in Ouanaminthe, Haiti, as described above.

(3) The total $132,000 was recorded within restructuring expense in the Consolidated Statement of Net Loss for the three-month period ending July 28, 2024.

(4) Of the $517,000 total, $338,000 and $179,000 was recorded within restructuring expense and cost of sales, respectively, in the Consolidated Statement of Net Loss for the nine-month three-month period ending January 28, 2024 July 30, 2023.

(2) Of the total $1.4 million, $1.3 million and $98,000 were recorded within restructuring expense and cost of sales, respectively, in the Consolidated Statement of Net Loss for the nine-month period ending January 29, 2023.

See Note 9 of the consolidated financial statement for further details regarding our restructuring activities.

Segment Assets

Segment assets consist of accounts receivable, inventory, property, plant, and equipment, and right of use assets, and assets held for sale: assets:

(dollars in thousands)	January 28, 2024	January 29, 2023	April 30, 2023	July 28, 2024	July 30, 2023	April 28, 2024
Accounts receivable	$ 12,223	$ 12,927	$ 12,382	$ 11,493	$ 11,554	$ 11,135
Inventory	18,952	18,870	19,406	16,390	19,238	17,172
Property, plant & equipment	1,155	1,794	1,671	1,098	1,491	1,125
Right of use assets	2,345	2,995	2,618	1,478	2,237	1,952
Assets held for sale	—	1,950	—			
	$ 34,675	$ 38,536	$ 36,077	$ 30,459	$ 34,520	$ 31,384

Refer to Note 13 of the consolidated financial statements for disclosures regarding determination of our segment assets.

Accounts Receivable

As of January 28, 2024 July 28, 2024, accounts receivable decreased by $704,000, or 5.4%, remained flat as compared with January 29, 2023 July 30, 2023. Although This reflects a 3.7% increase in net sales increased by 9.2% during for the third first quarter of fiscal 2024, 2025, as compared with the third prior-year period, offset by faster cash collections from a significant customer who utilized more cash discounts during the first quarter of fiscal 2023, accounts receivable decreased. This trend reflects a timing difference of cash receipts from certain significant customers during 2025, as compared with the last week of the third quarter of fiscal 2024, which cash receipts did not occur during the third quarter of fiscal 2023. It also reflects the expiration of extended credit terms with certain customers. prior-year period. As a result, days' sales outstanding for this segment decreased to 31 32 days for the third first quarter of fiscal 2024, as 2025, compared with 38 35 days for the third first quarter of fiscal 2023. 2024.

As of January 28, 2024 July 28, 2024, accounts receivable decreased by 1.3%, remained flat compared with April 30, 2023 April 28, 2024. This trend reflects a static significant increase in net sales of $30.4 million for during the third first quarter of fiscal 2024, that was comparable with net sales of $30.7 million during the fourth quarter of fiscal 2023. Days' sales outstanding was 31 days for the third quarter of fiscal 2024, as compared with 33 days for the fourth quarter of fiscal 2023.

Inventory

As of January 28, 2024, inventory increased by 0.4%, compared with January 29, 2023. Although net sales increased by 9.2% during the third quarter of fiscal 2024, as compared with the third quarter of fiscal 2023, inventory remained flat as inventory levels were well managed in relation to current customer demand trends.

As of January 28, 2024, inventory decreased by $454,000, or 2.3%, compared with April 30, 2023. The trend reflects a modest decrease in net sales of 1.1% during the third quarter of fiscal 2024, 2025, as compared with the fourth quarter of fiscal 2023. 2024. Net sales for the third first quarter of fiscal 2024 2025 were $30.4 million $28.5 million, an increase of $4.7 million, or 19.7%, compared with net sales of $30.7 million during the fourth quarter of fiscal 2023.

Inventory turns were 5.1 for the third quarter of fiscal 2024, compared with 4.1 for the third quarter of fiscal 2023 and 4.8 $23.8 million for the fourth quarter of fiscal 2023. 2024. However, this increase was offset by faster cash collections from a significant customers during the first quarter of fiscal 2025, as compared with the fourth quarter of fiscal 2024. As a result, days' sales outstanding for this segment decreased to 32 days for the first quarter of fiscal 2025, compared with 37 days for the fourth quarter of fiscal 2024.

Inventory

As of July 28, 2024, inventory decreased by $2.8 million, or 14.8%, compared with July 30, 2023. Although this segment's net sales increased during the first quarter of fiscal 2025, as compared with the prior-year period (as described above), this decrease in inventory reflects management's ability to maintain an appropriate level of inventory, taking into account current and expected future demand trends and any changes in our global supply chain.

As of July 28, 2024, inventory decreased by $782,000, or 4.6%, compared with April 28, 2024. Although this segment's net sales significantly increased during the first quarter of fiscal 2025, as compared with the fourth quarter of fiscal 2024, this decrease in inventory reflects management's ability to maintain an appropriate level of inventory, taking into account current and expected future demand trends and any changes in our global supply chain. Net sales for the first quarter of fiscal 2025 were $28.5 million, an increase of $4.7 million, or 19.7%, compared with net sales of $23.8 million for the fourth quarter of fiscal 2024.

Inventory turns were 5.3 for the first quarter of fiscal 2025, compared with 4.4 for the first quarter of fiscal 2024 and 4.4 for the fourth quarter of fiscal 2024.

Property, Plant, & Equipment

As of January 28, 2024 July 28, 2024, property, plant, and equipment steadily decreased compared to January 29, 2023 with July 30, 2023, and April 30, 2023 April 28, 2024, due to (i) impairment charges of $329,000 related to our strategic action to discontinue the production of upholstery cut and sew kits in Ouanaminthe, Haiti, and (ii) a reduction in capital spending as a result of current and expected unfavorable macro-economic conditions. conditions within the home furnishings industry.

The $1.2 million $1.1 million as of January 28, 2024 July 28, 2024, represents property, plant, and equipment of $1.1 million $990,000 and $134,000 $108,000 located in the U.S., and China, respectively. The $1.8 million $1.5 million as of January 29, 2023 July 30, 2023, represents property, plant, and equipment of $1.0 million, $630,000, $327,000, and $121,000 $159,000 located in the U.S., Haiti, and China, respectively. The $1.7 million $1.1 million as of April 30, 2023 April

28, 2024, represents property, plant, and equipment of $974,000, $592,000, $1.0 million and $105,000 $120,000 located in the U.S., Haiti, and China, respectively.

Right of Use Assets

As of January 28, 2024 July 28, 2024, right of use assets has steadily decreased compared with January 29, 2023 July 30, 2023, and April 30, 2023 April 28, 2024. This is due to decrease mostly resulted from rent expense incurred over the terms of the existing respective lease agreements partially offset by and the renewal termination of our agreement to lease our facility associated with Read and certain facilities a building associated with our operations upholstery fabrics finishing operation located in Shanghai, China.

The $2.3 million $1.5 million as of January 28, 2024 July 28, 2024, represents right of use assets of $944,000 $1.1 million and $1.4 million $393,000 located in the U.S., and China, respectively. The $2.2 million as of July 30, 2023, represents right of use assets of $1.2 million and $977,000 located in China and the U.S., respectively. The $3.0 million $2.0 million as of January 29, 2023 April 28, 2023, represents right of use assets of $1.7 million $1.3 million and $1.3 million $709,000 located in China and the U.S., respectively. The $2.6 million as of April 30, 2023, represents right of use assets of $1.5 million and $1.1 million, located in China and the U.S., respectively.

Assets Held for Sale

The $2.0 million as of January 29, 2023, represents a right of use asset associated with an agreement to lease a facility located in Ouanaminthe, Haiti, which such lease was terminated in connection with a restructuring activity. See Note 9 of the consolidated financial statement for further details regarding our restructuring activity associated with our upholstery cut and sew operation located in Ouanaminthe, Haiti. This right of use asset was sold to a third party during the fourth quarter of fiscal 2023, which resulted in a note receivable. See Note 7 to the consolidated financial statements for further details regarding this note receivable.

<u>Other Income Statement Categories</u>

	Three Months Ended		
(dollars in thousands)	January 28, 2024	January 29, 2023	% Change
SG&A expenses	$ 9,493	$ 9,165	3.6 %
Interest income	284	196	44.9 %
Other expense	705	1,095	(35.6)%

	Nine Months Ended		
(dollars in thousands)	January 28, 2024	January 29, 2023	% Change
SG&A expenses	$ 29,366	$ 27,133	8.2 %
Interest income	911	292	212.0 %
Other expense	560	348	60.9 %

(dollars in thousands)	Three Months Ended July 28, 2024	Three Months Ended July 30, 2023	% Change
SG&A expenses	$ 9,296	$ 9,829	(5.4)%
Interest income	262	345	(24.1)%
Other expense (income)	(404)	96	(520.8)%

Selling, General, and Administrative Expenses ("SG&A")

The increase decrease in selling, general, and administrative expenses during the third first quarter and of fiscal 2025, as compared with the first nine months quarter of fiscal 2024, compared with the third quarter and first nine months of fiscal 2023, is due relates to a variety of factors, including items including: (i) wage inflation; lower stock-based compensation expense reflecting less favorable financial results in relation to pre-established targets; (ii) higher lower professional and consulting fees; and (iii) an increase a decrease in provision for bad debts reflecting current unfavorable macro-economic conditions relating to furniture and bedding products; and (iv) an increase in sampling expense driven by new product roll outs in both business segments. customer samples expense.

Interest Income

The increase decrease in interest income is due primarily to higher market interest rates a lower average cash balance during the third first quarter and first nine months of fiscal 2024, 2025, as compared with the third first quarter and first nine months of fiscal 2023.

2024.

Other Expense (Expense) Income

Management is required to assess certain economic factors to determine the currency of the primary economic environment in which our foreign subsidiaries operate. Based on our assessments, the U.S. dollar was determined to be the functional currency of our operations located in China, Canada, and Canada. Vietnam.

The decrease change in other expense during the third first quarter of fiscal 2025, as compared with other income during the first quarter of fiscal 2024, as compared with the third quarter of fiscal 2023, is due mostly to more less favorable foreign currency exchange rates applied against our balance sheet accounts denominated in Chinese Renminbi to determine the corresponding U.S. dollar financial reporting amounts during third the first quarter of fiscal 2025, as compared with the third first quarter of fiscal 2023. 2024. During the third first quarter of fiscal 2024, 2025, we reported a foreign currency exchange loss associated with our operations located in China of $290,000, totaling $46,000 compared with $757,000 during the third quarter of fiscal 2023. The decrease in other expense due to more favorable foreign exchange rates noted above, was partially offset by an increase in unrealized gains associated with our rabbi trust that funds our deferred compensation liability.

The increase in other expense during the first nine months of fiscal 2024, as compared with the first nine months of fiscal 2023, is mostly due to the increase in fees associated with our ABL Credit Agreement effective on January 19, 2023. See Note 10 located in the consolidated financial statements for further details. In addition, the increase in other expense is due an increase in unrealized gains associated with our rabbi trust that increased our deferred compensation liability.

A a foreign currency exchange gain of $389,000 was reported $451,000 during the first nine months quarter of fiscal 2024 that (i) 2024.

The $46,000 foreign currency exchange loss related to our operations in China was mostly non-cash and was partially offset by $(37,000) of income tax benefit, which will decrease our income tax payments and withholding tax payments associated with future earnings and profits repatriated from our operations located in China (ii) was mostly non-cash, and (iii) was offset by a $477,000 to the company's U.S. parent. The income tax charge. This income tax charge benefit of $477,000 $(37,000) was associated with taxable foreign currency exchange gains losses based on less favorable foreign currency exchange rates applied against balance sheet accounts denominated in U.S. dollars to determine the corresponding Chinese Renminbi local currency amounts. The foreign currency exchange rate gains incurred on (losses) related to our U.S. dollar denominated balance sheet accounts associated with our operations located in China are considered taxable income or tax deductible, as we incur income tax expense (benefit) and pay income taxes in China's local currency. The $477,000 income tax charge represents an increase in our income tax payments and withholding tax payments associated with future earnings and profits that will ultimately be repatriated from our operations located in China to the company's U.S. parent.

Income Taxes

Effective Income Tax Rate & Income Tax Expense

We recorded income tax expense of $2.2 million, $240,000, or (33.4% (3.4%) of loss before income taxes, for the nine-month three-month period ending January 28, 2024 July 28, 2024, compared with income tax expense of $2.3 million, $701,000, or (9.5% (26.5%) of loss before income taxes, for the nine-month three-month period ending January 29, 2023 July 30, 2023.

Our effective income tax rates for the nine-month three-month periods ended January 28, 2024 July 28, 2024, and January 29, 2023 July 30, 2023, were based upon the estimated effective income tax rate applicable for the full year after giving effect to any significant items related specifically to interim periods. When calculating the annual estimated effective income tax rates for the nine-month three-month periods ended January 28, 2024 July 28, 2024, and January 29, 2023 July 30, 2023, we were subject to loss limitation rules. These loss limitation rules require any taxable loss associated with our U.S. or foreign operations to be excluded from the annual estimated effective income tax rate calculation if it was determined that no income tax benefit could be recognized during the current fiscal year. The effective income tax rate can be affected over the fiscal year by the mix and timing of actual earnings from our U.S. operations and foreign subsidiaries located in

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China, Canada, Haiti, and Haiti as compared to Vietnam versus annual projections, as well as changes in foreign currency exchange rates in relation to the U.S. dollar.

The following schedule summarizes the principal differences between income tax expense at the U.S. federal income tax rate and the effective income tax rate reflected in the consolidated financial statements for the nine-month three-month periods ending January 28, 2024 July 28, 2024, and January 29, 2023 July 30, 2023:

	January 28, 2024	January 29, 2023	July 28, 2024	July 30, 2023
U.S. federal income tax rate	21.0 %	21.0 %	21.0 %	21.0 %
U.S. valuation allowance	(42.0)	(29.3)	(23.5)	(34.1)
Withholding taxes associated with foreign jurisdictions	(8.1)	(2.0)	(1.0)	(9.7)
Capital expenditure deduction - Quebec, Canada	—	(1.6)		
Foreign income tax rate differential	(5.2)	1.4	0.7	(6.0)
Stock-based compensation	(2.9)	(0.4)	(0.9)	—
Tax effects of local currency foreign exchange gains	3.8	1.3	(0.4)	2.3
Uncertain income tax positions	1.2	(0.1)		
Other	—	0.1	(0.5)	0.1
	(33.4)%	(9.5)%	(3.4)%	(26.5)%

Our consolidated effective income tax rates during the first nine months quarter of fiscal 2024 2025 and the first quarter of fiscal 2023 2024 were both adversely affected by the mix of earnings between our U.S. operations and foreign subsidiaries, as our taxable income stems mostly from our operations located in China, during fiscal 2024 and from our operations located in both China and Canada during fiscal 2023, each of which has a higher income tax rates rate than the U.S. In addition, during the first nine months quarters of fiscal 2024 2025 and the first nine months of fiscal 2023, 2024, we incurred pre-tax losses associated with our U.S. operations, for which an income tax benefit was not recorded due to the full valuation allowance applied against our U.S. net deferred income tax assets (as described below). assets. The income tax charge associated with the full valuation allowance applied against our U.S. net deferred income tax assets was lower greater during the first nine months quarter of fiscal 2024 2025 compared with the first nine months quarter of fiscal 2023, 2024, as our $(11.3) $(7.0) million U.S. pre-tax loss incurred during the first nine months quarter of fiscal 2024 2025 was significantly lower greater than the $(28.8) $(3.3) million U.S. pre-tax loss incurred during the first nine months quarter of fiscal 2023. 2024.

During the first nine months quarter of fiscal 2024, 2025, we incurred a lower greater consolidated pre-tax loss totaling $(6.7) $(7.0) million, compared with $(24.5) $(2.6) million during the first nine months quarter of fiscal 2023. 2024. As a result, the principal differences between income tax expense at the U.S. federal income tax rate and the effective income tax rate reflected in the consolidated financial statements were more pronounced during the first nine months quarter of fiscal 2024, as compared with the first nine months quarter of fiscal 2023. 2025.

U.S. Valuation Allowance

We evaluate the realizability of our U.S. net deferred income tax assets to determine if a valuation allowance is required. We assess whether a valuation allowance should be established based on the consideration of all available evidence using a “more-likely-than-not” standard, with significant weight being given to evidence that can be objectively verified. Since the company operates in multiple jurisdictions, we assess the need for a valuation allowance on a jurisdiction-by-jurisdiction basis, considering the effects of local tax law.

As of January 28, 2024 July 28, 2024, we evaluated the realizability of our U.S. net deferred income tax assets to determine if a full valuation allowance was required. Based on our assessment, we determined we still have a recent history of significant cumulative U.S. pre-tax losses, in that we experienced U.S. pre-tax losses during each of the last three fiscal years from 2021 2022 through 2023, 2024, and we are currently expecting significant U.S. pre-tax losses to continue during fiscal 2024. 2025. As a result of the significant weight of this negative evidence, we believe it is more likely than not that our U.S. deferred income tax assets will not be fully realizable, and therefore we provided for a full valuation allowance against our U.S. net deferred income tax assets.
Based on our assessments as of January 28, 2024 July 28, 2024, January 29, 2023 July 30, 2023, and April 30, 2023 April 28, 2024, valuation allowances against our net deferred income tax assets pertain to the following:

(dollars in thousands)	January 28, 2024	January 29, 2023	April 30, 2023	July 28, 2024	July 30, 2023	April 28, 2024
U.S. federal and state net deferred income tax assets	$ 19,162	$ 15,741	$ 16,345	$ 21,326	$ 17,246	$ 19,674
U.S. capital loss carryforward	2,330	2,330	2,330	2,330	2,330	2,330
	$ 21,492	$ 18,071	$ 18,675	$ 23,656	$ 19,576	$ 22,004

Undistributed Earnings

Refer to Note 14 of the consolidated financial statements for disclosures regarding our assessments of our recorded deferred income tax liability balances associated with undistributed earnings from our foreign subsidiaries as of January 28, 2024 July 28, 2024, January 29, 2023 July 30, 2023, and April 30, 2023, respectively.

Uncertain Income Tax Positions

Refer to Note 14 of the consolidated financial statements for disclosures regarding our assessments of our uncertain income tax positions as of January 28, 2024 July 28, 2024, January 29, 2023 July 30, 2023, and April 30, 2023 April 28, 2024, respectively.

Income Taxes Paid

The following table sets forth income taxes paid by jurisdiction for the nine three months ended January 28, 2024 ending July 28, 2024, and January 29, 2023 July 30, 2023, respectively:

(dollars in thousands)	Nine Months Ended January 28, 2024	Nine Months Ended January 29, 2023	Three Months Ended July 28, 2024	Three Months Ended July 30, 2023
United States Transition Tax Payment	$ 499	$ 265		
China Income Taxes, Net of Refunds	1,803	1,680	561	915
Canada - Income Taxes, Net of Refunds	468	(9)	—	197
	$ 2,770	$ 1,936	$ 561	$ 1,112

Future Liquidity

We Based on the restructuring plan approved by our board of directors on April 29, 2024, the timing and success of the closure of our Canadian operation, along with the sale of associated real estate (the timing and amount of which sales price is currently

undetermined), could have a significant effect on (i) the amount and timing of when and if fiscal 2024 income tax payments will be required; (ii) the amount and timing of withholding tax payments to the Canadian government associated with the repatriation of earnings and profits to the U.S. parent; and (iii) the respective tax rates that will be applied on the sale of real estate and equipment. Accordingly, we believe we cannot provide a reasonable estimate of our fiscal 2025 income tax payments associated with our Canadian operation at this time.

Currently, we are currently projecting annual cash income tax payments of approximately $3.2 million for fiscal 2024, compared $2.0 million associated with $2.3 million for fiscal 2023. Our estimated income tax payments for fiscal 2024 are management's our operations located in China. This estimate is management's current projections projection only and can be affected by actual earnings from our foreign subsidiaries located in China and Canada versus annual projections; projections, changes in the foreign exchange rates associated with our China operations in relation to the U.S. dollar; dollar, and the timing of when we will repatriate earnings and profits from China and Canada; and the timing of when significant capital projects will be placed into service, which determines the deductibility of accelerated depreciation. to our U.S. parent.

Additionally, Currently, we currently do not expect to pay minimal incur any income taxes in the U.S. on a cash basis during fiscal 2024 2025 due to (i) the immediate accelerated expensing of U.S. capital expenditures and our existing U.S. federal net operating loss carryforwards that totaled $49.4 million totaling $69.6 million as of April 30, 2023, which are projected to increase as a result of the significant U.S. loss carryforward we expect to generate during fiscal 2024.

April 28, 2024. As of January 28, 2024 July 28, 2024, we will be required to pay annual U.S. federal transition tax payments, in accordance with the 2017 Tax Cuts and Jobs Act, as follows: FY 2025 - $665,000; and FY 2026 - $830,000. $831,000. The annual U.S. federal transition tax payment of $665,000 was paid during the second quarter of fiscal 2025.

Liquidity and Capital Resources

<u>Liquidity</u>

Overall

Currently, our sources of liquidity include cash and cash equivalents (collectively, "cash"), cash flow from operations, and amounts available under our revolving credit lines. As of January 28, 2024 July 28, 2024, we believe our cash of $12.6 million $13.5 million and the current availability under our revolving credit lines totaling $26.2 million (Refer $19.2 million will be sufficient to fund our foreseeable business needs, capital expenditures, commitments, and contractual obligations. Refer to Note 10 of the consolidated financial statements for further details) will be sufficient to fund information regarding our foreseeable business needs, commitments, and contractual obligations. revolving credit lines.

As of January 28, 2024 July 28, 2024, our cash totaled $12.6 million $13.5 million, a decrease an increase of $8.4 million $3.5 million compared with cash of $21.0 million $10.0 million as of April 30, 2023 April 28, 2024. This decrease increase was mostly due to net $4.0 million in cash used proceeds from borrowings on our line of credit associated with our operations located in operating activities totaling $(6.0) million and capital expenditures mostly related to our mattress fabrics segment totaling $(3.2) million, China, partially offset by proceeds from the sale of our rabbi trust investments capital expenditures totaling $1.2 million to fund withdrawals from our deferred compensation plan for certain retired employees (see offsetting decrease to the decrease in deferred compensation liability in item (iii) of the below paragraph). $501,000.

Our net cash used in operating activities was $(6.0) million $206,000 during the first nine months quarter of fiscal 2024, 2025, a decrease of $10.6 million $4.2 million compared with net cash provided by used in operating activities of $4.6 million $4.4 million during the first nine months quarter of fiscal 2023. 2024. This trend primarily mostly reflects (i) a significant decrease in inventory during the first nine months of fiscal 2023 due to improved alignment of inventory purchases with customer demand trends, promotional programs to reduce aged raw materials accounts payable and finished goods inventory, and a significant decline net sales of (27.1%) during the period, which did not recur during the first nine months of fiscal 2024; (ii) annual incentive payments made accrued expenses during the first quarter of fiscal 2024 due to a decline in net sales for the first quarter of fiscal 2024 as compared with the first quarter of fiscal 2023, which decline did not occur recur during the first quarter of fiscal 2023; and (iii) payments to certain retired employees totaling $1.2 million for withdrawals from our deferred compensation plan during the first nine months of fiscal 2024; partially offset by (iv) an increase in cash earnings during the first nine months of fiscal 2024 2025 as compared with the first nine months quarter of fiscal 2023. 2024; (ii) a decrease in inventory due to improved inventory management for both the mattress fabrics and upholstery fabrics segments and due to the gradual wind down of operations at the company's manufacturing facility in Quebec, Canada, as described above in the section titled "—Segment Analysis — Mattress Fabrics Segment — Restructuring Activities" of this Item 2 – MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION; and (iii) a decrease in accounts receivable during the first quarter of fiscal 2024 due to a decline in net sales during the first quarter of fiscal 2024 as compared with the first quarter of fiscal 2023, which decline did not recur during the first quarter of fiscal 2025 as compared with the first quarter of fiscal 2024.

As of January 28, 2024 July 28, 2024, there were no we had outstanding borrowings totaling $4.0 million under a line of credit agreement associated with our lines operations located in China. Refer to Note 10 of the consolidated financial statements for further information regarding our revolving this line of credit.

The income taxes we pay also affect our liquidity. See the above section titled *"Income Taxes Paid"* of this Item 2 – MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION for further detail.

Our cash balance may be adversely affected by factors beyond our control, such as (i) recent customer demand trends affecting net sales, (ii) supply chain disruptions, (iii) rising higher interest rates and inflation, (iv) world events (including wars in Ukraine and the Middle East), and (v) the continuing uncertainty associated with COVID-19. These factors could cause delays in receipt of payment on accounts receivable and could increase cash disbursements due to rising prices.

By Geographic Area

A summary of our cash by geographic area follows:

(dollars in thousands)	January 28, 2024	January 29, 2023	April 30, 2023	July 28, 2024	July 30, 2023	April 28, 2024
United States	$ 2,816	$ 9,658	$ 9,769	$ 2,472	$ 6,899	$ 2,912
China	9,138	6,114	10,669	10,462	8,902	6,554
Canada	259	700	281	326	828	371
Haiti	363	244	236	141	174	86
Vietnam	62	—	81			
Cayman Islands	9	9	9	9	9	8
	$ 12,585	$ 16,725	$ 20,964	$ 13,472	$ 16,812	$ 10,012

Common Stock Repurchase Program

In March 2020, our board of directors approved an authorization for us to acquire up to $5.0 million of our common stock. Under the common stock repurchase program, shares may be purchased from time to time in open market transactions, block trades, through plans established under the Securities Exchange Act Rule 10b5-1, or otherwise. The number of shares purchased and the timing of such purchases are based on working capital requirements, market and general business conditions, and other factors, including alternative investment opportunities.

We did not repurchase any shares of common stock during either of the nine-month three-month periods ending January 28, 2024 July 28, 2024, or January 29, 2023 and July 30, 2023, respectively.

As a result, as of January 28, 2024 July 28, 2024, $3.2 million is available for additional repurchases of our common stock. Despite the current share repurchase authorization, the company does not expect to repurchase any shares through at least the fourth quarter of fiscal 2024.

Dividends

In June 2022, On June 29, 2022, our board of directors suspended announced the decision to suspend the company's quarterly cash dividend. Considering the current and expected macroeconomic conditions, we believe We believed that preserving capital and managing our liquidity is were in the company's best interest to support future growth and the long-term interests of our shareholders. Accordingly, we do did not expect to pay make any dividends through at least dividend payments during the fourth first quarter of fiscal 2024. 2025, fiscal 2024, and fiscal 2023.

Working Capital

Operating Working Capital

Operating working capital (the total of accounts receivable and inventories, less accounts payable-trade, less accounts payable-capital expenditures, and less deferred revenue) was $39.0 million $35.1 million as of January 28, 2024 July 28, 2024, compared with $44.9 million $38.7 million as of January 29, 2023 July 30, 2023, and $39.2 million $38.5 million as of April 30, 2023 April 28, 2024. Operating working capital turnover was 5.9 during the third first quarter of fiscal 2025, compared with 5.0 during the first quarter of fiscal 2024 compared with 4.1 during the third quarter of fiscal 2023, and 4.6 5.8 during the fourth quarter of fiscal 2023. 2024.

Accounts Receivable

Accounts receivable was $23.7 million $21.6 million as of January 28, 2024 July 28, 2024, an increase of $2.5 million, or 11.5%, compared with $21.2 million as of January 29, 2023. This increase mostly reflects a 15.0% increase in net sales during the third quarter of fiscal 2024, as compared with the third quarter of fiscal 2023. Days' sales outstanding were 33 days during the third quarter of fiscal 2024, compared with 34 days during the third quarter of fiscal 2023.

Accounts receivable was $23.7 million as of January 28, 2024, a decrease of $1.1 million, or 4.4%, compared with $24.8 million as of April 30, 2023. This decrease primarily reflects a decrease in net sales during the third quarter of fiscal 2024, as compared with the fourth quarter of fiscal 2023. Net sales were $60.4 million during the third quarter of fiscal 2024, a decrease of $1.0 million, or 1.6% 4.5%, compared with net sales $22.6 million as of $61.4 million July 30, 2023. This decrease was due to faster cash collections from significant customers in both our mattress fabrics and upholstery fabrics segments who utilized more cash discounts during the fourth first quarter of fiscal 2023. In addition, this decrease reflects faster cash collections associated with our mattress fabrics segment, as we had a mix of higher sales to customers with longer credit terms during the fourth quarter of fiscal 2023, 2025, as compared with the third first quarter of fiscal 2024. As a result, days' sales outstanding decreased to 33 32 days during for the third first quarter of fiscal 2024, a decrease from 2025, compared with 35 days during for the fourth first quarter of fiscal 2023. 2024.

Inventory

Inventory Accounts receivable was $46.9 million $21.6 million as of January 28, 2024, a decrease of $750,000, or 1.6%, July 28, 2024,and remained flat as compared with $47.6 million $21.1 million as of January 29, 2023 April 28, 2024. Although This reflects an increase in net sales increased by 15.0% during the third first quarter of fiscal 2024, 2025, as compared with the third quarter of fiscal 2023, inventory modestly decreased during the third quarter of fiscal 2024, as compared with the prior-year period, as inventory levels were well managed in relation to current customer demand trends by both our mattress and upholstery fabrics segments, and our mattress fabrics segment implemented promotional programs to reduce aged raw materials and finished goods.

Inventory was $46.9 million as of January 28, 2024, an increase of $1.8 million, or 4.0%, compared with $45.1 million as of April 30, 2023. This trend primarily reflects lower than anticipated demand trends associated with our mattress fabrics segment during the third quarter of fiscal 2024, compared with the second fourth quarter of fiscal 2024. Net sales related to our mattress fabrics segment for the third first quarter of fiscal 2024 2025 were $30.0 million $56.5 million, a decrease an increase of 4.3% $7.0 million, or 14.2%, compared with net sales of $31.4 million during the second quarter of fiscal 2024.

Inventory turns were 4.5 for the third quarter of fiscal 2024, as compared with 4.0 for the third quarter of fiscal 2023 and 4.7 $49.5 million for the fourth quarter of fiscal 2023. 2024. However, this increase was offset by faster cash collections from significant customers in both our mattress fabrics and upholstery fabrics segments who utilized more cash discounts during the first quarter of fiscal 2025, as compared with the fourth quarter of fiscal 2024. As a result, days' sales outstanding decreased to 32 days for the first quarter of fiscal 2025, compared with 36 days for the fourth quarter of fiscal 2024.

Inventory

Inventory was $41.7 million as of July 28, 2024, a decrease of $2.1 million, or 4.9%, compared with $43.8 million as of July 30, 2023. This decrease in inventory mostly pertains to our upholstery fabrics segment and reflects management's ability to maintain an appropriate level of inventory, taking into account current and expected future demand trends and any changes in our global supply chain.

Inventory was $41.7 million as of July 28, 2024, a decrease of $3.2 million, or 7.1%, compared with $44.8 million as of April 28, 2024. This decrease in inventory primarily relates to improved inventory management for both the mattress fabrics and upholstery fabrics segments during the first quarter of fiscal 2025, as compared with the fourth quarter of fiscal 2024, taking into account current and expected future demand trends.

Inventory turns were 4.8 for the first quarter of fiscal 2025, as compared with 4.5 for the first quarter of fiscal 2024 and 3.9 for the fourth quarter of fiscal 2024.

Accounts Payable - Trade

Accounts payable - trade was $29.8 million $26.5 million, $26.5 million, and $25.6 million as of January 28, 2024 July 28, 2024, an increase July 30, 2023, and April 28, 2024, respectively. These static levels of $7.3 million accounts payable reflect a consistent level of inventory of $41.7 million, or 32.2% $43.8 million, compared with $22.5 million and $44.8 million as of January 29, 2023. This increase is mostly due to the timing of vendor payments associated with the Chinese New Year holiday, where a higher level of vendor payments was made prior to January 29, 2023 July 28, 2024, as compared with January 28, 2024.

Accounts payable - trade was $29.8 million as of January 28, 2024 July 30, 2023, a decrease of 1.2% compared with $29.4 million as of April 30, 2023. This trend reflects a decline in net sales during the third quarter of fiscal 2024, as compared with the fourth quarter of fiscal 2023. Net sales were $60.4 million during the third quarter of fiscal 2024, a decrease of $1.0 million and April 28, 2024, or 1.6%, compared with net sales of $61.4 million during the fourth quarter of fiscal 2023. respectively.

<u>Financing Arrangements</u>

Currently, we have revolving credit agreements with banks for our U.S parent company and our operations located in China. As of January 28, 2024 July 28, 2024, we did not have any had outstanding borrowings totaling $4.0 million under a line of credit agreement associated with our revolving credit agreements. operations located in China. Our loan agreements require, among other things, that we maintain compliance with certain financial covenants. As of January 28, 2024 July 28, 2024, we were in compliance with these financial covenants.

Refer to Note 10 of the consolidated financial statements for further disclosure regarding our revolving credit agreements.

Capital Expenditures and Depreciation

Overall

Capital expenditures on a cash basis during the first nine months quarter of fiscal 2024 2025 totaled $3.2 million and were mostly related to machinery and equipment associated $501,000, compared with our mattress fabrics segment. Capital expenditures on a cash basis $513,000 during the first nine months quarter of fiscal 2023 totaled $1.6 million 2024. This level of capital spending reflect the current unfavorable macro-economic conditions within the home furnishings and pertained to (i) manufacturing equipment associated with our mattress fabrics

segment, (ii) machinery and equipment associated with our former upholstery cut and sew operation located in Haiti; and (iii) IT equipment associated with both our business segments. bedding industries.

Depreciation expense was $4.9 million $2.5 million during the first nine months quarter of fiscal 2024, 2025, compared with $5.2 million $1.6 million for the same period a year ago. Depreciation expense mostly related to our mattress fabrics segment for both periods. In addition, during the three-month period ending July 28, 2024, depreciation expense for the mattress fabrics segment included $875,000 in additional depreciation expense related to the shortening of useful lives of equipment associated with our manufacturing facility located in Quebec, Canada. This $875,000 of additional depreciation expense was classified as restructuring expense in the Consolidated Statement of Net Loss for the three-month period ending July 28, 2024.

For the remainder of fiscal 2024, 2025, our planned capital spending will be centered on our mattress fabrics segment, with a strategic focus on capital projects that will increase efficiencies and improve the quality of our products. Funding for capital expenditures is expected to be from cash provided from operations. by operating activities.

Accounts Payable – Capital Expenditures

As of January 28, 2024 July 28, 2024, we had amounts due regarding capital expenditures totaling $19,000 $56,000 that pertained to outstanding vendor invoices, none of which were financed. The total amount outstanding of $19,000 $56,000 is required to be paid based on normal credit terms.

Purchase Commitments – Capital Expenditures

As of January 28, 2024 July 28, 2024, we had open purchase commitments to acquire equipment for our mattress fabrics segment totaling $880,000. $275,000.

Critical Accounting Policies and Recent Accounting Developments

As of January 28, 2024 July 28, 2024, there were no changes in our significant accounting policies or the application of those policies from those reported in our annual report on Form 10-K for the year ended April 30, 2023 April 28, 2024.

Refer to Note 2 of the consolidated financial statements for recently adopted and issued accounting pronouncements, if any, since the filing of our Form 10-K for the year ended April 30, 2023 April 28, 2024.

Contractual Obligations

There were no significant or new contractual obligations since those reported in our annual report on Form 10-K for the year ended April 30, 2023, except for those disclosed in Note 10 of the consolidated financial statements. April 28, 2024.

Inflation

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

During fiscal 2023 2024 and continuing through the third first quarter of fiscal 2024, 2025, raw material costs started to decline due to lower oil prices and slowing global demand; however, higher the cost of labor remained challenging during fiscal 2023 2024 and continuing through the third first quarter of fiscal 2024. 2025.

Inflationary pressures also affected consumer spending during fiscal 2023 2024 and continued through the third first quarter of fiscal 2024, 2025, causing a slowdown in business in both the mattress industry and the residential home furnishings industry. This slowdown has caused reduced demand from producers of home furnishings for our mattress fabrics and residential upholstery fabrics products during fiscal 2023 2024 and during in the first nine months quarter of fiscal 2024. 2025.

We are unable to predict how long these trends will last, or to what extent inflationary pressures may affect the economic and purchasing cycle for home furnishing products (and therefore affect demand for our products) over the short and long term.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rates

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

Effective January 19, 2023, we entered into a second amended and restated U.S. revolving credit agreement (the "Amended Agreement" "Amended Agreement") that established to establish an asset-based revolving credit facility that required interest to be charged at a rate (applicable interest rate of 6.81% as of January 28, 2024) calculated using an applicable margin over the Federal Reserve Bank of New York's York's secured overnight fund rate (SOFR), as defined in the Amended Agreement. The interest rate under the Amended Agreement as of July 28, 2024, was 6.84%. As of January 28, 2024 July 28, 2024, there were no outstanding borrowings under the Amended Agreement.
Effective March 20, 2024, we entered into an unsecured credit agreement with a financial institution in China denominated in RMB that requires interest to be charged at a rate based on the Loan Prime Rate ("LPR") in China minus 50 basis points (2.85% as of July 28, 2024). There were outstanding borrowings under this agreement totaling $4.0 million as of July 28, 2024.

Our previously existing revolving credit line associated agreement with our operations located another financial institution in China bears interest at a rate determined by the Chinese government at the time of borrowing. As of January 28, 2024, there borrowing, and is not directly determined by a published interest rate benchmark. There were no borrowings outstanding under our revolving credit this agreement associated with our operations located in China. as of July 28, 2024.

Foreign Currency

We are exposed to market risk from changes in the value of foreign currencies related to for our subsidiaries domiciled in Canada, China, and China. Vietnam. We try to maintain a natural hedge by keeping a balance of our assets and liabilities denominated in the local currency of our subsidiaries domiciled in Canada, China, and China. Vietnam. However, there is no assurance that we will be able to continually maintain this natural hedge. Our foreign subsidiaries use the United States U.S. dollar as their functional currency. A substantial portion of the company's imports purchased outside the United States U.S. are denominated in U.S. dollars. A 10% change in the above exchange rates as of January 28, 2024 July 28, 2024, would not have materially affected our results of operations or financial position.

ITEM 4. CONTROLS AND PROCEDURES

As of January 28, 2024 July 28, 2024, we conducted an evaluation of the effectiveness of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). This evaluation was conducted under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that these disclosure controls and procedures were effective as of such date, in all material respects, to ensure that information required to be disclosed in the reports filed by us and submitted under the Exchange Act, is recorded, processed, summarized, and reported as and when required, and that these disclosure controls and procedures were effective as of such date to ensure that information required to be disclosed in reports filed by us under the Exchange Act is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, in a manner to allow timely decisions regarding the required disclosure.

During the quarter ended January 28, 2024July 28, 2024, there were no changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Part II – Other Information

Item 1. Legal Proceedings

There have not been any material changes to our legal proceedings during the three months ended January 28, 2024July 28, 2024. Our legal proceedings are disclosed in the company's annual report on Form 10-K filed with the Securities and Exchange Commission on July 14, 2023July 12, 2024, for the fiscal year ended April 30, 2023April 28, 2024.

Item 1A. Risk Factors

There have not been any material changes to our risk factors during the three months ended January 28, 2024July 28, 2024. Our risk factors are disclosed in Item 1A "Risk Factors" of the company's annual report on Form 10-K filed with the Securities and Exchange Commission on July 14, 2023July 12, 2024, for the fiscal year ended April 30, 2023April 28, 2024.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

ISSUER PURCHASES OF EQUITY SECURITIES

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(d) Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (1)
October 30, 2023 to December 3, 2023	—	—	—	$3,248,094
December 4, 2023 to December 31, 2023	—	—	—	$3,248,094
January 1, 2024 to January 28, 2024	—	—	—	$3,248,094
Total	—	—	—	$3,248,094

	(a)		(c) Total Number of Shares Purchased	(d) Approximate Dollar Value of

Period	Total Number of Shares Purchased	(b) Average Price Paid per Share	as Part of Publicly Announced Plans or Programs	Shares that May Yet Be Purchased Under the Plans or Programs (1)
April 29, 2024 to June 2, 2024	—	—	—	$ 3,248,094
June 3, 2024 to June 30, 2024	—	—	—	$ 3,248,094
July 1, 2024 to July 28, 2024	—	—	—	$ 3,248,094
Total	—	—	—	$ 3,248,094

(1) In March 2020, our board of directors approved an authorization for us to acquire up to $5.0 million of our common stock.

Item 5 5.. Other Information

During the three months ended January 28, 2024 July 28, 2024, none of the company's company's directors or officers (as defined in Rule 16a-1(f) of the Securities Exchange Act of 1934) adopted or terminated a "Rule "Rule 10b5-1 trading arrangement" arrangement" or a "non-Rule "non-Rule 10b5-1 trading arrangement" arrangement" (as such terms are defined in Item 408 of Regulation S-K).

Item 6. Exhibits

The following exhibits are submitted as part of this report.

31.1 Certification of Chief Executive Officer Pursuant to Rule 13a-14(a)/15d-14(a).
31.2 Certification of Chief Financial Officer Pursuant to Rule 13a-14(a)/15d-14(a).
32.1 Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350.
32.2 Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350.
10.1 Cooperation Agreement, effective as of June 17, 2024, between Culp, Inc. and certain investors specified therein, filed as Exhibit 10.1 to the company's Form 8-K dated June 17, 2024, and incorporated herein by reference.
10.2 Form of Director and Officer Indemnification Agreement, filed as Exhibit 10.1 to the company's Form 8-K dated August 14, 2024, and incorporated herein by reference.
101.INS Inline XBRL Instance Document
101.SCH Inline XBRL Taxonomy Extension Scheme with Embedded Linkbase Documents Schema Document
101.CAL Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB Inline XBRL Taxonomy Extension Label Linkbase Document

101.PRE Inline XBRL Taxonomy Extension Presentation Linkbase Document

101.DEF Inline XBRL Taxonomy Extension Definition Linkbase Document

104 Cover Page Interactive Data File (formatted as Inline XBRL with applicable taxonomy extension information contained in Exhibits 101).

SIGNATURES

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

		CULP, INC. **(Registrant)**
Date: March 8, 2024 September 6, 2024	By:	/s/ Kenneth R. Bowling
		Kenneth R. Bowling Executive Vice President and Chief Financial Officer (Authorized to sign on behalf of the registrant and also signing as principal financial officer and principal accounting officer)

Exhibit 31.1

CERTIFICATIONS

I, Robert G. Culp, IV, certify that:

1. I have reviewed this Form 10-Q of Culp, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant’s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

/s/ Robert G. Culp, IV

Robert G. Culp, IV
President and Chief Executive Officer
(Principal Executive Officer)

Date: March 8, 2024 September 6, 2024

Exhibit 31.2

CERTIFICATIONS

I, Kenneth R. Bowling, certify that:

1. I have reviewed this Form 10-Q of Culp, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Kenneth R. Bowling

Kenneth R. Bowling
Executive Vice President and
Chief Financial Officer
(Principal Financial Officer and Principal
Accounting Officer)

Date: March 8, 2024 September 6, 2024

Exhibit 32.1

Certification Pursuant to
18 U.S.C. Section 1350,
as Adopted Pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the Quarterly Report of Culp, Inc. (the "Company") on Form 10-Q for the period ended January 28, 2024 July 28, 2024, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Robert G. Culp, IV, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ Robert G. Culp, IV

Robert G. Culp, IV

President and Chief Executive Officer

March 8, September 6, 2024

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906 has been provided to Culp, Inc. and will be retained by Culp, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 32.2

Certification Pursuant to
18 U.S.C. Section 1350,
as Adopted Pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the Quarterly Report of Culp, Inc. (the "Company") on Form 10-Q for the period ended January 28, 2024 July 24, 2024, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Kenneth R. Bowling, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ Kenneth R. Bowling

Kenneth R. Bowling

Executive Vice President and Chief Financial Officer

March 8, September 6, 2024

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906 has been provided to Culp, Inc. and will be retained by Culp, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

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