

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

Form 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities  
Exchange Act of 1934

Date of Report (Date of earliest event reported) August 20, 1998

CULP, INC.

(Exact name of registrant as specified in its charter)

North Carolina	0-12781	56-1001967
(State or other jurisdiction of incorporation)	(Commission File No.)	(IRS Employer Identification No.)

101 South Main Street  
High Point, North Carolina 27260  
(Address of principal executive offices)  
(336) 889-5161  
(Registrant's telephone number, including area code)

(Former name or former address, if changed since last report)

Item 5. Other Events

See attached Press Release (2 pages) and Financial Information Release (10 pages), both dated August 20, 1998, related to the fiscal 1999 first quarter ended August 2, 1998.

Forward Looking Information. This Report contains statements that could be deemed "forward-looking statements" within the meaning of the federal securities laws, which statements are inherently subject to risks and uncertainties. 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 characterized by qualifying words such as "expect," "believe," "estimate," "plan" and "project" and their derivatives. Factors that could influence the matters discussed in such statements include the level of housing starts and sales of existing homes, consumer confidence, trends in disposable income, and general economic conditions. Decreases in these economic indicators could have a negative effect on the Company's business and prospects. Likewise, increases in interest rates, particularly home mortgage rates, and increases in consumer debt or the general rate of inflation, could affect the Company adversely. In addition, the value of the U. S. dollar relative to other currencies can affect the competitiveness of the Company's products in international markets. Economic and political instability in the international area could also affect the demand for the Company's products.

SIGNATURES

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

CULP, INC.

(Registrant)

By: Phillip W. Wilson  
Vice President and  
Chief Financial Officer

Dated: August 20, 1998

FOR IMMEDIATE RELEASE

CULP REPORTS FIRST QUARTER RESULTS

HIGH POINT, N. C. (Aug. 20, 1998) - Culp, Inc. (NYSE: CFI) today reported results for the first quarter of its 1999 fiscal year.

For the three months ended August 2, 1998, Culp reported that net sales were \$110.7 million compared with \$99.5 million a year ago. The company reported a net loss for the quarter of \$2.6 million, or \$0.20 per share, compared with net income of \$2.9 million, or \$0.22 per share diluted, in the year-earlier quarter.

"We had previously indicated our expectation for a net loss for the first quarter," said Robert G. Culp, III, chief executive officer. "The principal development that affected our performance was an industry wide pattern of weakness in international sales of printed flock upholstery fabrics. We also experienced some pressure on margins on other product lines that are marketed primarily to U.S.-based manufacturers. We did achieve higher sales for the quarter; but that gain was due to the contributions from Phillips Mills and Artee Industries, which were acquired subsequent to the year-earlier period."

"The first fiscal quarter is historically not the strongest period for our industry due to vacations and seasonal plant closings. The backdrop of consumer spending in the U.S. on home furnishings remains favorable, and we are encouraged about the positive response by manufacturers to our new patterns and textures that will be introduced to retailers this fall. Our immediate focus obviously must be restoring Culp's profitability. We have begun taking actions to reduce costs, especially in those product categories that typically have been marketed internationally. Although we are optimistic about the potential for longer term gains in our business outside the United States, we have moved to bring manufacturing capacity in line with the current level of demand."

Culp added, "During the first quarter, we significantly strengthened our management structure. We unified related products and marketing programs, thereby reducing the number of business units from six to four. We believe that grouping related business operations will promote better working communications and lead to more effective customer service and marketing programs. The initial momentum for this realignment in our management structure was based on long range planning, but we believe the changes should also help the near term recovery in our bottom line."

Culp, Inc. is the world's largest manufacturer and marketer of upholstery fabrics for furniture and is a leading producer of mattress ticking for bedding. The Company's fabrics are used principally in the production of residential and commercial furniture and bedding products.

CULP, INC.  
Condensed Financial Highlights  
(Unaudited)

	Three Months Ended	
	August 2, 1998 (13 weeks)	August 3, 1997 (14 weeks)
Net sales	\$ 110,667,000	\$ 99,498,000
Net income (loss)	\$ (2,640,000)	\$ 2,850,000
Net income (loss) per share:		
Basic	\$ (0.20)	\$ 0.23
Diluted	\$ (0.20)	\$ 0.22
Average shares outstanding:		
Basic	13,000,000	12,631,000
Diluted	13,203,000	12,929,000

This release contains statements that could be deemed "forward-looking statements," within the meaning of the federal securities laws. Such statements are inherently subject to risks and uncertainties. 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 characterized by qualifying words such as "expect," "believe," "estimate," "plan" and "project" and their derivatives. Factors that could influence the matters discussed in such statements include the level of housing starts and sales of existing homes, consumer confidence, trends in disposable income and general economic conditions. Decreases in these economic indicators could have a negative effect on the company's business and prospects. Likewise, increases in interest rates, particularly home mortgage rates, and increases in consumer debt or the general rate of inflation, could affect the company adversely. Because of the increasing percentage of the company's sales derived by international shipments, strengthening of the U.S. dollar against other currencies could make the company's products less competitive on the basis of price in markets outside the United States. Additionally, economic and political instability in the international area could affect the demand for the company's products.

CULP, INC. FINANCIAL INFORMATION RELEASE  
CONSOLIDATED STATEMENTS OF INCOME (LOSS)  
FOR THREE MONTHS ENDED AUGUST 2, 1998 AND AUGUST 3, 1997

(Amounts in Thousands, Except for Per Share Data)

	THREE MONTHS ENDED (UNAUDITED)				
	Amounts			Percent of Sales	
	August 2, 1998	August 3, 1997	% Over (Under)	1999	1998
Net sales	\$ 110,667	99,498	11.2 %	100.0 %	100.0 %
Cost of sales	97,056	82,765	17.3 %	87.7 %	83.2 %
Gross profit	13,611	16,733	(18.7) %	12.3 %	16.8 %
Selling, general and administrative expenses	14,473	10,916	32.6 %	13.1 %	11.0 %
Income (loss) from operations	(862)	5,817	(114.8) %	(0.8) %	5.8 %
Interest expense	2,361	1,280	84.5 %	2.1 %	1.3 %
Interest income	(53)	(90)	(41.1) %	(0.0) %	(0.1) %
Other expense (income), net	770	242	218.2 %	0.7 %	0.2 %
Income (loss) before income taxes	(3,940)	4,385	(189.9) %	(3.6) %	4.4 %
Income taxes *	(1,300)	1,535	(184.7) %	33.0 %	35.0 %
Net income (loss)	\$ (2,640)	2,850	(192.6) %	(2.4) %	2.9 %
Net income (loss) per share	(\$0.20)	\$0.23	(187.0) %		
Net income (loss) per share, assuming dilution	(\$0.20)	\$0.22	(190.9) %		
Dividends per share	\$0.0350	\$0.0350	0.0 %		
Average shares outstanding	13,000	12,631	2.9 %		
Average shares outstanding, assuming dilution	13,203	12,929	2.1 %		

\* Percent of sales column is calculated as a % of income (loss) before income taxes.

CULP, INC. FINANCIAL INFORMATION RELEASE  
CONSOLIDATED BALANCE SHEETS  
AUGUST 2, 1998, AUGUST 3, 1997 AND MAY 3, 1998  
Unaudited  
(Amounts in Thousands)

	Amounts		Increase		* May 3, 1998
	August 2, 1998	August 3, 1997	(Decrease)		
			Dollars	Percent	
<b>Current assets</b>					
Cash and cash investments	\$ 1,520	1,843	(323)	(17.5) %	2,312
Accounts receivable	63,833	54,086	9,747	18.0 %	73,773
Inventories	79,358	60,715	18,643	30.7 %	78,594
Other current assets	7,511	6,126	1,385	22.6 %	7,808
<b>Total current assets</b>	<b>152,222</b>	<b>122,770</b>	<b>29,452</b>	<b>24.0 %</b>	<b>162,487</b>
Restricted investments	4,074	8,186	(4,112)	(50.2) %	4,021
Property, plant & equipment, net	127,287	97,128	30,159	31.1 %	128,805
Goodwill	54,798	22,111	32,687	147.8 %	55,162
Other assets	4,317	3,124	1,193	38.2 %	4,340
<b>Total assets</b>	<b>\$ 342,698</b>	<b>253,319</b>	<b>89,379</b>	<b>35.3 %</b>	<b>354,815</b>
<b>Current liabilities</b>					
Current maturities of long-term debt	\$ 3,250	100	3,150	3,150.0 %	3,325
Accounts payable	31,710	20,154	11,556	57.3 %	37,214
Accrued expenses	13,856	11,972	1,884	15.7 %	17,936
Income taxes payable	0	1,575	(1,575)	(100.0) %	1,282
<b>Total current liabilities</b>	<b>48,816</b>	<b>33,801</b>	<b>15,015</b>	<b>44.4 %</b>	<b>59,757</b>
Long-term debt	154,383	96,016	58,367	60.8 %	152,312
Deferred income taxes	11,227	9,965	1,262	12.7 %	11,227
<b>Total liabilities</b>	<b>214,426</b>	<b>139,782</b>	<b>74,644</b>	<b>53.4 %</b>	<b>223,296</b>
Shareholders' equity	128,272	113,537	14,735	13.0 %	131,519
<b>Total liabilities and shareholders' equity</b>	<b>\$ 342,698</b>	<b>253,319</b>	<b>89,379</b>	<b>35.3 %</b>	<b>354,815</b>
Shares outstanding	12,995	12,650	345	2.7 %	13,007

\* Derived from audited financial statements.

CULP, INC.  
 FINANCIAL INFORMATION RELEASE  
 CONSOLIDATED STATEMENTS OF CASH FLOWS  
 FOR THE THREE MONTHS ENDED AUGUST 2, 1998 AND AUGUST 3, 1997  
 Unaudited  
 (Amounts in Thousands)

	THREE MONTHS ENDED	
	-----	
	Amounts	
	-----	-----
	August 2, 1998	August 3, 1997
	-----	-----
Cash flows from operating activities:		
Net income (loss)	\$ (2,640)	2,850
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation	4,376	3,256
Amortization of intangible assets	398	181
Changes in assets and liabilities:		
Accounts receivable	9,940	2,605
Inventories	(764)	(7,252)
Other current assets	297	(676)
Other assets	(11)	(147)
Accounts payable	(3,017)	(5,852)
Accrued expenses	(4,080)	(2,923)
Income taxes payable	(1,282)	(5)
Net cash provided by (used in) operating activities	3,217	(7,963)
-----		
Cash flows from investing activities:		
Capital expenditures	(2,858)	(9,153)
Purchases of restricted investments	(53)	(8,590)
Sale of restricted investments	0	11,422
Net cash used in investing activities	(2,911)	(6,321)
-----		
Cash flows from financing activities:		
Proceeds from issuance of long-term debt	2,071	19,500
Principal payments on long-term debt	(75)	(25)
Change in accounts payable-capital expenditures	(2,487)	(3,897)
Dividends paid	(455)	(443)
Common stock issued (purchased)	(152)	162
Net cash provided by (used in) financing activities	(1,098)	15,297
-----		
Increase (decrease) in cash and cash investments	(792)	1,013
Cash and cash investments at beginning of period	2,312	830
-----		
Cash and cash investments at end of period	\$ 1,520	1,843
	=====	=====

CULP, INC. FINANCIAL INFORMATION RELEASE  
FINANCIAL ANALYSIS  
AUGUST 2, 1998

	FISCAL 98		FISCAL 99			LTM
	Q1	Q1	Q2	Q3	Q4	
<b>INVENTORIES</b>						
Inventory turns	5.8	4.9				
<b>RECEIVABLES</b>						
Days sales in receivables	50	48				
Percent current & less than 30 days past due	95.0%	93.8%				
<b>WORKING CAPITAL</b>						
Current ratio	3.6	3.1				
Working capital turnover (4)	5.1	4.5				
Operating working capital (4)	\$94,647	\$111,481				
<b>PROPERTY, PLANT &amp; EQUIPMENT</b>						
Depreciation rate	7.1%	7.7%				
Percent property, plant & equipment are depreciated	46.8%	43.8%				
Capital expenditures	\$35,879 (1)	\$2,858				
<b>PROFITABILITY</b>						
Return on average total capital	7.6%	(1.6%)				6.1%
Return on average equity	10.2%	(8.1%)				8.2%
Net income (loss) per share	\$0.23	(\$0.20)				\$0.79
Net income (loss) per share (diluted)	\$0.22	(\$0.20)				\$0.77
<b>LEVERAGE (3)</b>						
Total liabilities/equity	123.1%	167.2%				
Funded debt/equity	77.4%	119.7%				
Funded debt/capital employed	43.6%	54.5%				
Funded debt	\$87,930	\$153,559				
Funded debt/EBITDA (LTM) (6)	2.18	3.75				
EBITDA/Interest expense, net (LTM)	9.1	4.9				
<b>OTHER</b>						
Book value per share	\$8.98	\$9.87				
Employees at quarter end	3,180	4,230				
Sales per employee (annualized)	\$125,000	\$103,000				
Capital employed (3)	\$201,467	\$281,831				
Effective income tax rate	35.0%	33.0%				
EBITDA (2)	\$9,012	\$3,142				\$38,971
EBITDA/net sales	9.1%	2.8%				8.0%

(1) Expenditures for entire year

(2) Earnings before interest, income taxes, and depreciation & amortization.

(3) Long-term debt, funded debt and capital employed are all net of restricted investments.

(4) Working capital for this calculation is accounts receivable, inventories and accounts payable.

(5) LTM represents "Latest Twelve Months"

(6) EBITDA includes capitalized interest and pro forma amounts for Wetumpka and Artee acquisitions.

CULP, INC. FINANCIAL INFORMATION RELEASE  
 SALES BY PRODUCT CATEGORY/BUSINESS UNIT  
 FOR THREE MONTHS ENDED AUGUST 2, 1998 AND AUGUST 3, 1997

(Amounts in thousands)

THREE MONTHS ENDED (UNAUDITED)

Product Category/Business Unit	Amounts			Percent of Total Sales	
	August 2, 1998	August 3, 1997	% Over (Under)	1999	1998
<b>Upholstery Fabrics</b>					
Culp Decorative Fabrics	\$ 51,445	39,814	29.2 %	46.5 %	40.0 %
Culp Velvets/Prints	29,994	38,397	(21.9)%	27.1 %	38.6 %
	81,439	78,211	4.1 %	73.6 %	78.6 %
<b>Mattress Ticking</b>					
Culp Home Fashions	22,632	21,287	6.3 %	20.5 %	21.4 %
<b>Yarn</b>					
Culp Yarn	6,596	0	100.0 %	6.0 %	0.0 %
	* \$ 110,667	99,498	11.2 %	100.0%	100.0 %

\* U.S. sales were \$84,310 and \$74,407 for the three months of fiscal 1999 and fiscal 1998, respectively. The percentage increase in U.S. sales was 13.3% for the three months.



CULP, INC. FINANCIAL INFORMATION RELEASE  
INTERNATIONAL SALES BY GEOGRAPHIC AREA  
FOR THREE MONTHS ENDED AUGUST 2, 1998 AND AUGUST 3, 1997

(Amounts in thousands)

THREE MONTHS ENDED (UNAUDITED)

Geographic Area	Amounts			Percent of Total Sales	
	August 2,	August 3,	% Over	1999	1998
	1998	1997	(Under)		
North America (Excluding USA)	\$ 7,253	7,044	3.0 %	27.5 %	28.1 %
Europe	3,683	4,440	(17.0)%	14.0 %	17.7 %
Middle East	8,300	6,564	26.4 %	31.5 %	26.2 %
Far East & Asia	4,868	5,464	(10.9)%	18.5 %	21.8 %
South America	1,000	339	195.0 %	3.8 %	1.4 %
All other areas	1,253	1,240	1.0 %	4.8 %	4.9 %
	\$ 26,357	25,091	5.0 %	100.0 %	100.0 %

International sales, and the percentage of total sales, for each of the last seven fiscal years follows: fiscal 1992-\$ 37,913 (20%); fiscal 1993-\$ 41,471 (21%); fiscal 1994-\$ 44,038 (18%); fiscal 1995-\$ 57,971 (19%); fiscal 1996-\$ 77,397 (22%); fiscal 1997-\$ 101,571 (25%); and fiscal 1998-\$ 137,223 (29%). International sales for the current quarter represented 23.8% and 25.2% for 1999 and 1998, respectively.

Certain amounts for fiscal year 1998 have been reclassified to conform with the fiscal year 1999 presentation.

Culp, Inc.  
SALES BY BUSINESS UNIT - TREND ANALYSIS  
1997 vs 1998 vs 1999  
Unaudited  
(Amounts in thousands)

Product Category/Business Units	Fiscal 1997					Fiscal 1998				
	Q1	Q2	Q3	Q4	TOTAL	Q1	Q2	Q3	Q4	TOTAL
Upholstery Fabrics										
Culp Decorative Fabrics	38,966	45,723	39,342	43,699	167,730	39,814	56,781	53,415	60,155	210,165
Culp Velvets/Prints	34,867	40,233	40,387	40,980	156,467	38,397	43,928	44,020	45,044	171,389
	73,833	85,956	79,729	84,679	324,197	78,211	100,709	97,435	105,199	381,554
Mattress Ticking										
Culp Home Fashions	16,696	19,248	17,739	20,999	74,682	21,287	22,217	20,261	23,520	87,285
Yarn										
Culp Yarn	-	-	-	-	-	-	-	761	7,115	7,876
	90,529	105,204	97,468	105,678	398,879	99,498	122,926	118,457	135,834	476,715

Culp, Inc.  
SALES BY BUSINESS UNIT - TREND ANALYSIS  
1997 vs 1998 vs 1999  
Unaudited  
(Amounts in thousands)

Product Category/Business Units	Fiscal 1999				
	Q1	Q2	Q3	Q4	TOTAL
Upholstery Fabrics					
Culp Decorative Fabrics	51,445				
Culp Velvets/Prints	29,994				
	81,439				
Mattress Ticking					
Culp Home Fashions	22,632				
Yarn					
Culp Yarn	6,596				
	110,667				

Percent increase(decrease) from prior year:

Product Category/Business Units	Fiscal 1997					Fiscal 1998				
	Q1	Q2	Q3	Q4	TOTAL	Q1	Q2	Q3	Q4	TOTAL
Upholstery Fabrics										
Culp Decorative Fabrics	18.3	12.4	0.2	(4.4)	5.8	2.2	24.2	35.8	37.7	25.3
Culp Velvets/Prints	48.2	25.4	26.9	7.1	24.5	10.1	9.2	9.0	9.9	9.5
	30.8	18.1	12.2	0.8	14.0	5.9	17.2	22.2	24.2	17.7
Mattress Ticking										
Culp Home Fashions	5.1	7.4	15.3	15.5	10.8	27.5	15.4	14.2	12.0	16.9
Yarn										
Culp Yarn	-	-	-	-	-	-	-	100.0	100.0	100.0
	25.1	16.0	12.7	3.4	13.4	9.9	16.8	21.5	28.5	19.5
Overall Growth Rate										
Internal(without acquisitions)	25.1	16.0	12.7	3.4	13.4	9.9	6.6	9.2	11.6	9.3
External	-	-	-	-	-	-	10.2	12.3	16.9	10.2
	25.1	16.0	12.7	3.4	13.4	9.9	16.8	21.5	28.5	19.5

Percent increase(decrease) from prior year:

Product Category/Business Units	Fiscal 1999				
	Q1	Q2	Q3	Q4	TOTAL
Upholstery Fabrics					
Culp Decorative Fabrics	29.2				
Culp Velvets/Prints	(21.9)				
	4.1				
Mattress Ticking					
Culp Home Fashions	6.3				
Yarn					
Culp Yarn	100.0				
	11.2				
Overall Growth Rate					
Internal(without acquisitions)	(4.6)				
External	15.8				
	11.2				

CULP, INC. FINANCIAL INFORMATION RELEASE  
FINANCIAL NARRATIVE  
for the three month periods ended August 2, 1998 and August 3, 1997

INCOME STATEMENT COMMENTS

GENERAL - Net sales increased 11.2% to \$110.7 million, and the company reported a net loss of \$2.6 million compared with net income of \$2.9 million for the first quarter of last year. The first quarter included 13 weeks versus 14 weeks in the year-earlier period.

The company has compiled a longer term record of growth based on several key competitive strengths:

Broad Product Offering - marketing one of the broadest product lines in the upholstery fabrics and mattress ticking industry. Through its extensive manufacturing capabilities, the company competes in every major category of the industry except leather;

Diverse Global Customer Base - penetrating other end-use markets in addition to U. S. residential furniture, such as bedding, international, commercial furniture and juvenile furniture; sales to these other markets accounted for approximately 53% of net sales during the first quarter; additionally, no one customer accounted for more than 7% of sales during the first quarter of fiscal 1999;

Design Innovation - investing in the design of new patterns and textures. The company has significantly increased resources (both designers and computer-aided design (CAD) systems) in the design and product development areas in each business unit. In January 1998, the company opened its state-of-the-art design center in Burlington, North Carolina. The facility has consolidated most of the company's design resources in one facility which offers advanced CAD systems for the design process;

Vertical Integration - realizing additional manufacturing integration by producing various raw material components that are used in the manufacture of its products; and

Ability to Integrate Acquisitions - investing in selective acquisitions that strengthen existing marketing positions.

NET SALES - Compared with the first quarter of last year, upholstery fabric sales increased 4.1% to \$81.4 million; mattress ticking sales increased 6.3% to \$22.6 million; and yarn sales contributed \$6.6 million for the quarter (See Sales by Business Unit schedule on Page 5 and Sales by Business Unit - Trend Analysis on Page 7). The growth in upholstery fabric sales for the first quarter was due to the contribution of \$9.1 million from Phillips Mills which was acquired after the close of the quarter a year ago. Excluding that incremental volume, upholstery fabric sales were down 7.5% from a year ago. International sales were up 5.0% for the quarter. A significant decline in sales to Europe and the Far East/Asia (principally Russia) was offset by higher shipments to the Middle East.

CULP, INC. FINANCIAL INFORMATION RELEASE  
FINANCIAL NARRATIVE

for the three month periods ended August 2, 1998 and August 3, 1997

The decline in sales of upholstery fabrics was due principally to a pronounced slowdown in international sales of wet and heat-transfer printed flock fabrics. This trend, which the company believes has affected other manufacturers of upholstery fabrics, became apparent after the close of fiscal 1998 and has been persistent thus far in fiscal 1999. A large percentage of the company's sales of this product line were being shipped directly or indirectly to customers in the emerging markets of Russia and other former Soviet countries, India and Eastern Europe. All of these areas are generally experiencing very weak economic conditions which, in turn, have affected demand for furniture and other home furnishings. The company has significantly curtailed production schedules for these fabrics and has shifted its marketing focus for this product category to geographic areas where demand remains favorable. The company is seeking to build a diversified geographic base of customers internationally to minimize the exposure to economic uncertainties in any single geographic area.

Lower international sales also affected the company's sales of other upholstery fabrics during the first quarter. The year-to-year comparisons were also influenced by the fact that there was one less week in the period (13) versus a year ago (14). Because of industry wide vacations and scheduled plant shutdowns, the first quarter is historically the lowest period of the year for net sales.

The increased sales by Culp Home Fashions during the first quarter marks a continuation of the expansion that this business unit has experienced in recent years. Sales are benefiting from the introduction of new designs and fabric constructions as well as the company's vertical integration. Culp's ability to manufacture the jacquard greige, or unfinished, goods that are then printed to produce mattress ticking has aided the company in meeting faster delivery schedules and providing improved overall customer service.

**GROSS PROFIT** - Gross profit declined 18.7% for the quarter versus a year ago. The decline was due principally to lower margins at the Culp Decorative Fabrics and Culp Velvets/Prints units. Culp Decorative Fabrics experienced considerable unfavorable manufacturing variances during the quarter. Factors contributing to these variances included lower than expected sales and competitive pressure on pricing, especially in the jacquard product category. The lower gross profit at Culp Velvets/Prints was due to the unexpectedly sharp decline in international sales of printed flock fabrics. The lower sales led to excess manufacturing capacity and lower absorption of fixed costs.

The gross margins are expected to remain under pressure, but the company has instituted a number of actions to improve profitability. A reorganization from six to four business units during the first quarter has grouped related operations together and has been accompanied by several changes in managerial positions. Steps underway related to this realignment include a significant reduction in the capacity for manufacturing printed flock fabrics, comprehensive programs to reduce inventories and an intense effort to reduce operating expenses and raise productivity.

**S,G&A EXPENSES** - S,G&A expenses for the first quarter rose as a percentage of sales to 13.1% from 11.0% for the same period of last year. The higher proportion of SG&A expenses was also affected by the lower than expected sales. The increase in absolute dollars from a year ago resulted from the Phillips Mills and Artee acquisitions, investment in additional design resources, increased costs in sampling new product and higher costs for marketing programs.

CULP, INC. FINANCIAL INFORMATION RELEASE  
FINANCIAL NARRATIVE

for the three month periods ended August 2, 1998 and August 3, 1997

INTEREST EXPENSE - Interest expense increased 85% compared with the year-earlier period due to higher average borrowings outstanding. The increased borrowings related principally to the acquisitions during fiscal 1998 of Phillips Mills and Artee Industries and the relatively high level of capital expenditures in fiscal 1998.

OTHER EXPENSE (INCOME), NET - Other expense (income) increased to \$770,000 from \$242,000 in the year-earlier quarter. A major factor contributing to the increase was amortization of goodwill due to the acquisitions during fiscal 1998. Additionally, a non-recurring charge of \$311,000 was incurred to writeoff certain fixed assets.

INCOME TAXES - The effective tax rate for the quarter was 33.0% compared with 35.0% for the prior year.

EBITDA - EBITDA for the quarter decreased to \$3.1 million from \$9.0 million for last year's first quarter and represented 2.8% of net sales compared with 9.1% of net sales for the same period of last year.

BALANCE SHEET COMMENTS

WORKING CAPITAL - Accounts receivable increased 18.0 % from August 3, 1997, while sales increased 11.2 % for the first quarter. Days sales outstanding represented 48 days, down from 50 days at August 3, 1997, and 49 days at May 3, 1998. Accounts receivable increased at a faster rate than sales because of the increasing mix of international sales and mattress ticking sales, which carry longer payment terms than U.S. upholstery fabric sales. Additionally, the aging of accounts receivable was 93.8 % current and less than 30 days past due versus 95.0% at August 3, 1997. Inventories increased 30.7 % from August 3, 1997, and inventory turns were 4.9 versus 5.8 for last year's first quarter. The inventory increase is partly due to the prior year acquisitions and a build up of yarn in the Culp Decorative Fabrics business unit. Operating working capital (comprised of accounts receivable, inventory and accounts payable) increased to \$111.5 million at August 2, 1998, for the reasons mentioned above, from \$94.6 million at August 3, 1997. The balance at May 3, 1998 was \$115.2 million.

PROPERTY, PLANT AND EQUIPMENT - For fiscal 1999, the company is planning to significantly reduce its capital spending to \$10-\$15 million, and concentrate its efforts on improving the results of the investments made during fiscal 1997 and fiscal 1998. The two largest projects that are currently planned for fiscal 1999 are: (a) completion of the polypropylene yarn extrusion expansion, which began in early fiscal 1998; and (b) building expansions in the Culp Home Fashions business unit to accommodate the significant growth in the company's sales of mattress ticking over the last several years. Depreciation for fiscal 1999 is currently estimated to be approximately \$19 million.

LONG-TERM DEBT - The company's funded debt-to-capital ratio was 54.5% at August 2, 1998, up from 43.6% at August 3, 1997, and up from 53.5% at May 3, 1998. Funded debt was \$153.6 million at August 2, 1998, up from \$87.9 million at August 3, 1997 and up from \$151.6 million at May 3, 1998. (Funded debt equals long-term debt, including current maturities, less restricted investments, which represent unspent IRB funds). The increase in funded debt from May 3, 1998 resulted primarily from capital expenditures of \$2.9 million and a decrease in accounts payable related to capital expenditures of \$2.5 million, which were partially offset by operating cash flow of \$3.2 million.