

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

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Form 8-K

CURRENT REPORT

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

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Date of Report (Date of earliest event reported) February 4, 1997

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)

(910) 889-5161  
(Registrant's telephone number, including area code)

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

Item 5. Other Events

See Press Release (attached) dated February 4, 1997 related to third quarter earnings for the period ended January 26, 1997.

See Financial Information Release (attached)

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: Franklin N. Saxon  
Senior Vice President and  
Chief Financial Officer

By: Stephen T. Hancock  
Stephen T. Hancock  
General Accounting Manager

Dated: February 4, 1997



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FOR IMMEDIATE RELEASE

CULP REPORTS RECORD THIRD QUARTER SALES AND EARNINGS

EARNINGS PER SHARE INCREASE 23%

HIGH POINT, North Carolina (February\_\_\_, 1997) Culp, Inc. (NYSE:CFI) today reported higher sales and earnings for the third fiscal quarter ended January 26, 1997.

For the three months ended January 26, 1997, Culp reported that net sales increased 13% to \$97.5 million compared with \$86.5 million a year ago. Net income for the quarter increased 25% to \$3.0 million, or \$0.27 per share, compared with \$2.4 million, or \$0.22 per share, in the third quarter of fiscal 1996.

The gains for the third quarter brought net sales for the first nine months to \$293.2 million, up 18% from \$249.5 million in the first nine months of fiscal 1996. Net income for the first nine months was \$8.9 million, or \$0.79 per share, up 29% from \$6.9 million, or \$0.62 per share, in the year-earlier period.

"This marks the 17th consecutive quarter in which we have reported higher earnings versus the comparable year-earlier period," remarked Robert G. Culp, III, Chief Executive Officer. The 13% gain in sales for the quarter was somewhat less than in the first half, but we continued to advance in our plan to increase Culp's profitability. Our shipments to customers within the United States rose during the quarter from a year ago, and we realized further strong growth in international sales. For the first nine months of fiscal 1997, sales to international customers were up 37%, reflecting the ongoing expansion of our marketing organization as well as the underlying growth in demand in many of these markets."

Culp noted, "Our focus remains on increasing the Company's market share, raising productivity and investing the capital necessary to expand capacity and enhance the level of service to customers. Accomplishing these objectives involves our entire organization, and the tangible evidence of their achievements is reflected in our growth over the past several years."

-MORE-

"The completion of our offering of common stock last week has added approximately \$16.3 million in equity capital to the Company. This offering not only strengthened our financial position but also served importantly to expand our base of stockholders. Aided by these additional funds, we expect to invest a total of approximately \$31 million in capital spending during fiscal 1997, a new annual high for Culp. A major initiative underway involves projects related to supporting the continued expansion in shipments of wet-printed flock fabrics, one of our fastest-growing product categories. Using equipment installed during the third quarter, we are currently starting to produce our own unprinted flocked greige goods. We also purchased a facility in Lumberton, North Carolina during the period and are currently planning to initiate production of wet-printed flocked fabrics there by July, 1997."

Culp is the largest manufacturer and marketer of upholstery fabrics in the world and is a leading producer of mattress ticking. 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	
	January 26, 1997	January 28, 1996
Net sales	\$ 97,468,000	\$ 86,476,000
Net income	3,010,000	2,415,000
Earnings per share	\$ 0.27	\$ 0.22
	Nine Months Ended	
	January 26, 1997	January 28, 1996
Net sales	\$ 293,201,000	\$ 249,505,000
Net income	8,930,000	6,930,000
Earnings per share	\$ 0.79	\$ 0.62

-END-

CULP, INC. FINANCIAL INFORMATION RELEASE (Page 1 of 12)  
 CONSOLIDATED INCOME STATEMENTS  
 FOR THE THREE MONTHS AND NINE MONTHS ENDED JANUARY 26, 1997 AND JANUARY 28, 1996

(Amounts in Thousands, Except for Per Share Data)

THREE MONTHS ENDED (UNAUDITED)

	Amounts			Percent of Sales	
	January 26, 1997	January 28, 1996	% Over (Under)	1997	1996
Net sales	\$ 97,468	86,476	12.7 %	100.0	100.0 %
Cost of sales	80,317	71,447	12.4 %	82.4	82.6 %
Gross profit	17,151	15,029	14.1 %	17.6	17.4 %
Selling, general and administrative expenses	10,760	9,639	11.6 %	11.0	11.1 %
Income from operations	6,391	5,390	18.6 %	6.6	6.2 %
Interest expense	1,228	1,279	(4.0)%	1.3	1.5 %
Interest income	(73)	0	** %	(0.1)	0.0 %
Other expense (income), net	421	266	58.3 %	0.4	0.3 %
Income before income taxes	4,815	3,845	25.2 %	4.9	4.4 %
Income taxes *	1,805	1,430	26.2 %	37.5	37.2 %
Net income	\$ 3,010	2,415	24.6 %	3.1	2.8 %
Average shares outstanding	11,342	11,232	1.0 %		
Net income per share	\$0.27	\$0.22	22.7 %		
Dividends per share	\$0.0325	\$0.0275	18.2 %		

NINE MONTHS ENDED (UNAUDITED)

	Amounts			Percent of Sales	
	January 26, 1997	January 28, 1996	% Over (Under)	1997	1996
Net sales	\$ 293,201	249,505	17.5 %	100.0	100.0 %
Cost of sales	241,008	206,171	16.9 %	82.2	82.6 %
Gross profit	52,193	43,334	20.4 %	17.8	17.4 %
Selling, general and administrative expenses	33,328	27,768	20.0 %	11.4	11.1 %
Income from operations	18,865	15,566	21.2 %	6.4	6.2 %
Interest expense	3,652	3,964	(7.9)%	1.2	1.6 %
Interest income	(190)	0	** %	(0.1)	0.0 %
Other expense (income), net	1,117	592	88.7 %	0.4	0.2 %
Income before income taxes	14,286	11,010	29.8 %	4.9	4.4 %
Income taxes *	5,356	4,080	31.3 %	37.5	37.1 %
Net income	\$ 8,930	6,930	28.9 %	3.0	2.8 %
Average shares outstanding	11,317	11,218	0.9 %		
Net income per share	\$0.79	\$0.62	27.4 %		
Dividends per share	\$0.0975	\$0.0825	18.2 %		

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

\*\* Measurement is not meaningful.

CULP, INC. FINANCIAL INFORMATION RELEASE (Page 2 of 12)  
 CONSOLIDATED BALANCE SHEETS  
 JANUARY 26, 1997, JANUARY 28, 1996 AND APRIL 28, 1996

(Unaudited, Amounts in Thousands)

	Amounts		Increase		
	January 26, 1997	January 28, 1996	(Decrease) Dollars	Percent	* April 28, 1996
<b>Current assets</b>					
Cash and cash investments	\$ 406	1,841	(1,435)	(77.9)%	498
Accounts receivable	50,157	43,642	6,515	14.9 %	52,038
Inventories	50,755	49,960	795	1.6 %	47,395
Other current assets	3,701	3,436	265	7.7 %	4,167
<b>Total current assets</b>	<b>105,019</b>	<b>98,879</b>	<b>6,140</b>	<b>6.2 %</b>	<b>104,098</b>
<b>Restricted investments</b>					
Property, plant & equipment, net	11,778	0	11,778		5,274
Goodwill	86,146	73,356	12,790	17.4 %	76,961
Other assets	22,413	23,037	(624)	(2.7)%	22,871
<b>Total assets</b>	<b>\$ 228,262</b>	<b>197,704</b>	<b>30,558</b>	<b>15.5 %</b>	<b>211,644</b>
<b>Current Liabilities</b>					
Current maturities of long-term debt	\$ 6,100	11,555	(5,455)	(47.2)%	7,100
Accounts payable	20,833	22,516	(1,683)	(7.5)%	27,308
Accrued expenses	15,644	11,181	4,463	39.9 %	12,564
Income taxes payable	1,753	1,336	417	31.2 %	197
<b>Total current liabilities</b>	<b>44,330</b>	<b>46,588</b>	<b>(2,258)</b>	<b>(4.8)%</b>	<b>47,169</b>
Long-term debt	86,266	68,112	18,154	26.7 %	74,941
Deferred income taxes	8,088	5,381	2,707	50.3 %	8,088
<b>Total liabilities</b>	<b>138,684</b>	<b>120,081</b>	<b>18,603</b>	<b>15.5 %</b>	<b>130,198</b>
Shareholders' equity	89,578	77,623	11,955	15.4 %	81,446
<b>Total liabilities and shareholders' equity</b>	<b>\$ 228,262</b>	<b>197,704</b>	<b>30,558</b>	<b>15.5 %</b>	<b>211,644</b>
Shares outstanding	11,352	11,265	87	0.8 %	11,290

Derived from audited financial statements.

CULP, INC. FINANCIAL INFORMATION RELEASE (Page 3 of 12)  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE NINE MONTHS ENDED JANUARY 26, 1997 AND JANUARY 28, 1996  
(Unaudited, Amounts in Thousands)

	NINE MONTHS ENDED	
	Amounts	
	January 26, 1997	January 28, 1996
Cash flows from operating activities:		
Net income	\$ 8,930	6,930
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	9,440	9,278
Amortization of intangible assets	634	544
Provision for deferred income taxes	0	(37)
Changes in assets and liabilities:		
Accounts receivable	1,881	610
Inventories	(3,360)	(4,189)
Other current assets	466	(242)
Other assets	(642)	(57)
Accounts payable	(2,213)	(2,838)
Accrued expenses	3,080	(351)
Income taxes payable	1,556	675
Net cash provided by (used in) operating activities	19,772	10,323
Cash flows from investing activities:		
Capital expenditures	(18,625)	(7,710)
Purchases of restricted investments	(9,681)	0
Purchase of investments to fund deferred compensation liability	0	(1,286)
Proceeds from sale of restricted investments	3,177	795
Net cash provided by (used in) investing activities	(25,129)	(8,201)
Cash flows from financing activities:		
Proceeds from issuance of long-term debt	15,900	10,500
Principal payments on long-term debt	(5,575)	(4,575)
Change in accounts payable-capital expenditures	(4,262)	(6,896)
Dividends paid	(1,103)	(926)
Proceeds from sale of common stock	305	223
Net cash provided by (used in) financing activities	5,265	(1,674)
Increase (decrease) in cash and cash investments	(92)	448
Cash and cash investments at beginning of period	498	1,393
Cash and cash investments at end of period	\$ 406	1,841

	FISCAL 96		FISCAL 97			
	Q3		Q1	Q2	Q3	Q4
<b>INVENTORIES</b>						
Inventory turns	5.7		6.0	6.6		6.2
<b>RECEIVABLES</b>						
Days sales in receivables	43		43	45		47
Percent current & less than 30 days past due	99.0%		99.3%	99.9%		99.8%
<b>WORKING CAPITAL</b>						
Current ratio	2.1		2.2	2.1		2.4
Working capital turnover	5.3		5.4	5.4		5.3
Working capital	\$ 52,266		\$ 53,635	\$ 57,230		\$ 60,689
Working capital as a % of sales	15.1%		14.8%	13.6%		15.6%
<b>PROPERTY, PLANT &amp; EQUIPMENT</b>						
Depreciation rate	8.9%		8.3%	8.1%		7.5%
Percent property, plant & equipment are depreciated	48.0%		48.2%	48.6%		47.9%
Capital expenditures	\$14,385 (1)		\$ 4,475	\$ 5,201		\$ 8,949
<b>PROFITABILITY</b>						
Net profit margin	2.8%		2.4%	3.5%		3.1%
Gross profit margin	17.4%		17.6%	18.2%		17.6%
Operating income margin	6.2%		5.6%	7.1%		6.6%
SG & A expenses/net sales	11.1%		12.0%	11.1%		11.0%
Return on average total capital	6.7%		5.7%	9.3%		7.5%
Return on average equity	13.5%		10.7%	17.4%		14.1%
Earnings per share	\$ 0.22		\$ 0.20	\$ 0.33		\$ 0.27
<b>LEVERAGE (3)</b>						
Total liabilities/equity	154.7%		149.9%	152.8%		154.8%
Long-term debt/equity	87.7%		85.1%	83.9%		96.3%
Funded debt/equity	102.6%		87.3%	85.9%		90.0%
Funded debt/capital employed	50.6%		46.6%	46.2%		47.4%
Funded debt	\$ 79,667		\$ 72,772	\$ 74,612		\$ 80,588
Funded debt/EBITDA (LTM)	2.29		1.98	1.97		2.09
<b>OTHER</b>						
Book value per share	\$ 6.89		\$ 7.37	\$ 7.66		\$ 7.89
Employees at quarter end	2,886		3,020	3,098		3,143
Sales per employee (annualized)	\$ 121,000		\$ 120,000	\$ 138,000		\$ 125,000
Capital employed (3)	\$ 157,290		\$ 156,128	\$ 161,447		\$ 170,166
Effective income tax rate	37.2%		37.5%	37.5%		37.5%
EBITDA (2)	\$ 8,450		\$ 8,003	\$ 10,540		\$ 9,279
EBITDA/net sales	9.8%		8.8%	10.0%		9.5%

(1) Expenditures for entire year

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

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



CULP, INC. FINANCIAL INFORMATION RELEASE (Page 5 of 12)  
 SALES BY PRODUCT CATEGORY/BUSINESS UNIT  
 FOR THREE MONTHS AND NINE MONTHS ENDED JANUARY 26, 1997 AND JANUARY 28, 1996

(Amounts in thousands)

THREE MONTHS ENDED (UNAUDITED)

Product Category/Business Unit	Amounts		% Over (Under)	Percent of Total Sales	
	January 26, 1997	January 28, 1996		1997	1996
<b>Upholstery Fabrics</b>					
Culp Textures	\$ 20,389	20,685	(1.4)%	20.9 %	23.9 %
Rossville/Chromatex	18,953	18,567	2.1 %	19.4 %	21.5 %
	39,342	39,252	0.2 %	40.4 %	45.4 %
<b>Velvets/Prints</b>					
	40,387	31,836	26.9 %	41.4 %	36.8 %
	79,729	71,088	12.2 %	81.8 %	82.2 %
<b>Mattress Ticking</b>					
Culp Home Fashions	17,739	15,388	15.3 %	18.2 %	17.8 %
	* \$ 97,468	86,476	12.7 %	100.0%	100.0%

NINE MONTHS ENDED (UNAUDITED)

Product Category/Business Unit	Amounts		% Over (Under)	Percent of Total Sales	
	January 26, 1997	January 28, 1996		1997	1996
<b>Upholstery Fabrics</b>					
Culp Textures	\$ 65,191	60,984	6.9 %	22.2 %	24.4 %
Rossville/Chromatex	58,840	51,885	13.4 %	20.1 %	20.8 %
	124,031	112,869	9.9 %	42.3 %	45.2 %
<b>Velvets/Prints</b>					
	115,487	87,440	32.1 %	39.4 %	35.0 %
	239,518	200,309	19.6 %	81.7 %	80.3 %
<b>Mattress Ticking</b>					
Culp Home Fashions	53,683	49,196	9.1 %	18.3 %	19.7 %
	* \$292,201	249,505	17.5 %	100.0%	100.0%

\*US. sales were \$70,931 and \$67,506 for the three months of fiscal 1997 and fiscal 1996, respectively; and \$220,794 and \$196,543 for the nine months of fiscal 1997 and fiscal 1996, respectively. The percentage increases in U.S. sales were 5.1% for the three months and 12.3% for the nine months.

CULP, INC. FINANCIAL INFORMATION RELEASE (Page 6 of 12)  
INTERNATIONAL SALES BY GEOGRAPHIC AREA  
FOR THREE MONTHS AND NINE MONTHS ENDED JANUARY 26, 1997 AND JANUARY 28, 1996

(Amounts in thousands)

Geographic Area	THREE MONTHS ENDED (UNAUDITED)					
	Amounts			Percent of the Company's		
	January 26, 1997	January 28, 1996	% Over (Under)	Total Sales		
	1997	1996		1997	1996	
North America (Excluding USA)	\$ 6,482	5,488	18.1 %	6.7 %	6.5 %	
Europe	7,213	5,590	29.0 %	7.4 %	6.6 %	
Middle East	4,580	2,383	92.2 %	4.7 %	2.8 %	
Far East & Asia	6,862	4,052	69.3 %	7.0 %	4.8 %	
South America	855	703	21.6 %	0.9 %	0.8 %	
All other areas	545	754	(27.7%)	0.6 %	0.9 %	
	\$ 26,537	18,970	39.9 %	27.2 %	22.4 %	
		0				

Geographic Area	NINE MONTHS ENDED (UNAUDITED)					
	Amounts			Percent of the Company's		
	January 26, 1997	January 28, 1996	% Over (Under)	Total Sales		
	1997	1996		1997	1996	
North America (Excluding USA)	\$ 20,555	16,275	26.3 %	7.0 %	5.6 %	
Europe	17,573	13,072	34.4 %	6.0 %	4.5 %	
Middle East	13,736	7,933	73.2 %	4.7 %	2.7 %	
Far East & Asia	15,893	9,821	61.8 %	5.4 %	3.4 %	
South America	2,464	2,297	7.3 %	0.8 %	0.8 %	
All other areas	2,189	3,564	(38.6%)	0.7 %	1.2 %	
	\$ 72,410	52,962	36.7 %	24.7 %	18.3 %	

International sales , and the percentage of total sales, for each of the last seven fiscal years follows: fiscal 1991- \$20,295 (12%); fiscal 1992-\$ 34,094 (18%); fiscal 1993-\$40,729 (20%); fiscal 1994-\$44,038 (18%); fiscal 1995-\$57,971 (19%); and fiscal 1996-\$77,397 (22%).

Culp, Inc.  
SALES BY BUSINESS UNIT - TREND ANALYSIS  
1995 vs 1996 vs 1997

(Page 7 of 12)

(Amounts in thousands)

Product Category/Business Units	Fiscal 1995					Fiscal 1996				
	Q1	Q2	Q3	Q4	TOTAL	Q1	Q2	Q3	Q4	TOTAL
Upholstery Fabrics										
Culp Textures	19,613	22,834	20,940	21,738	85,125	17,584	22,715	20,685	23,400	84,384
Rossville/Chromatex	15,140	15,758	16,397	16,470	63,765	15,358	17,960	18,567	22,318	74,203
	34,753	38,592	37,337	38,208	148,890	32,942	40,675	39,252	45,718	158,587
Velvets/Prints	20,644	26,439	28,307	31,413	106,803	23,523	32,081	31,836	38,280	125,720
	55,397	65,031	65,644	69,621	255,693	56,465	72,756	71,088	83,998	284,307
Mattress Ticking										
Culp Home Fashions (1)	10,952	13,414	12,147	15,820	52,333	15,892	17,916	15,388	18,164	67,360
	66,349	78,445	77,791	85,441	308,026	72,357	90,672	86,476	102,162	351,667

Product Category/Business Units	Fiscal 1997				TOTAL
	Q1	Q2	Q3	Q4	
Upholstery Fabrics	20,801	24,001	20,389		65,191
Culp Textures	18,165	21,722	18,953		58,840
Rossville/Chromatex	38,966	45,723	39,342		124,031
Velvets/Prints	34,867	40,233	40,387		115,487
	73,833	85,956	79,729		239,518
Mattress Ticking	16,696	19,248	17,739		53,683
Culp Home Fashions (1)	90,529	105,204	97,468		293,201

Product Category/Business Units	Percent increase(decrease) from prior year:									
	Q1	Q2	Q3	Q4	TOTAL	Q1	Q2	Q3	Q4	TOTAL
Upholstery Fabrics										
Culp Textures	12.4	13.8	6.4	2.9	8.7	(10.3)	(0.5)	(1.2)	7.6	(0.9)
Rossville/Chromatex	100.0	100.0	14.4	(1.5)	105.4	1.4	14.0	13.2	35.5	16.4
	99.2	92.3	9.8	1.0	36.1	(5.2)	5.4	5.1	19.7	6.5
Velvets/Prints	(1.2)	7.8	19.4	12.5	10.1	13.9	21.3	12.5	21.9	17.7
	44.5	45.8	13.7	5.9	23.9	1.9	11.9	8.3	20.7	11.2
Mattress Ticking										
Culp Home Fashions (1)	32.7	42.8	27.4	37.9	35.4	45.1	33.6	26.7	14.8	28.7
	42.4	45.3	15.7	10.6	25.7	9.1	15.6	11.2	19.6	14.2
Overall Growth Rate										
Internal (without acquisitions)	9.9	16.1	15.7	8.8	12.5	6.4	13.0	8.7	19.6	12.3
External	32.5	29.2	-	1.8	13.2	2.7	2.6	2.5	-	1.9
	42.4	45.3	15.7	10.6	25.7	9.1	15.6	11.2	19.6	14.2

Product Category/Business Units	Q1	Q2	Q3	Q4	TOTAL
Upholstery Fabrics	18.3	5.7	(1.4)		6.9
Culp Textures	18.3	20.9	2.1		13.4
Rossville/Chromatex	18.3	12.4	0.2		9.9
Velvets/Prints	48.2	25.4	26.9		32.1
	30.8	18.1	12.2		19.6
Mattress Ticking	5.1	7.4	15.3		9.1
Culp Home Fashions (1)	25.1	16.0	12.7		17.5

Overall Growth Rate

Internal (without acquisitions)	25.1	16.0	12.7	17.5
External	-	-	-	-
	25.1	16.0	12.7	17.5

CULP, INC. FINANCIAL INFORMATION RELEASE  
FINANCIAL NARRATIVE

for the three and nine month periods ended January 26, 1997 and January 28, 1996

INCOME STATEMENT COMMENTS

GENERAL - The company is pleased to report that sales increased 12.7% to \$97.5 million and net income increased 24.6% to \$3.0 million for its third quarter, as compared with the third quarter of last year. This performance marks the seventeenth consecutive quarter of record earnings and the fifteenth consecutive quarter of record sales (based on the comparable year-earlier periods) The company's net profit margin increased to 3.1% from 2.8% for the quarter. For the nine months, sales increased 17.5% to \$293.2 million and net income increased 28.9% to \$8.9 million. The company's net profit margin increased to 3.0% from 2.8% for the nine months. Also, the company achieved a return on average shareholders' equity of 15.5% for the latest twelve months. For the last five years, the company has achieved a compound annual growth rate in net income and net sales of 31% and 15%, respectively.

The company attributes this consistent record to several key competitive strengths:

- (Bullet) Diverse Global Customer Base - penetrating other end-use markets in addition to U. S. residential furniture, such as bedding, international, commercial furniture, juvenile furniture and home textiles; sales to these other markets accounted for approximately 48% of net sales during the third quarter; additionally, no one customer accounted for more than 8% during the first nine months of 1997;
- (Bullet) Design Innovation - investing in the creative aspect of our business - the company has significantly increased the resources (both designers and computer-aided design (CAD) systems) dedicated to the design and product development areas in each business unit; the company's in-house design staff now includes over 50 people. Additionally, the company is building a state-of-the-art design center in North Carolina that will bring together most of its design resources in one facility.
- (Bullet) Vertical Integration - realizing additional manufacturing integration by producing various raw material components that are used in the manufacture of its products; and
- (Bulle) Ability to Integrate Acquisitions - investing in selective, accretive acquisitions in businesses which we know and understand and that strengthen existing marketing positions.

NET SALES - compared with the third quarter of last year, upholstery fabric sales increased 12.2% to \$79.7 million and mattress ticking sales increased 15.3 % to \$17.7 million for the quarter (See Sales by Business schedule on Page 5 and Sales by Business Unit - Trend Analysis on page 7). The growth in upholstery fabric sales for the third quarter reflects the following changes: Velvets/Prints - up 26.9%; Rossville/Chromatex - up 2.1%; and Culp Textures down 1.4%. Within the Velvets/Prints business unit, sales of the company's wet printed flock product line increased 80.2% versus the third quarter of last year. Sales of printed jacquards increased 36.0% versus the same quarter of last year. The company's sales growth in the United Sates was 5.1%.

International sales were up 39.9% for the quarter, with strength in all major regions, including the Middle East, the Far East and Asia, and North America (excluding the U.S). (See International Sales by Geographic Area schedule on page 6.) All business units reported gains in international sales. The company has shipped products to over 50 countries during the first nine months of fiscal 1997. We are encouraged by the geographical balance of our international customer base. The vast majority of international sales are denominated in U.S. dollars.

GROSS PROFIT - The gross profit increase of 14.1% for the quarter versus the same quarter of last year reflects strong gains in Velvets/Prints and Culp Home Fashions, flat results in Rossville/Chromatex and moderately lower results in Culp Textures. The overall gross profit margin increased to 17.6% for the quarter from 17.4% in the same quarter of last year.

During the last nine months, the company has begun to realize lower raw material prices for many of its raw materials. Because raw materials represent the largest cost element in the company's products (about 50% of

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sales), management has been actively exploring ways to lower these costs through several key strategies:

- (Bullet) further vertical integration of certain large-volume raw material components;
- (Bullet) monitoring existing suppliers to ensure that the company is receiving the best possible combination of value and price; and
- (Bullet) increasing the utilization of the company's various raw material manufacturing capabilities.

S,G&A EXPENSES - S,G&A expenses decreased as a percentage of sales to 11.0% for the quarter from 11.1% for the same quarter of last year.

INTEREST EXPENSE - The decrease for the quarter of 4.0% is primarily due to lower average borrowings outstanding.

INTEREST INCOME - The increase is due to interest income earned from the restricted investments related to new industrial revenue bonds issued.

OTHER EXPENSE (INCOME), NET - In the third quarter, other expense (income) increased to \$421,000 from \$266,000 in the same quarter of last year.

INCOME TAXES - The company estimates that the effective tax rate for fiscal 1997 will again be about 36.5%, due to the lower tax rate related to Canadian income and the tax benefit related to international sales.

EBITDA - EBITDA for the quarter increased 9.8% from last year's third quarter to \$9.3 million, and represented 9.5% of net sales compared with 9.8% of net sales last year.

BALANCE SHEET COMMENTS

WORKING CAPITAL - Accounts receivable increased 14.9% from January, 1996, while sales increased 12.7%. Days' sales outstanding represented 47 days, up from 43 at January, 1996. Accounts receivable increased at a faster rate than sales because of the increasing mix of international sales, which carry longer payment terms than U.S. sales. The aging of accounts receivable remained excellent, with 99.8% current and less than 30 days past

due. Inventories increased 1.6% from January, 1996 and inventory turns were 6.2 versus 5.7 for last year's third quarter. One of the company's key initiatives for fiscal 1997 is to find ways to increase inventory turns. The company has increased inventory turns in each of the three quarters of the current fiscal year.

PROPERTY, PLANT AND EQUIPMENT - The company has maintained a significant program of capital expenditures designed to expand capacity as needed to support sales growth, increase vertical integration to lower product costs and control more of its supply of raw materials, and enhance manufacturing efficiencies through modernization. For fiscal 1997, the company is planning capital spending of approximately \$31 million. Major projects include the following:

(Bullet) Expansion Projects - (\$15.0 million or 48% of total)

- a) printing expansion for the wet printed flock product line in the Velvets/Prints business unit; this project includes the purchase of a new facility in Lumberton, North Carolina along with new printing and finishing equipment (\$9.5 million).

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- b) weaving expansions for the dobby and jacquard product lines in the Rossville/Chromatex business unit (\$3.0 million); and
- c) other smaller projects (\$2.5 million)

(Bullet) Vertical Integration - (\$13.0 million or 42% of total)

- a) weaving expansion for jacquard greige goods (narrow and wide-width) at the company's Rayonese facility in Canada, which is part of Culp Home Fashions business unit (\$5.5 million);
- b) installation of the company's first flock coating line, which will produce the unprinted flocked greige goods for the wet printed flock product line (\$4.0 million);
- c) expansion of yarn extrusion capacity; during the third quarter, the company began an \$8.0 million project to approximately double its polypropylene yarn extrusion capacity over the next two years. About 20% of the capacity is expected to be operational by May 1997, another 60% throughout fiscal 1998, and the balance in early fiscal 1999 (\$2.0 million in fiscal 1997; \$5.0 million in fiscal 1998; and \$1.0 million in fiscal 1999).
- d) various other vertical integration projects (\$1.5 million).

(Bullet) Modernization (\$3.0 million or 10% of total)

Although final budgets for fiscal 1998 have not been determined, the company is currently planning capital spending of approximately \$20 million, which includes about \$2.5 million for expansion projects (13%); \$13.5 million for vertical integration projects (68%); and \$4.0 million for modernization projects. The key vertical integration projects include the yarn extrusion expansion discussed above and additional weaving capacity for jacquard greige goods at Rayonese.

Depreciation expense for fiscal 1997 is estimated at \$13 million.

LONG-TERM DEBT - The company's funded debt-to-capital ratio was 47.4% at January 26, 1997, down from 50.6% at January 28, 1996, and 48.5 % at April, 1996. Funded debt was \$80.6 million at January 26, 1997 compared with \$79.7 million at January 28, 1996 and \$76.8 million last year end (see schedule on page 12 of 12.). (Funded debt equals long-term debt, including current maturities, less restricted investments, which represent unspent IRB funds).

During the third quarter, the company received "best efforts" commitments from its principal bank lenders, Wachovia Bank of North Carolina, N.A. and First Union National Bank of North Carolina, to refinance its \$66 million term loan and revolving line of credit with a syndicated, five-year \$125 million unsecured, multi-currency credit facility, which is expected to include several leading institutional lending institutions. Terms of the proposed new facility include reduced interest costs, less restrictive financial covenants and significant additional borrowing capacity. On a pro forma basis, as of January 26, 1997 (assuming the stock offering and bank deal were completed as of January 26, 1997), the company's borrowing availability under the new bank credit facility would be approximately \$81 million. The company believes the new bank facility will be completed by April 27, 1997 (fiscal year-end).

Also, during the third quarter, the company completed two new IRB's totaling \$9.5 million, which carry interest rates of approximately 55% of the prime rate.

SUBSEQUENT EVENT - SECONDARY STOCK OFFERING - On January 30, 1997 the company completed the sale of 1,200,000 shares of newly issued common stock, and 640,000 shares of common stock from certain non-management selling shareholders for \$15.00 per share. Proceeds from the offering, net of underwriter's commission and company issuance expenses, are approximately \$16.3 million. The key reasons for the offering were to fund the company's growth initiatives, and provide the financial basis for possible acquisitions, and, to a

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lesser extent, enhance trading liquidity of its common stock by increasing the "float." The schedule on page 12 shows the company's capital structure on an actual basis as of January 26, 1997, and on a pro forma basis, as if the offering were completed on that date.



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CAPITAL STRUCTURE  
January 26, 1997

	Actual	Proforma (1)
Long-term debt, including:		
Industrial revenue bonds and other obligations	\$31,666	\$31,666
Revolving credit facility	29,700	13,400
Term loan	31,000	31,000
Subtotal	92,366	76,066
Less: Restricted investments (2)	(11,778)	(11,778)
Funded debt	\$80,588	\$64,288
Shareholders' equity:		
Common stock	\$ 566	\$ 626
Additional paid-in-capital	17,182	33,422
Retained earnings	71,830	71,830
Total shareholders' equity	\$89,578	\$105,878
Funded debt to total capital	47.4%	37.8%
Funded debt to EBITDA(LTM)	2.09	1.66

(1) Assumes the net proceeds of \$16.3 million from the stock offering were received and applied against the company's revolving credit facility as of January 26, 1997.

(2) Restricted investments were purchased with proceeds of industrial revenue bond issues and are invested pending application of such proceeds to project costs or repayment of the bonds.