# 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 October 29, 2023
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 December 6, 2023: 12,469,903
Par Value: $0.05 per share**

**INDEX TO FORM 10-Q**

**For the period ended October 29, 2023**

## Item 1: Financial Statements

**CULP, INC.**
**CONSOLIDATED STATEMENTS OF NET LOSS**
**FOR THE THREE MONTHS ENDED OCTOBER 29, 2023, AND OCTOBER 30, 2022**
**UNAUDITED**
**(Amounts in Thousands, Except for Per Share Data)**

| | THREE MONTHS ENDED | |
|---|---|---|
| | **October 29, 2023** | October 30, 2022 |
| Net sales | **$ 58,725** | $ 58,381 |
| Cost of sales | **(50,775)** | (60,594) |
| Gross profit (loss) | **7,950** | (2,213) |
| Selling, general and administrative expenses | **(10,045)** | (9,103) |
| Restructuring expense | **(144)** | (615) |
| Loss from operations | **(2,239)** | (11,931) |
| Interest income | **282** | 79 |
| Other income | **49** | 829 |
| Loss before income taxes | **(1,908)** | (11,023) |
| Income tax expense | **(516)** | (1,150) |
| Net loss | **$ (2,424)** | $ (12,173) |
| | | |
| Net loss per share - basic | **$ (0.19)** | $ (0.99) |
| Net loss per share - diluted | **$ (0.19)** | $ (0.99) |
| Average shares outstanding, basic | **12,456** | 12,280 |
| Average shares outstanding, diluted | **12,456** | 12,280 |

See accompanying notes to consolidated financial statements.

# CULP, INC.
# CONSOLIDATED STATEMENTS OF NET LOSS
# FOR THE SIX MONTHS ENDED OCTOBER 29, 2023, AND OCTOBER 30, 2022
# UNAUDITED
# (Amounts in Thousands, Except for Per Share Data)

| | SIX MONTHS ENDED | |
|---|---|---|
| | **October 29, 2023** | October 30, 2022 |
| Net sales | **$ 115,387** | $ 120,985 |
| Cost of sales | **(100,352)** | (119,071) |
| Gross profit | **15,035** | 1,914 |
| Selling, general and administrative expenses | **(19,874)** | (17,968) |
| Restructuring expense | **(482)** | (615) |
| Loss from operations | **(5,321)** | (16,669) |
| Interest income | **627** | 96 |
| Other income | **145** | 747 |
| Loss before income taxes | **(4,549)** | (15,826) |
| Income tax expense | **(1,217)** | (2,046) |
| Net loss | **$ (5,766)** | $ (17,872) |
| | | |
| Net loss per share - basic | **$ (0.47)** | $ (1.46) |
| Net loss per share - diluted | **$ (0.47)** | $ (1.46) |
| Average shares outstanding, basic | **12,394** | 12,259 |
| Average shares outstanding, diluted | **12,394** | 12,259 |

See accompanying notes to consolidated financial statements.

## CULP, INC.
## CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
## FOR THE THREE AND SIX MONTHS ENDED OCTOBER 29, 2023, AND OCTOBER 30, 2022
## UNAUDITED
## (Amounts in Thousands)

| | THREE MONTHS ENDED | |
|---|---|---|
| | **October 29, 2023** | October 30, 2022 |
| Net loss | **$ (2,424)** | $ (12,173) |
| Unrealized holding loss on investments, net of tax | **(82)** | (46) |
| Comprehensive loss | **$ (2,506)** | $ (12,219) |

| | SIX MONTHS ENDED | |
|---|---|---|
| | **October 29, 2023** | October 30, 2022 |
| Net loss | **$ (5,766)** | $ (17,872) |
| Unrealized holding loss on investments, net of tax | **(25)** | (53) |
| Comprehensive loss | **$ (5,791)** | $ (17,925) |

See accompanying notes to consolidated financial statements.

**CULP, INC.**
**CONSOLIDATED BALANCE SHEETS**
**OCTOBER 29, 2023, OCTOBER 30, 2022, AND APRIL 30, 2023**
**UNAUDITED**
**(Amounts in Thousands)**

| | **October 29, 2023** | October 30, 2022 | April 30, 2023* |
|---|---|---|---|
| Current assets: | | | |
| Cash and cash equivalents | **$ 15,214** | $ 19,137 | $ 20,964 |
| Short-term investments - rabbi trust | **937** | 2,237 | 1,404 |
| Accounts receivable, net | **23,036** | 22,443 | 24,778 |
| Inventories | **44,465** | 52,224 | 45,080 |
| Short-term note receivable | **256** | — | 219 |
| Current income taxes receivable | **340** | 510 | — |
| Other current assets | **4,346** | 3,462 | 3,071 |
| Total current assets | **88,594** | 100,013 | 95,516 |
| Property, plant and equipment, net | **34,664** | 38,832 | 36,111 |
| Right of use assets | **6,874** | 11,609 | 8,191 |
| Intangible assets | **2,064** | 2,440 | 2,252 |
| Long-term investments - rabbi trust | **6,995** | 7,526 | 7,067 |
| Long-term note receivable | **1,596** | — | 1,726 |
| Deferred income taxes | **472** | 493 | 480 |
| Other assets | **901** | 717 | 840 |
| Total assets | **$ 142,160** | $ 161,630 | $ 152,183 |
| Current liabilities: | | | |
| Accounts payable - trade | **$ 27,903** | $ 24,298 | $ 29,442 |
| Accounts payable - capital expenditures | **298** | 200 | 56 |
| Operating lease liability - current | **2,540** | 2,655 | 2,640 |
| Deferred compensation - current | **937** | 2,237 | 1,404 |
| Deferred revenue | **853** | 1,527 | 1,192 |
| Accrued expenses | **8,106** | 7,594 | 8,533 |
| Accrued restructuring costs | **—** | 33 | — |
| Income taxes payable - current | **998** | 969 | 753 |
| Total current liabilities | **41,635** | 39,513 | 44,020 |
| Operating lease liability - long-term | **2,431** | 4,194 | 3,612 |
| Income taxes payable - long-term | **2,055** | 2,629 | 2,675 |
| Deferred income taxes | **5,663** | 5,700 | 5,954 |
| Deferred compensation - long-term | **6,748** | 7,486 | 6,842 |
| Total liabilities | **58,532** | 59,522 | 63,103 |
| Commitments and Contingencies (Notes 10, 16, and 17) | | | |
| Shareholders' equity | | | |
| Preferred stock, $0.05 par value, authorized 10,000,000 | **—** | — | — |
| Common stock, $0.05 par value, authorized 40,000,000 shares, issued and outstanding 12,469,903 at October 29, 2023; 12,293,762 at October 30, 2022, and 12,327,414 at April 30, 2023 | **624** | 615 | 616 |
| Capital contributed in excess of par value | **44,581** | 43,671 | 44,250 |
| Accumulated earnings | **38,429** | 57,843 | 44,195 |
| Accumulated other comprehensive (loss) income | **(6)** | (21) | 19 |
| Total shareholders' equity | **83,628** | 102,108 | 89,080 |
| Total liabilities and shareholders' equity | **$ 142,160** | $ 161,630 | $ 152,183 |

* Derived from audited consolidated financial statements.

See accompanying notes to consolidated financial statements.

# CULP, INC.
# CONSOLIDATED STATEMENTS OF CASH FLOWS
# FOR THE SIX MONTHS ENDED OCTOBER 29, 2023, AND OCTOBER 30, 2022
# UNAUDITED
# (Amounts in Thousands)

| | SIX MONTHS ENDED | |
|---|---|---|
| | **October 29, 2023** | October 30, 2022 |
| Cash flows from operating activities: | | |
| Net loss | **$ (5,766 )** | $ (17,872 ) |
| Adjustments to reconcile net loss to net cash (used in) provided by operating activities: | | |
| Depreciation | **3,251** | 3,489 |
| Non-cash inventory (credits) charges | **(2,001 )** | 6,439 |
| Amortization | **193** | 214 |
| Stock-based compensation | **485** | 565 |
| Deferred income taxes | **(283 )** | (269 ) |
| Gain sale of equipment | **(278 )** | (232 ) |
| Non-cash restructuring expenses | **379** | — |
| Foreign currency exchange gain | **(697 )** | (1,168 ) |
| Changes in assets and liabilities: | | |
| Accounts receivable | **1,644** | (443 ) |
| Inventories | **2,304** | 7,192 |
| Other current assets | **(1,355 )** | (728 ) |
| Other assets | **(123 )** | 58 |
| Accounts payable – trade | **(495 )** | 6,027 |
| Deferred revenue | **(339 )** | 1,007 |
| Accrued restructuring costs | **—** | 33 |
| Accrued expenses and deferred compensation | **(762 )** | 1,254 |
| Income taxes | **(633 )** | 601 |
| Net cash (used in) provided by operating activities | **(4,476 )** | 6,167 |
| Cash flows from investing activities: | | |
| Capital expenditures | **(1,972 )** | (1,051 ) |
| Proceeds from the sale of equipment | **309** | 465 |
| Proceeds from note receivable | **150** | — |
| Proceeds from the sale of investments (rabbi trust) | **986** | 46 |
| Purchase of investments (rabbi trust) | **(472 )** | (505 ) |
| Net cash used in investing activities | **(999 )** | (1,045 ) |
| Cash flows from financing activities: | | |
| Common stock surrendered for withholding taxes payable | **(146 )** | (33 ) |
| Payments of debt issuance costs | **—** | (206 ) |
| Net cash used in financing activities | **(146 )** | (239 ) |
| Effect of exchange rate changes on cash and cash equivalents | **(129 )** | (296 ) |
| (Decrease) increase in cash and cash equivalents | **(5,750 )** | 4,587 |
| Cash and cash equivalents at beginning of year | **20,964** | 14,550 |
| Cash and cash equivalents at end of period | **$ 15,214** | $ 19,137 |

See accompanying notes to consolidated financial statements.

# CULP, INC.
# CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
# FOR THE SIX MONTHS ENDED OCTOBER 29, 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, 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 |
| 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 |

* Derived from audited consolidated financial statements.

See accompanying notes to consolidated financial statements

# CULP, INC.
# CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
# FOR THE SIX MONTHS ENDED OCTOBER 30, 2022
# 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 ) |
| Immediately 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 | 69 | — | — | — | — | — |
| Common stock issued in connection with the vesting of time-based restricted stock units | 600 | — | — | — | — | — |
| Common stock surrendered in connection with payroll withholding taxes | (20 ) | — | 19 | — | — | 19 |
| Immediately vested common stock award | 18,327 | 1 | (1 ) | — | — | — |
| Balance, October 30, 2022 | 12,293,762 | $ 615 | $ 43,671 | $ 57,843 | $ (21 ) | $ 102,108 |

* Derived from audited consolidated financial statements.

See accompanying notes to consolidated financial statements.

## 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, for the fiscal year ended April 30, 2023.

The company's six-months ended October 29, 2023, and October 30, 2022, each represent 26-week periods.

### 2. Significant Accounting Policies

As of October 29, 2023, 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.

*Recently Adopted Accounting Pronouncements*

There were no recently adopted accounting pronouncements during the first half of fiscal 2024.

*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 effects ASU 2023-07 will have on the notes to the consolidated financial statements.

### 3. Allowance for Doubtful Accounts

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

| | Six Months Ended | |
|---|---|---|
| (dollars in thousands) | October 29, 2023 | October 30, 2022 |
| Beginning balance | $ 342 | $ 292 |
| Provision for bad debts | 228 | 49 |
| Write-offs, net of recoveries | (29) | (53) |
| Ending balance | $ 541 | $ 288 |

During the six-month periods ended October 29, 2023, and October 30, 2022, 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 $541,000 and $288,000 as of October 29, 2023, and October 30, 2022, 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, manufactures, sources, and sells fabrics primarily to residential and commercial 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 customer deposits that result in a contract liability which is recorded in the Consolidated Balance Sheets as deferred revenue. 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 October 29, 2023, October 30, 2022, or April 30, 2023.

A summary of the activity associated with deferred revenue follows:

| | Six months ended | |
|---|---|---|
| (dollars in thousands) | October 29, 2023 | October 30, 2022 |
| Beginning balance | $ 1,192 | $ 520 |
| Revenue recognized on contract liabilities | (1,986) | (1,747) |
| Payments received for services not yet rendered | 1,647 | 2,754 |
| Ending balance | $ 853 | $ 1,527 |

*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 October 29, 2023:

| *(dollars in thousands)* | Mattress Fabrics | Upholstery Fabrics | Total |
|---|---|---|---|
| Products transferred at a point in time | $ 31,377 | $ 24,194 | $ 55,571 |
| Services transferred over time | — | 3,154 | 3,154 |
| Total Net Sales | $ 31,377 | $ 27,348 | $ 58,725 |

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

| *(dollars in thousands)* | Mattress Fabrics | Upholstery Fabrics | Total |
|---|---|---|---|
| Products transferred at a point in time | $ 60,599 | $ 48,968 | $ 109,567 |
| Services transferred over time | — | 5,820 | 5,820 |
| Total Net Sales | $ 60,599 | $ 54,788 | $ 115,387 |

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 October 30, 2022:

| *(dollars in thousands)* | Mattress Fabrics | Upholstery Fabrics | Total |
|---|---|---|---|
| Products transferred at a point in time | $ 26,230 | $ 29,883 | $ 56,113 |
| Services transferred over time | — | 2,268 | 2,268 |
| Total Net Sales | $ 26,230 | $ 32,151 | $ 58,381 |

The following table presents our disaggregated revenue by segment, timing of revenue recognition, and product sales versus services rendered for the six-month period ending October 30, 2022:

| (dollars in thousands) | | Mattress Fabrics | | Upholstery Fabrics | | Total |
|---|---|---|---|---|---|---|
| Products transferred at a point in time | $ | 55,602 | $ | 61,406 | $ | 117,008 |
| Services transferred over time | | — | | 3,977 | | 3,977 |
| Total Net Sales | $ | 55,602 | $ | 65,383 | $ | 120,985 |

## 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)* | | October 29, 2023 | | October 30, 2022 | | April 30, 2023 |
|---|---|---|---|---|---|---|
| Raw materials | $ | 8,433 | $ | 9,859 | $ | 7,908 |
| Work-in-process | | 2,196 | | 3,724 | | 2,602 |
| Finished goods | | 33,836 | | 38,641 | | 34,570 |
| | $ | 44,465 | $ | 52,224 | $ | 45,080 |

*Measurement of Inventory to Net Realizable Value*

We recorded a non-cash inventory (credit) charge of $(1.3) million and $5.3 million for the three months ended October 29, 2023 and October 30, 2022, respectively. The non-cash inventory credit of $(1.3) million for the three months ended October 29, 2023 represented a $(1.2) million 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 segments, as well as a credit of ($78,000) for the gain on disposal of inventory related to the discontinuation of production of cut and sewn upholstery kits in Ouanaminthe, Haiti. The non-cash inventory charge of $5.3 million for the three months ended October 30, 2022 represented a $2.9 million write down of inventory to its net realizable value associated with our mattress fabrics segment, $2.3 million related to our inventory markdowns reserve estimated based on our policy for aged inventory for both our mattress and upholstery fabrics segments and a $98,000 charge for the loss on disposal and markdowns of inventory related to our exit of our cut and sew upholstery fabrics operation located in Shanghai, China. Of the $(1.3) million non-cash inventory credit for the second quarter of fiscal 2024, $(801,000) and $(482,000) pertained to our mattress fabrics and upholstery fabrics segments, respectively. Of the $5.3 million non-cash inventory charge for the second quarter of 2023, $3.8 million and $1.5 million pertained to our mattress fabrics and upholstery fabrics segments, respectively.

We recorded a non-cash inventory (credit) charge of $(2.0) million and $6.4 million for the six months ended October 29, 2023, and October 30, 2022, respectively. The non-cash inventory credit of $(2.0) million for the six months ended October 29, 2023, represented a $(2.1) million credit related to adjustments made to our inventory markdown reserve estimated based on our policy for aged inventory for both our mattress and upholstery fabrics segments, partially offset by a net restructuring related charge of $101,000. This net restructuring related charge represents markdowns of inventory totaling $179,000 during the first quarter of fiscal 2024, partially offset by a gain on disposal of inventory totaling $78,000 during the second quarter of fiscal 2024, both of which related to the discontinuation of production of cut and sewn upholstery kits at our facility in Ouanaminthe, Haiti during the respective periods. The non-cash inventory charge of $6.4 million for the six months ended October 30, 2022, represented a $2.9 million write down of inventory to its net realizable value associated with our mattress fabrics segment, a $3.4 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 half of fiscal 2024, $(1.5) million and $(453,000) pertained to our mattress fabrics and upholstery fabrics segments, respectively. Of the $6.4 million non-cash inventory charge for the first half of fiscal 2023, $4.2 million and $2.2 million pertained to our mattress fabrics and upholstery fabrics segments, respectively.

<u>Mattress Fabrics Segment - Net Realizable Value</u>

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 disclosed above) 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 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.

Assessment

As of October 29, 2023, 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 six months ended October 29, 2023, other than the markdowns of inventory associated with our upholstery fabrics segment restructuring activity 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 its results. These differences could result in higher than expected markdowns of inventory, 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)* | October 29, 2023 | October 30, 2022 | April 30, 2023 |
|---|---|---|---|
| Tradename | $ 540 | $ 540 | $ 540 |
| Customer relationships, net | 1,185 | 1,486 | 1,335 |
| Non-compete agreement, net | 339 | 414 | 377 |
| | $ 2,064 | $ 2,440 | $ 2,252 |

*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 October 29, 2023, no indicators of impairment existed, and therefore we did not record any asset impairment charges associated with our tradename through the second quarter of fiscal 2024.

*Customer Relationships*

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

| | Six months ended | |
|---|---|---|
| *(dollars in thousands)* | October 29, 2023 | October 30, 2022 |
| Beginning balance, net | $ 1,335 | $ 1,636 |
| Amortization expense | (150) | (150) |
| Ending balance, net | $ 1,185 | $ 1,486 |

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 October 29, 2023, October 30, 2022, and April 30, 2023, respectively. Accumulated amortization for these customer relationships was $1.9 million, $1.6 million, and $1.8 million as of October 29, 2023, October 30, 2022, and April 30, 2023, respectively.

The remaining amortization expense for the next five fiscal years and thereafter are as follows: FY 2024 - $151,000; FY 2025 - $301,000; FY 2026 - $301,000; FY 2027 - $278,000; FY 2028 - $52,000; and thereafter - $102,000.

The weighted average amortization period for our customer relationships was 4.3 years as of October 29, 2023.

*Non-Compete Agreement*

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

| | Six months ended | |
|---|---|---|
| *(dollars in thousands)* | October 29, 2023 | October 30, 2022 |
| Beginning balance, net | $ 377 | $ 452 |
| Amortization expense | (38) | (38) |
| Ending balance, net | $ 339 | $ 414 |

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 October 29, 2023, October 30, 2022, and April 30, 2023, respectively. Accumulated amortization for our non-compete agreement was $1.7 million, $1.6 million, and $1.6 million as of October 29, 2023, October 30, 2022, and April 30, 2023, respectively.

The remaining amortization expense for the next five years and thereafter follows: FY 2024 - $38,000; FY 2025 - $76,000; FY 2026 - $76,000; FY 2027 - $76,000; FY 2028 - $73,000.

The weighted average amortization period for the non-compete agreement was 4.5 years as of October 29, 2023.

*Impairment*

As of October 29, 2023, 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 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 $18.1 million commencing in the second quarter of fiscal 2023, and continuing through the second quarter of fiscal 2024. We believe the significant decline in profitability for the mattress fabrics segment 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 of the asset group. The carrying amount of the Mattress Asset Group totaled $35.5 million, which relates to property, plant, and equipment of $32.8 million, right of use assets of $2.0 million, customer relationships of $332,000, and a non-compete agreement of $339,000. 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 no impairment associated with the Mattress Asset Group existed as of October 29, 2023.

**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 the initial lease term 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 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% 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).

The following table represents the remaining future principal payments as of October 29, 2023:

| *(dollars in thousands)* | | |
|---|---|---|
| 2024 | $ | 180 |
| 2025 | | 360 |
| 2026 | | 360 |
| 2027 | | 360 |
| 2028 | | 360 |
| Thereafter | | 600 |
| Undiscounted value of note receivable | $ | 2,220 |
| Less: unearned interest income | | (368 ) |
| Present value of note receivable | $ | 1,852 |

As of October 29, 2023, we believe there is no expected credit loss related to the collectibility of our note receivable, as the Lessee has made all 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.

## 8. Accrued Expenses

A summary of accrued expenses follows:

| *(dollars in thousands)* | | October 29, 2023 | | October 30, 2022 | | April 30, 2023 |
|---|---|---|---|---|---|---|
| Compensation, commissions and related benefits | $ | 4,540 | $ | 4,489 | $ | 5,800 |
| Other accrued expenses | | 3,566 | | 3,105 | | 2,733 |
| | $ | 8,106 | $ | 7,594 | $ | 8,533 |

## 9. Upholstery Fabrics Segment Restructuring

*Ouanaminthe, Haiti*

During the third quarter of fiscal 2023, CUF 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") during the fourth quarter of fiscal 2023. Both CUF Haiti and CHF Haiti are indirect 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.

The following summarizes our restructuring expense and restructuring related (credits) charges from the restructuring activities associated with our upholstery fabrics operations located in Haiti for the three months and six months ending October 29, 2023:

| *(dollars in thousands)* | Three Months Ended October 29, 2023 | Six Months Ended October 29, 2023 |
|---|---|---|
| Employee termination benefits | $ 2 | $ 103 |
| Impairment loss - equipment | 142 | 379 |
| (Gain) loss on disposal and markdowns of inventory | (78 ) | 101 |
| Restructuring expense and restructuring related (credits) charges (1) (2) | $ 66 | $ 583 |

(1) Of the total $66,000, $144,000 and ($78,000) were recorded within restructuring expense and cost of sales, respectively, in the Consolidated Statement of Net Loss for the three-month period ending October 29, 2023.

(2) Of the total $583,000, $482,000 and $101,000 were recorded within restructuring expense and cost of sales, respectively, in the Consolidated Statement of Net Loss for the six-month period ending October 29, 2023.

The restructuring activity related to the discontinuation of production of upholstery cut and sew kits in Haiti was completed as of October 29, 2023. As a result of our strategic decision to discontinue this production, we incurred a cumulative amount of $1.4 million in restructuring expense and restructuring related charges.

The following summarizes the activity in accrued restructuring costs for the six-month period ending October 29, 2023:

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

<u>*Shanghai, China*</u>

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 the restructuring activities associated with our upholstery fabrics operations located in China for the three months and six months ending October 29, 2022:

| *(dollars in thousands)* | Three and Six Months Ended October 30, 2022 |
|---|---|
| Employee termination benefits | $ 468 |
| Loss on disposal and markdowns of inventory | 98 |
| Loss on disposal of equipment | 80 |
| Lease termination costs | 47 |
| Other associated costs | 20 |
| Restructuring expense and restructuring related charges (3) | $ 713 |

(3) Of the total $713,000, $615,000 and $98,000 were recorded to restructuring expense and cost of sales, respectively, in the Consolidated Statement of Net Loss for the three-month and six-month periods ending October 30, 2022.

The following summarizes the activity in accrued restructuring costs for the three-month and six-month periods ending October 30, 2022:

| *(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) | (16) | (18) | (502) |
| Ending balance | $ — | $ 31 | $ 2 | $ 33 |

The restructuring activity related to the discontinuation of operations of the upholstery cut and sew kits in China was completed in the third quarter of fiscal 2023.

**10. Lines of Credit**

*Revolving Credit Agreement – United States*

On January 19, 2023, Culp, Inc., as borrower (the “company”), and Read, as guarantor (the “Guarantor”), entered into a Second Amended and Restated Credit Agreement (the “ABL Credit Agreement”), by and among the company, 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:
  - 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.

    - $22.5 million; and
    - 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 obligations under the ABL Facility (and certain related obligations) are (a) guaranteed by the Guarantor and each of the company’s future domestic subsidiaries is required to guarantee the ABL Facility on a senior secured basis (such guarantors and the company, the “Loan Parties”) and (b) secured by all assets of the Loan Parties, subject to certain exceptions. The liens 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.

*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. 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 charged under the ABL Credit Agreement at a rate (applicable interest rate of 6.80% and 6.30% as of October 29, 2023 and April 30, 2023, respectively) calculated using the Applicable Margin over SOFR based on the company's excess availability under the ABL Facility, as defined in the ABL Credit Agreement. Under the Amended Agreement, interest was charged at a rate (4.38% as of October 30, 2022) calculated using the Applicable Margin over SOFR based on the ratio of company's consolidated debt to consolidated EBITDA, as defined in the Amended Agreement.

There were $535,000, $275,000, and $275,000 of outstanding letters of credit provided by the ABL Credit Agreement and the Amended Agreement, as applicable, as of October 29, 2023, October 30, 2022, and April 30, 2023, respectively. As of October 29, 2023, we had $465,000 remaining for the issuance of additional letters of credit under the ABL Credit Agreement.

There were no borrowings outstanding under either the ABL Credit Agreement or the Amended Credit Agreement, as applicable, as of October 29, 2023, October 30, 2022, or April 30, 2023, respectively.

As of October 29, 2023, our available borrowings calculated under the provisions of the ABL Credit Agreement totaled $26.2 million.

*Revolving Credit Agreement – China Operations*

Denominated in Chinese Yuan Renminbi ("RMB")

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 ($4.8 million USD as of October 29, 2023). Interest charged under this agreement is based on an interest rate determined by the Chinese government at the time of 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. does not meet the consolidated net sales and consolidated profitability requirements set forth in the agreement, therefore, we cannot borrow under this agreement.

There were no borrowings outstanding under this agreement as of October 29, 2023, October 30, 2022, or April 30, 2023, respectively.

*Overall*

Our loan agreements require, among other things, that we maintain compliance with certain financial covenants. As of October 29, 2023, we complied with our financial covenants.

No interest payments were made during the first half of fiscal 2024. Interest paid during the first half of fiscal 2023 totaled $8,000.

**11. Fair Value**

Accounting Standard Codification ("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 October 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 | $ 7,060 | N/A | N/A | $ 7,060 |
| Growth Allocation Mutual Funds | 560 | N/A | N/A | 560 |
| Moderate Allocation Mutual Fund | 46 | N/A | N/A | 46 |
| Other | 266 | N/A | N/A | 266 |

| | Fair value measurements as of October 30, 2022, 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 | $ 9,089 | N/A | N/A | $ 9,089 |
| Growth Allocation Mutual Funds | 438 | N/A | N/A | 438 |
| Moderate Allocation Mutual Fund | 77 | N/A | N/A | 77 |
| Other | 159 | N/A | N/A | 159 |

| | 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 |

*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 October 29, 2023, our investments associated with the Trust totaled $7.9 million, of which $937,000 and $7.0 million were classified as short-term and long-term, respectively. As of October 30, 2022, our investments associated with the Trust totaled $9.8 million, of which $2.2 million and $7.6 million were classified as short-term and long-term, respectively. As of April 30, 2023, our investments associated with the Trust totaled $8.5 million, of which $1.4 million and $7.1 million were classified as short-term and long-term, respectively. The investments associated with the Trust had an accumulated unrealized loss of $6,000, an accumulated unrealized loss of $21,000, and an accumulated unrealized gain of $19,000 as of October 29, 2023, October 30, 2022, and April 30, 2023, respectively.

The fair value of our 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 12,456,000 and 12,280,000 for the three months ending October 29, 2023, and October 30, 2022, 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)* | October 29, 2023 | October 30, 2022 |
| antidilutive effect from decrease in the price per share of our common stock | 11 | 42 |
| antidilutive effect from net loss incurred during the fiscal year | 136 | 35 |
| total unvested shares of common stock not included in computation of diluted net loss per share | 147 | 77 |

Weighted average shares used in the computation of basic and diluted net loss per share were 12,394,000 and 12,259,000 for the six months ending October 29, 2023, and October 30, 2022, respectively.

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

| | Six months ended | |
|---|---|---|
| *(in thousands)* | October 29, 2023 | October 30, 2022 |
| antidilutive effect from decrease in the price per share of our common stock | 20 | 38 |
| antidilutive effect from net loss incurred during the fiscal year | 105 | 47 |
| total unvested shares of common stock not included in computation of diluted net loss per share | 125 | 85 |

## 13. Segment Information

*Overall*

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, manufactures, sources, and sells fabrics primarily to residential and commercial furniture manufacturers. 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, inventories, property, plant, and equipment, and right of use assets. 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 | |
|---|---|---|
| | October 29, 2023 | October 30, 2022 |
| net sales by segment: | | |
| mattress fabrics | $ 31,377 | $ 26,230 |
| upholstery fabrics | 27,348 | 32,151 |
| net sales | $ 58,725 | $ 58,381 |
| gross profit (loss): | | |
| mattress fabrics | $ 2,483 | $ (6,057) |
| upholstery fabrics | 5,389 | 3,942 |
| segment gross profit (loss): | 7,872 | (2,115) |
| restructuring related credit (charge) (1) | 78 | (98) |
| gross profit (loss) | $ 7,950 | $ (2,213) |
| selling, general, and administrative expenses by segment: | | |
| mattress fabrics | $ 3,419 | $ 2,945 |
| upholstery fabrics | 3,998 | 3,680 |
| unallocated corporate expenses | 2,628 | 2,478 |
| selling, general, and administrative expenses | $ 10,045 | $ 9,103 |
| (loss) income from operations by segment: | | |
| mattress fabrics | $ (936) | $ (9,002) |
| upholstery fabrics | 1,391 | 262 |
| unallocated corporate expenses | (2,628) | (2,478) |
| total segment loss from operations | $ (2,173) | $ (11,218) |
| restructuring related credit (charge) (1) | 78 | (98) |
| restructuring expense (2) | (144) | (615) |
| loss from operations | $ (2,239) | $ (11,931) |
| interest income | 282 | 79 |
| other income | 49 | 829 |
| loss before income taxes | $ (1,908) | $ (11,023) |

(1) Gross profit and loss from operations for the three months ending October 29, 2023, includes restructuring related credits of $78,000 for the gain on disposal of inventory related to the discontinuation of production of cut and sewn upholstery kits in Ouanaminthe, Haiti. Gross loss and loss from operations for the three months ending October 30, 2022, includes restructuring related charges totaling $98,000 for loss on disposal and markdowns of inventory associated with the exit of our cut and sewn upholstery fabrics operation located in Shanghai, China.

(2) Restructuring expense of $144,000 for the three months ended October 29, 2023, represents a $142,000 impairment charge related to equipment and $2,000 of employee termination benefits related to the discontinuation of production of cut and sewn upholstery kits in Ouanaminthe, Haiti. Restructuring expense of $615,000 for the three-months ended October 30, 2022, represents $468,000 for employee termination benefits, $80,000 related to a loss on disposal of equipment, $47,000 for lease termination costs, and $20,000 of other associated costs related to the exit of our cut and sew upholstery fabrics operation located in Shanghai, China.

| | Six months ended | |
|---|---|---|
| | October 29, 2023 | October 30, 2022 |
| net sales by segment: | | |
| mattress fabrics | $ 60,599 | $ 55,602 |
| upholstery fabrics | 54,788 | 65,383 |
| net sales | $ 115,387 | $ 120,985 |
| gross profit (loss): | | |
| mattress fabrics | $ 4,477 | $ (6,093) |
| upholstery fabrics | 10,659 | 8,105 |
| total segment gross profit | $ 15,136 | $ 2,012 |
| restructuring related charge (1) | (101) | (98) |
| gross profit | $ 15,035 | $ 1,914 |
| selling, general, and administrative expenses by segment: | | |
| mattress fabrics | $ 6,811 | $ 5,829 |
| upholstery fabrics | 7,939 | 7,302 |
| unallocated corporate expenses | 5,124 | 4,837 |
| selling, general, and administrative expenses | $ 19,874 | $ 17,968 |
| (loss) income from operations by segment: | | |
| mattress fabrics | $ (2,334) | $ (11,922) |
| upholstery fabrics | 2,720 | 803 |
| unallocated corporate expenses | (5,124) | (4,837) |
| total segment loss from operations | $ (4,738) | $ (15,956) |
| restructuring related charge (1) | (101) | (98) |
| restructuring expense (2) | (482) | (615) |
| loss from operations | $ (5,321) | $ (16,669) |
| interest income | 627 | 96 |
| other income | 145 | 747 |
| loss before income taxes | $ (4,549) | $ (15,826) |

(1) Gross profit and loss from operations for the six months ending October 29, 2023, includes a net restructuring related charge of $101,000, which represents a markdown of inventory totaling $179,000 during the first quarter of fiscal 2024, partially offset by a gain on disposal of inventory totaling $78,000 during the second quarter of fiscal 2024, both of which related to the discontinuation of production of cut and sewn upholstery kits at our facility located in Ouanaminthe, Haiti. Gross profit and loss from operations for the six months ending October 30, 2022 includes restructuring related charges totaling $98,000 for loss on disposal and markdowns of inventory associated with the exit of our cut and sewn upholstery fabrics operation located in Shanghai, China.

(2) Restructuring expense of $482,000 for the six months ended October 29, 2023, represents a $379,000 impairment charge associated with equipment and $103,000 for employee termination benefits related to the discontinuation of production of cut and sewn upholstery kits in Ouanaminthe, Haiti. Restructuring expense of $615,000 for the six-months ended October 30, 2022, represents $468,000 for employee termination benefits, $80,000 related to a loss on disposal of equipment, $47,000 for lease termination costs, and $20,000 of other associated costs related to the exit of our cut and sew upholstery fabrics operation located in Shanghai, China.

Balance sheet information for our operating segments follows:

| *(dollars in thousands)* | October 29, 2023 | October 30, 2022 | April 30, 2023 |
|---|---|---|---|
| Segment assets: | | | |
| Mattress Fabrics: | | | |
| Accounts receivable, net | $ 11,303 | $ 8,700 | $ 12,396 |
| Inventory | 27,195 | 30,300 | 25,674 |
| Property, plant and equipment (1) | 32,862 | 35,853 | 33,749 |
| Right of use assets (2) | 1,969 | 2,087 | 2,308 |
| Total mattress fabrics assets | 73,329 | 76,940 | 74,127 |
| Upholstery Fabrics: | | | |
| Accounts receivable, net | 11,733 | 13,743 | 12,382 |
| Inventory | 17,270 | 21,924 | 19,406 |
| Property, plant and equipment (3) | 1,175 | 2,150 | 1,671 |
| Right of use assets (4) | 1,992 | 5,898 | 2,618 |
| Total upholstery fabrics assets | 32,170 | 43,715 | 36,077 |
| Total segment assets | 105,499 | 120,655 | 110,204 |
| Non-segment assets: | | | |
| Cash and cash equivalents | 15,214 | 19,137 | 20,964 |
| Short-term investments - rabbi trust | 937 | 2,237 | 1,404 |
| Short-term note receivable | 256 | — | 219 |
| Current income taxes receivable | 340 | 510 | — |
| Other current assets | 4,346 | 3,462 | 3,071 |
| Long-term note receivable | 1,596 | — | 1,726 |
| Deferred income taxes | 472 | 493 | 480 |
| Property, plant and equipment (5) | 627 | 829 | 691 |
| Right of use assets (6) | 2,913 | 3,624 | 3,265 |
| Intangible assets | 2,064 | 2,440 | 2,252 |
| Long-term investments - rabbi trust | 6,995 | 7,526 | 7,067 |
| Other assets | 901 | 717 | 840 |
| Total assets | $ 142,160 | $ 161,630 | $ 152,183 |

(1) The $32.9 million as of October 29, 2023, represents property, plant, and equipment of $22.2 million, $10.0 million, and $661,000 located in the U.S., Canada, and Haiti, respectively. The $35.9 million as of October 30, 2022, represents property, plant, and equipment of $23.8 million, $11.4 million, and $679,000 located in the U.S., Canada, and Haiti, respectively. The $33.7 million as of April 30, 2023, represents property, plant, and equipment of $22.7 million, $10.4 million, and $608,000 located in the U.S., Canada, and Haiti, respectively.

(2) The $2.0 million as of October 29, 2023, represents right of use assets of $1.3 million and $663,000 located in Haiti and Canada, respectively. The $2.1 million as of October 30, 2022, represents right of use assets of $1.8 million, $167,000, and $164,000 located in Haiti, Canada, and the U.S., 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 October 29, 2023, represents property, plant, and equipment of $1.0 million and $140,000 located in the U.S. and China, respectively. The $2.2 million as of October 30, 2022, represents property, plant, and equipment of $1.0 million, $1.0 million, and $137,000 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 $2.0 million as of October 29, 2023, represents right of use assets of $1.2 million and $818,000 located in China and the U.S., respectively. The $5.9 million as of October 30, 2022, represents right of use assets of $2.5 million, $2.0 million, and $1.4 million located in Haiti, 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) The $627,000, $829,000, and $691,000 as of October 29, 2023, October 30, 2022, and April 30, 2023, respectively, represent property, plant, and equipment associated with unallocated corporate department 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.

(6) The $2.9 million, $3.6 million, and $3.3 million as of October 29, 2023, October 30, 2022, and April 30, 2023, respectively, represent right of use assets located in the U.S.

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

| | Six months ended | |
|---|---|---|
| *(dollars in thousands)* | October 29, 2023 | October 30, 2022 |
| Capital expenditures (1): | | |
| Mattress Fabrics | $ 1,948 | $ 267 |
| Upholstery Fabrics | 185 | 447 |
| Unallocated Corporate | 80 | 60 |
| Total capital expenditures | $ 2,213 | $ 774 |
| Depreciation expense: | | |
| Mattress Fabrics | $ 2,922 | $ 3,088 |
| Upholstery Fabrics | 329 | 401 |
| Total depreciation expense | $ 3,251 | $ 3,489 |

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

## 14. Income Taxes

*Effective Income Tax Rate*

We recorded income tax expense of $1.2 million, or (26.8%) of loss before income taxes, for the six-month period ending October 29, 2023, compared with income tax expense of $2.0 million, or (12.9%) of loss before income taxes, for the six-month period ending October 30, 2022.

Our effective income tax rates for the six-month periods ended October 29, 2023, and October 30, 2022, 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 six-month periods ended October 29, 2023, and October 30, 2022, 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, and Haiti as compared to 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 six-month periods ending October 29, 2023, and October 30, 2022:

| | October 29, 2023 | October 30, 2022 |
|---|---|---|
| U.S. federal income tax rate | 21.0 % | 21.0 % |
| U.S. valuation allowance | (32.8 ) | (36.7 ) |
| Withholding taxes associated with foreign jurisdictions | (9.9 ) | (3.3 ) |
| Foreign income tax rate differential | (5.7 ) | 3.2 |
| Stock-based compensation | (4.2 ) | (0.6 ) |
| Tax effects of local currency foreign exchange gains | 5.1 | 4.7 |
| Other | (0.3 ) | (1.2 ) |
| | (26.8%) | (12.9)% |

Our consolidated effective income tax rates during the first half of fiscal 2024 and the first half of fiscal 2023 were both adversely affected by the mix of earnings between our U.S. operations and foreign subsidiaries, as our taxable income stems from our operations located in China and Canada, which have higher income tax rates than the U.S. In addition, during the first half of fiscal 2024 and the first half of fiscal 2023, 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. However, the income tax charge associated with the full valuation allowance applied against our U.S. net deferred income tax assets was lower during the first half of fiscal 2024 compared with the first half of fiscal 2023, as our $(11.8) million U.S. pre-tax loss incurred during the first half of fiscal 2024 was significantly lower than the $(20.7) million U.S. pre-tax loss incurred during the first half of fiscal 2023.

During the first half of fiscal 2024, we incurred a lower consolidated pre-tax loss totaling $(4.5) million, compared with $(15.8) million during the first half of fiscal 2023. 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 half of fiscal 2024, as compared with the first half of fiscal 2023.

*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 October 29, 2023, 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 through 2023, and we are currently expecting significant U.S. pre-tax losses to continue during fiscal 2024. 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 October 29, 2023, October 30, 2022, and April 30, 2023, valuation allowances against our net deferred income tax assets pertain to the following:

| *(dollars in thousands)* | October 29, 2023 | October 30, 2022 | April 30, 2023 |
|---|---|---|---|
| U.S. federal and state net deferred income tax assets | $ 17,839 | $ 13,958 | $ 16,345 |
| U.S. capital loss carryforward | 2,330 | 2,330 | 2,330 |
| | $ 20,169 | $ 16,288 | $ 18,675 |

*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 October 29, 2023, 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 October 29, 2023, October 30, 2022, and April 30, 2023, we recorded a deferred income tax liability of $4.6 million, $4.0 million, and $4.2 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 October 29, 2023, we had a $1.2 million total gross unrecognized income tax benefit, of which the entire amount was classified as income taxes payable – long-term in the accompanying Consolidated Balance Sheets. As of October 30, 2022, we had a $1.1 million total gross unrecognized income tax benefit, of which the entire amount was recorded to income taxes payable – long-term in the accompanying Consolidated Balance Sheets. As of April 30, 2023, we had a $1.2 million total gross unrecognized income tax benefit, 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 $1.2 million, $1.1 million, and $1.2 million, as of October 29, 2023, October 30, 2022, and April 30, 2023, respectively.

Our gross unrecognized income tax benefit of $1.2 million as of October 29, 2023, 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 taxes paid by jurisdiction:

| *(dollars in thousands)* | Six Months Ended October 29, 2023 | Six Months Ended October 30, 2022 |
|---|---|---|
| United States Transition Tax Payment | $ 499 | $ 265 |
| China Income Taxes, Net of Refunds | 1,278 | 1,286 |
| Canada Income Taxes, Net of Refunds | 336 | 161 |
| | $ 2,113 | $ 1,712 |

## 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 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 issuance under the 2015 Plan. The Amended and Restated Plan also removed certain sub-limits that previously applied with respect to specific type of awards that may be issued under the plan.

As of October 29, 2023, there were 765,399 shares available for future equity-based grants under the Amended and Restated 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 performance-based restricted stock units granted to senior executives on September 28, 2023, August 10, 2022 and July 22, 2021:

| | *September 28, 2023* | *August 10, 2022* | *July 22, 2021* |
|---|---|---|---|
| Closing price of our common stock | $5.59 | $5.06 | $14.75 |
| Expected volatility of our common stock | 37.3% | 48.2% | 54.2% |
| Expected volatility of peer companies | 35.7%-91.5% | 41.6%-105.1% | 45.7%-101.5% |
| Risk-free interest rate | 4.90% | 3.13% | 0.33% |
| Dividend yield | 0.00% | 0.00% | 3.00% |
| Correlation coefficient of peer companies | 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.

**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 October 29, 2023:

| Date of Grant | (3) Performance-Based Restricted Stock Units Awarded | (4) Restricted Stock Units Expected to Vest | | Price Per Share | | Vesting Period |
|---|---|---|---|---|---|---|
| September 28, 2023 (1) | 227,497 | 121,740 | $ | 6.43 | (5) | 34 months |
| August 10, 2022 (1) | 178,714 | — | $ | 5.77 | (6) | 3 years |
| July 22, 2021 (1) | 122,476 | — | $ | 15.93 | (7) | 3 years |
| July 22, 2021 (2) | 20,500 | — | $ | 14.75 | (8) | 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 are met as defined in the related restricted stock unit agreements.

(4) Compensation cost is based on an assessment each reporting period to determine the probability of whether or not certain performance goals will be met and how many shares are expected to be earned as of the end of the vesting period. These amounts represent the number of shares that were expected to vest as of October 29, 2023.

(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.

(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) for the performance-based component of the performance-based restricted stock units granted to senior executives on August 10, 2022.

(7) 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 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.

(8) 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 six-month period ended October 29, 2023. The following table summarizes information related to our performance-based restricted stock units that vested during the six-month period ended October 30, 2022:

| 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-based restricted stock units vested.

We recorded compensation expense of $23,000 and $2,000 within selling, general, and administrative expenses associated with our performance-based restrictive stock units for the six-month periods ended October 29, 2023, and October 30, 2022, respectively. 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 October 29, 2023, the remaining unrecognized compensation expense related to our performance-based restricted stock units was $759,000, which is expected to be recognized over a weighted average vesting period of 2.7 years. As of October 29, 2023, the performance-based restricted stock units that are expected to vest had a fair value totaling $674,000.

*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, key employees, and outside directors that were unvested as of October 29, 2023:

| Date of Grant | Time-Based Restricted Stock Units Awarded | (1) Price Per Share | Vesting Period |
|---|---|---|---|
| September 28, 2023 (2) | 100,068 | $ 5.59 | 34 months |
| September 28, 2023 (3) | 59,928 | $ 5.59 | 1 year |
| September 6, 2022 (2) | 25,114 | $ 4.58 | 2 to 3 years |
| August 10, 2022 (2) | 78,225 | $ 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 to outside directors.

The following table summarizes information related to our time-based restricted stock units that vested during the six-month periods ending October 29, 2023, and October, 30, 2022, respectively:

| 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 stock units vested.

We recorded compensation expense of $378,000 and $396,000 within selling, general, and administrative expenses associated with our time-based restricted stock unit awards for the six-month periods ended October 29, 2023, and October 30, 2022, respectively.

As of October 29, 2023, the remaining unrecognized compensation expense related to our time-based restricted stock units was $1.3 million, which is expected to be recognized over a weighted average vesting period of 1.9 years. As of October 29, 2023, the time-based restricted stock units that are expected to vest had a fair value totaling $1.6 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, which represents the closing price of our common stock on the date of grant.

We granted a total of 18,326 and 19,753 shares of common stock to our outside directors on 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 $4.57 and $4.24 per share on 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 $167,000 of compensation expense within selling, general, and administrative expenses for common stock awards to our outside directors for the six-month periods ended October 29, 2023, and October 30, 2022, respectively.

**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 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 October 29, 2023, October 30, 2022, and April 30, 2023, are as follows:

| *(dollars in thousands)* | October 29, 2023 | October 30, 2022 | April 30, 2023 |
|---|---|---|---|
| Right of use assets | $ 6,874 | $ 11,609 | $ 8,191 |
| Operating lease liability - current | 2,540 | 2,655 | 2,640 |
| Operating lease liability – noncurrent | 2,431 | 4,194 | 3,612 |

*Supplemental Cash Flow Information*

| *(dollars in thousands)* | Six Months Ended October 29, 2023 | Six Months Ended October 30, 2022 |
|---|---|---|
| Operating lease liability payments | $ 1,330 | $ 1,068 |
| Right of use assets exchanged for lease liabilities | 157 | — |

Operating lease expense for the three-month periods ended October 29, 2023, and October 30, 2022, was $781,000 and $959,000, respectively. Operating lease expense for the six-month periods ended October 29, 2023, and October 30, 2022, was $1.6 million and $2.0 million, respectively. Short-term lease and variable lease expenses were immaterial for the three-month and six-month periods ended October 29, 2023, and October 30, 2022.

*Other Information*

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

| *(dollars in thousands)* | |
|---|---|
| 2024 | $ 1,269 |
| 2025 | 1,917 |
| 2026 | 638 |
| 2027 | 342 |
| 2028 | 225 |
| Thereafter | 804 |
| | $ 5,195 |
| Less: interest | (224 ) |
| Present value of lease liabilities | $ 4,971 |

As of October 29, 2023, the weighted average remaining lease term and discount rate for our operating leases follows:

| | October 29, 2023 |
|---|---|
| Weighted average lease term (in years) | 3.79 |
| Weighted average discount rate | 3.46 % |

## 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 October 29, 2023, October 30, 2022, and April 30, 2023, we had amounts due regarding capital expenditures totaling $298,000, $200,000, and $56,000, respectively, which pertained to outstanding vendor invoices, none of which were financed.

*Purchase Commitments – Capital Expenditures*

As of October 29, 2023, we had open purchase commitments to acquire equipment for our mattress fabrics segment totaling $1.6 million.

## 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 October 29, 2023, 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 October 29, 2023, the company's statutory surplus reserve was $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 $4.0 million, to assist with debt repayment, capital expenditures, and other expenses of the company's business.

## 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 six-month periods ending October 29, 2023, and October 30, 2022, respectively.

As of October 29, 2023, $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 “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,” “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, production levels, new product launches, sales, profit margins, profitability, operating (loss) income, capital expenditures, working capital levels, cost savings, 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, 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 coronavirus pandemic currently affecting countries around the world, could also adversely affect our operations and financial performance. In addition, the impact of potential goodwill or intangible asset impairments 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, disruption in our customers’ supply chains for non-fabric components may cause declines in new orders and/or delayed shipping of existing orders while our customers wait for other components, which could adversely affect our financial results. 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 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. 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 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 six months ended October 29, 2023, and October 30, 2022, both represent 26-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 operations located in Stokesdale, NC, Quebec, Canada, and Ouanaminthe, Haiti.

*Upholstery Fabrics*

The upholstery fabrics segment develops, sources, manufactures, and sells fabrics primarily to residential and commercial furniture manufacturers. Currently, we have upholstery fabric operations located in Shanghai, China, and Burlington, NC. 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, and (iii) discontinued the production of cut and sewn upholstery kits in Haiti in the latter part of the first quarter of fiscal 2024. (See Note 9 to the consolidated financial statements for further details.)

Additionally, Read Window Products, LLC ("Read"), a wholly-owned subsidiary with operations located in Knoxville, TN, 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)* | October 29, 2023 | October 30, 2022 | Change |
| Net sales | $ 58,725 | $ 58,381 | 0.6% |
| Gross profit (loss) | 7,950 | (2,213) | (459.2)% |
| Gross margin | 13.5% | (3.8)% | 1733bp |
| Selling, general, and administrative expenses | 10,045 | 9,103 | 10.3% |
| Restructuring expense | 144 | 615 | (76.6)% |
| Loss from operations | (2,239) | (11,931) | (81.2)% |
| Operating margin | (3.8)% | (20.4)% | 1662bp |
| Loss before income taxes | (1,908) | (11,023) | (82.7)% |
| Income tax expense | 516 | 1,150 | (55.1)% |
| Net loss | (2,424) | (12,173) | (80.1)% |

| (dollars in thousands) | Six Months Ended October 29, 2023 | Six Months Ended October 30, 2022 | Change |
|---|---|---|---|
| Net sales | $ 115,387 | $ 120,985 | (4.6)% |
| Gross profit | 15,035 | 1,914 | 685.5% |
| Gross margin | 13.0 % | 1.6 % | 1145bp |
| Selling, general, and administrative expenses | 19,874 | 17,968 | 10.6% |
| Restructuring expense | 482 | 615 | (21.6)% |
| Loss from operations | (5,321 ) | (16,669 ) | (68.1)% |
| Operating margin | (4.6 )% | (13.8 )% | 917bp |
| Loss before income taxes | (4,549 ) | (15,826 ) | (71.3)% |
| Income tax expense | 1,217 | 2,046 | (40.5)% |
| Net loss | (5,766 ) | (17,872 ) | (67.7)% |

Net Sales

Overall, our net sales for the second quarter of fiscal 2024 increased by 0.6% compared with the same period a year ago, with mattress fabrics sales increasing 19.6% and upholstery fabrics sales decreasing 14.9%. Our net sales for the first half of fiscal 2024 decreased by 4.6% compared with the same period a year ago, with mattress fabrics sales increasing 9.0% and upholstery fabrics sales decreasing 16.2%.

The increase in net sales in our mattress fabrics segment for both the second quarter and the first half 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. The decrease in net sales for our upholstery fabrics segment for both the second quarter and the first half of fiscal 2024 reflects reduced demand for our residential upholstery fabrics products, driven by a slowdown in new retail business in the residential home furnishings industry. The decrease in upholstery fabrics net sales for the first half of fiscal 2024 was partially offset by higher sales in our hospitality/contract fabric business, as compared to the prior-year period.

See the Segment Analysis section below for further details.

Loss Before Income Taxes

Overall, our loss before income taxes for the second quarter of fiscal 2024 was $(1.9) million, compared with loss before income taxes of $(11.0) million for the prior-year period, while our loss before income taxes for the first six months of fiscal 2024 was $(4.5) million, compared with loss before income taxes of $(15.8) for the prior-year period.

Operating performance for both the second quarter and the first half of fiscal 2024, as compared to the prior-year periods, was positively affected by better inventory management; higher sales and better pricing and margins for the mattress fabrics segment; fixed cost savings in the upholstery fabrics segment; improved operating efficiencies in both segments; and a more favorable foreign exchange rate associated with our upholstery fabric operations in China. Operating performance for the first half of fiscal 2024 was also positively affected by a greater contribution from the hospitality business and Read in our upholstery fabrics segment. These factors were partially offset by lower residential upholstery fabric sales and higher SG&A expense during both periods. Notably, operating performance for both the second quarter and the first half 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 $1.2 million or (26.8%) of loss before income taxes for the six-month period ending October 29, 2023, compared with income tax expense of $2.0 million or (12.9%) of loss before income taxes, for the six-month period ending October 30, 2022.

Our consolidated effective income tax rates during the first half of fiscal 2024 and the first half of fiscal 2023 were both adversely affected by the mix of earnings between our U.S. operations and foreign subsidiaries, as our taxable income stems from our operations located in China and Canada, which have higher income tax rates than the U.S. In addition, during the first half of fiscal 2024 and fiscal 2023, 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. However, the income tax charge associated with the full valuation allowance applied against our U.S. net deferred income tax assets was lower during the first half of fiscal 2024 compared with the first half of fiscal 2023, as our $(11.8) million U.S. pre-tax loss incurred during the first half of fiscal 2024 was significantly lower than the $(20.7) million U.S. pre-tax loss incurred during the first half of fiscal 2023.

During the first half of fiscal 2024, we incurred a lower consolidated pre-tax loss totaling $(4.5) million, compared with $(15.8) million during the first half of fiscal 2023. 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 half of fiscal 2024, as compared with the first half of fiscal 2023.

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

Liquidity

As of October 29, 2023, our cash and cash equivalents (collectively, "cash") totaled $15.2 million, a decrease of $5.8 million compared with cash of $21.0 million as of April 30, 2023. This decrease was mostly due to net cash used in operating activities totaling $(4.5) million and capital expenditures related to our mattress fabrics segment totaling $(2.0) million, partially offset by proceeds from the sale of our rabbi trust investments totaling $986,000 to fund withdrawals from our deferred compensation plan for certain retired employees.

Our net cash used in operating activities was $(4.5) million during the first half of fiscal 2024, a decrease of $10.6 million compared with net cash provided by operating activities of $6.2 million during the first half of fiscal 2023. This trend mostly reflects (i) a significant increase in accounts payable during the first half of fiscal 2023 primarily related to our upholstery fabrics operations located in China, as the mandated COVID-19 related shutdowns were lifted during this period, and which increase in accounts payable did not recur during the first half of fiscal 2024; (ii) a significant decrease in inventory during the first half of fiscal 2023 due to a significant (23.2%) decline in net sales during the period, which significant decline did not recur during the first half of fiscal 2024; (iii) annual incentive payments made during the first quarter of fiscal 2024, which payments did not occur during the first quarter of fiscal 2023; (iv) payments to certain retired employees totaling $986,000 for withdrawals from our deferred compensation plan during the first half of fiscal 2024; partially offset by (v) an increase in cash earnings during the first half of fiscal 2024 compared with the first half of fiscal 2023.

As of October 29, 2023, there were no outstanding borrowings under our lines of credit.

**Segment Analysis**

Mattress Fabrics Segment

| | Three Months Ended | | |
|---|---|---|---|
| *(dollars in thousands)* | October 29, 2023 | October 30, 2022 | Change |
| Net sales | $ 31,377 | $ 26,230 | 19.6% |
| Gross profit (loss) | 2,483 | (6,057) | (141.0)% |
| Gross profit margin | 7.9% | (23.1)% | 3101bp |
| Selling, general, and administrative expenses | 3,419 | 2,945 | 16.1% |
| Loss from operations | (936) | (9,002) | (89.6)% |
| Operating margin | (3.0)% | (34.3)% | 3134bp |

| | Six Months Ended | | |
|---|---|---|---|
| *(dollars in thousands)* | October 29, 2023 | October 30, 2022 | Change |
| Net sales | $ 60,599 | $ 55,602 | 9.0% |
| Gross profit (loss) | 4,477 | (6,093) | (173.5)% |
| Gross margin | 7.4% | (11.0)% | 1835bp |
| Selling, general, and administrative expenses | 6,811 | 5,829 | 16.8% |
| Loss from operations | (2,334) | (11,922) | (80.4)% |
| Operating margin | (3.9)% | (21.4)% | 1759bp |

*Net Sales*

Mattress fabrics sales increased 19.6% in the second quarter of fiscal 2024 compared to the prior-year period. Mattress fabrics sales increased 9.0% in the first half of fiscal 2024 compared to the first half of fiscal 2023.

The increase in net sales in our mattress fabrics segment for both the second quarter and the first six months of fiscal 2024 was primarily driven by new fabric and sewn cover placements that are priced in line with current raw material and operational 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 as compared to historical average selling prices. While the domestic mattress industry remains pressured by ongoing demand softness, we believe we are making gains with customers through new program rollouts.

During the second 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 diligently manage the aspects of our business we can control, taking necessary steps to withstand current market conditions and position our business for renewed growth. This includes the ongoing execution of a comprehensive business transformation plan focused on long-term improvement in areas that include quality, sales, marketing, and operational processes; supply chain optimization; employee engagement; and organizational structure. With new leadership and a restructured management team, we believe this plan will lay the foundation for steady, sequential improvement in this business, although the speed of this improvement will be affected by overall industry trends.

Looking ahead, we expect the current macro-economic environment will continue to affect consumer spending trends for some time, resulting in ongoing industry softness that may reduce demand for our mattress fabrics and cover products. We expect these conditions are likely to affect our results through at least the third quarter of fiscal 2024, although we believe we will mitigate this pressure to some extent by the continued rollout of new programs priced in line with current costs, along with opportunities to make additional gains with customers. 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 that could adversely affect our operations and financial performance.

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

The decrease in this segment's operating loss during both the second quarter and the first half of fiscal 2024, as compared to the prior-year periods (which were affected by certain inventory impairment charges and losses from inventory close out sales), was primarily due to better inventory management; higher sales; better pricing and margins (driven mostly by new product placements priced in line with current costs, and, to a lesser extent, sku rationalization and the re-pricing underperforming skus to reflect current costs); and improved operating efficiencies. These factors were partially offset by higher SG&A expense during both periods, which was due mostly to higher incentive compensation expense, an increase in provision for bad debts (reflecting current unfavorable macro-economic conditions relating to bedding products), and an increase in sampling expense driven by new product roll outs.

We expect the ongoing industry softness affecting sales volumes will affect profitability through at least the third quarter of fiscal 2024, 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. We will consider further adjustments to right-size and restructure our operations as necessary to align with current demand levels, as well as additional reasonable pricing actions as competitive conditions permit to further mitigate and manage inflation.

*Segment assets*

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

| *(dollars in thousands)* | October 29, 2023 | October 30, 2022 | April 30, 2023 |
|---|---|---|---|
| Accounts receivable | $ 11,303 | $ 8,700 | $ 12,396 |
| Inventory | 27,195 | 30,300 | 25,674 |
| Property, plant & equipment | 32,862 | 35,853 | 33,749 |
| Right of use assets | 1,969 | 2,087 | 2,308 |
| | $ 73,329 | $ 76,940 | $ 74,127 |

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

*Accounts Receivable*

As of October 29, 2023, accounts receivable increased by $2.6 million, or 29.9%, compared with October 30, 2022. This increase reflects the increase in net sales during the second 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 second quarter of fiscal 2024, as compared with the second quarter of fiscal 2023. This led to an increase in days' sales outstanding to 33 days for the second quarter of fiscal 2024, as compared with 30 days for the second quarter of fiscal 2023.

As of October 29, 2023, accounts receivable decreased by $1.1 million, or 8.8%, compared with April 30, 2023. This decrease primarily reflects faster cash collections, as we had a mix of higher sales to customers with longer credit terms during the fourth quarter of fiscal 2023, as compared with the second quarter of fiscal 2024. As a result, days' sales outstanding decreased to 33 days during the second quarter of fiscal 2024, a decrease from 37 days during the fourth quarter of fiscal 2023. The decrease in accounts receivable due to faster cash collections was partially offset by an increase in net sales during the second quarter of fiscal 2024, as compared with the fourth quarter of fiscal 2023. Net sales for the second quarter of fiscal 2024 were $31.4 million, an increase of 2.2% compared with net sales of $30.7 million during the fourth quarter of fiscal 2023.

*Inventory*

As of October 29, 2023, inventory decreased by $3.1 million, or 10.2%, compared with October 30, 2022. Although net sales increased by 19.6% during the second quarter of fiscal 2024, as compared with the second quarter of fiscal 2023, inventory decreased during the second 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 October 29, 2023, inventory increased by $1.5 million, or 5.9%, compared with April 30, 2023. This trend reflects an increase in net sales during the second quarter of fiscal 2024, as compared with the fourth quarter of fiscal 2023. Net sales during the second quarter of fiscal 2024 were $31.4 million, an increase of 2.2% compared with net sales of $30.7 million during the fourth quarter of fiscal 2023.

Inventory turns were 4.5 for the second quarter of fiscal 2024, compared with 3.9 for the second quarter of fiscal 2023 and 4.4 for the fourth quarter of fiscal 2023.

*Property, Plant, & Equipment*

As of October 29, 2023, property, plant, and equipment has steadily decreased compared to October 30, 2022, and April 30, 2023, due to reduced capital spending stemming from the current and expected unfavorable macro-economic conditions and our strategic focus on limited capital projects that will increase efficiencies and improve the quality of our products.

The $32.9 million as of October 29, 2023, represents property, plant, and equipment of $22.2 million, $10.0 million, and $661,000 located in the U.S., Canada, and Haiti, respectively. The $35.9 million as of October 30, 2022, represents property, plant, and equipment of $23.8 million, $11.4 million, and $679,000 located in the U.S., Canada, and Haiti, respectively. The $33.7 million as of April 30, 2023, represents property, plant, and equipment of $22.7 million, $10.4 million, and $608,000 located in the U.S., Canada, and Haiti, respectively.

*Right of Use Assets*

As of October 29, 2023, right of use assets have decreased due to rent expense incurred over the terms of existing lease agreements.

The $2.0 million as of October 29, 2023, represents right of use assets of $1.3 million and $663,000 located in Haiti and Canada, respectively. The $2.1 million as of October 30, 2022, represents right of use assets of $1.8 million, $167,000 million, and $164,000 located in Haiti, Canada, and the U.S., 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.

Upholstery Fabrics Segment

*Net Sales*

| | Three Months Ended | | | | |
|---|---|---|---|---|---|
| *(dollars in thousands)* | October 29, 2023 | | October 30, 2022 | | % Change |
| Non-U.S. Produced | $ 24,129 | 88% | $ 29,679 | 92% | (18.7)% |
| U.S. Produced | 3,219 | 12% | 2,472 | 8% | 30.2% |
| Total | $ 27,348 | 100% | $ 32,151 | 100% | (14.9)% |

| | Six Months Ended | | | | |
|---|---|---|---|---|---|
| *(dollars in thousands)* | October 29, 2023 | | October 30, 2022 | | % Change |
| Non-U.S. Produced | $ 48,762 | 89% | $ 61,119 | 93% | (20.2)% |
| U.S. Produced | 6,026 | 11% | 4,264 | 7% | 41.3% |
| Total | $ 54,788 | 100% | $ 65,383 | 100% | (16.2)% |

Upholstery fabrics sales decreased 14.9% in the second quarter of fiscal 2024 compared to the prior-year period. Upholstery fabrics sales decreased 16.2% in the first half of fiscal 2024 compared to the first half of fiscal 2023.

The decrease in upholstery fabrics net sales in both the second quarter and the first six months of fiscal 2024 reflects ongoing softness in the residential home furnishings industry, where demand remains pressured by a challenging macro-economic environment. The decrease in residential fabric sales during the first six months of fiscal 2024 was partially mitigated by higher sales in our hospitality/contract fabric business during the period, as compared to the prior-year period.

Looking ahead, we expect that softness in the residential home furnishings industry 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, as well as our flexible Asian platform and our long-term supplier relationships.

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, 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 from Operations*

| | Three Months Ended | | |
|---|---|---|---|
| *(dollars in thousands)* | October 29, 2023 | October 30, 2022 | Change |
| Gross profit | 5,389 | 3,942 | 36.7% |
| Gross margin | 19.7% | 12.3% | 741bp |
| Selling, general, and administrative expenses | 3,998 | 3,680 | 8.6% |
| Restructuring expense | 144 | 615 | (76.6)% |
| Income from operations | 1,391 | 262 | 430.9% |
| Operating margin | 5.1% | 0.8% | 429bp |

| | Six Months Ended | | |
|---|---|---|---|
| *(dollars in thousands)* | October 29, 2023 | October 30, 2022 | Change |
| Gross profit | 10,659 | 8,105 | 31.5% |
| Gross margin | 19.5% | 12.4% | 705bp |
| Selling, general, and administrative expenses | 7,939 | 7,302 | 8.7% |
| Restructuring expense | 482 | 615 | (21.6)% |
| Income from operations | 2,720 | 803 | 238.7% |
| Operating margin | 5.0% | 1.2% | 376bp |

The increase in upholstery fabrics profitability for both the second quarter and the first six months of fiscal 2024, as compared to the prior-year periods (which were negatively affected by higher than normal inventory markdowns), primarily reflects better inventory management; lower fixed costs resulting from the previous restructuring of the upholstery fabrics segment's cut and sew platforms; lower freight costs; and a more favorable foreign exchange rate associated with this segment's operations in China.

Operating performance for the first half of fiscal 2024 was also positively affected by a greater contribution from hospitality fabrics and Read in our upholstery fabrics segment. These factors were partially offset by lower residential fabric sales and higher SG&A expense during both periods. The increase in SG&A expense was mostly due to wage inflation, higher professional and consulting fees, higher travel and tradeshow costs as business travel and industry tradeshows have resumed, and an increase in sampling expense driven by new product roll outs.

Looking ahead, the residential home furnishings industry remains under pressure due to shifting consumer spending trends and inflation affecting overall consumer spending. As a result, we expect lower sales volumes in our residential business will continue to affect our profitability. However, for fiscal 2024, we expect to benefit from (i) our strategic decision to discontinue production of cut and sewn upholstery kits in Haiti; (ii) improved inventory management; (iii) a solid hospitality/contract fabric business; and (iv) improvement in our Read business. We will also continue our ongoing cost reduction efforts and will consider further adjustments to right-size and restructure our operations as necessary to align with current demand levels, while maintaining our ability to service our customers.

*Restructuring Activities*

Ouanaminthe, Haiti

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 production of upholstery cut and sew kits to an existing facility leased by Culp Home Fashions Haiti, Ltd. (“CHF Haiti”) during the fourth quarter of fiscal 2023. Both CUF Haiti and CHF Haiti are indirect 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.

The following summarizes our restructuring expense and restructuring related (credits) charges from the restructuring activities associated with our upholstery fabrics operations located in Haiti for the three months and six months ending October 29, 2023:

| *(dollars in thousands)* | Three Months Ended October 29, 2023 | Six Months Ended October 29, 2023 |
|---|---|---|
| Employee termination benefits | $ 2 | $ 103 |
| Impairment loss - equipment | 142 | 379 |
| (Gain) loss on disposal and markdowns of inventory | (78 ) | 101 |
| Restructuring expense and restructuring related (credits) charges (1) (2) | $ 66 | $ 583 |

(1) Of the total $66,000, $144,000 and $(78,000) were recorded within restructuring expense and cost of sales, respectively, in the Consolidated Statement of Net Loss for the three-month period ending October 29, 2023.

(2) Of the total $583,000, $482,000 and $101,000 were recorded within restructuring expense and cost of sales, respectively, in the Consolidated Statement of Net Loss for the six-month period ending October 29, 2023.

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 consumer demand for cut and sewn products.

The following summarizes our restructuring expense and restructuring related charges from the restructuring activities associated with our upholstery fabrics operations located in China for the three months and six months ending October 29, 2022:

| *(dollars in thousands)* | Three and Six Months Ended October 30, 2022 |
|---|---|
| Employee termination benefits | $468 |
| Loss on disposal and markdowns of inventory | 98 |
| Loss on disposal of equipment | 80 |
| Lease termination costs | 47 |
| Other associated costs | 20 |
| Restructuring expense and restructuring related charges (1) | $713 |

(1) Of the total $713,000, $615,000 and $98,000 were recorded to restructuring expense and cost of sales, respectively, in the Consolidated Statement of Net Loss for the three-month and six-month periods ending October 30, 2022.

*Segment Assets*

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

| *(dollars in thousands)* | October 29, 2023 | October 30, 2022 | April 30, 2023 |
|---|---|---|---|
| Accounts receivable | $ 11,733 | $ 13,743 | $ 12,382 |
| Inventory | 17,270 | 21,924 | 19,406 |
| Property, plant & equipment | 1,175 | 2,150 | 1,671 |
| Right of use assets | 1,992 | 5,898 | 2,618 |
| | $ 32,170 | $ 43,715 | $ 36,077 |

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

*Accounts Receivable*

As of October 29, 2023, accounts receivable decreased by $2.0 million, or 14.6%, compared with October 30, 2022. This trend mostly reflects the decrease in net sales of 14.9% during the second quarter of fiscal 2024, compared with the second quarter of fiscal 2023, as described in the *Net Sales* section above. Days' sales outstanding for this segment increased to 36 days for the second quarter of fiscal 2024, as compared with 35 days for the second quarter of fiscal 2023.

As of October 29, 2023, accounts receivable decreased by $649,000, or 5.2%, compared with April 30, 2023. This trend reflects a decrease in net sales of 11.0% during the second quarter of fiscal 2024, as compared with the fourth quarter of fiscal 2023. Net sales for the second quarter of fiscal 2024 were $27.3 million, compared with net sales of $30.7 million during the fourth quarter of fiscal 2023. The decrease in net sales was mostly offset by slower cash collections during the second quarter of fiscal 2024, as compared to the fourth quarter of fiscal 2023, as we had a mix of higher sales volume with customers with shorter credit terms during the fourth quarter of fiscal 2023. This led to an increase in days' sales outstanding to 36 days for the second quarter of fiscal 2024, as compared with 33 days for the fourth quarter of fiscal 2023.

*Inventory*

As of October 29, 2023, inventory decreased by $4.7 million, or 21.2%, compared with October 30, 2022. This trend mostly reflects a decrease in net sales of 14.9% during the second quarter of fiscal 2024, compared with the second quarter of fiscal 2023 (as described in the *Net Sales* section above). In addition, this decrease is also attributable to promotional programs used to reduce aged raw materials and finished goods inventory.

As of October 29, 2023, inventory decreased by $2.1 million, or 11.0%, compared with April 30, 2023. This trend mostly reflects a decrease in net sales of 11.0% during the second quarter of fiscal 2024, compared with the fourth quarter of fiscal 2023. Net sales for the second quarter of fiscal 2024 were $27.3 million, compared with net sales of $30.7 million during the fourth quarter of fiscal 2023.

Inventory turns were 4.4 for the second quarter of fiscal 2024, compared with 3.9 for the second quarter of fiscal 2023 and 4.8 for the fourth quarter of fiscal 2023.

*Property, Plant, & Equipment*

As of October 29, 2023, property, plant, and equipment steadily decreased compared to October 30, 2022, and April 30, 2023, due to (i) impairment charges of $379,000 related to our strategic action to discontinue the production of upholstery cut and sew kits in Ouanaminthe, Haiti, (ii) impairment charges of $80,000 associated with the closure of our cut and sew upholstery fabrics operation located in Shanghai, China, and (iii) a reduction in capital spending as a result of current and expected unfavorable macro-economic conditions.

The $1.2 million as of October 29, 2023, represents property, plant, and equipment of $1.0 million and $140,000 located in the U.S. and China, respectively. The $2.2 million as of October 30, 2022, represents property, plant, and equipment of $1.0 million, $1.0 million, and $137,000 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.

*Right of Use Assets*

As of October 29, 2023, right of use assets decreased compared with October 30, 2022, and April 30, 2023. This decrease mostly resulted from (i) a six-month forgiveness of rent payments associated with COVID-19 relief permitted by the Chinese government for all of our leased facilities located in Shanghai, China, during the second quarter of fiscal 2023; (ii) the termination of a building lease agreement in connection with the exit from our cut and sew upholstery fabrics operation located in Shanghai, China, during the second quarter of fiscal 2023; (iii) the termination of a building lease agreement in connection with the discontinuance of our cut and sew upholstery fabrics operation located in Ouanaminthe, Haiti, during the third quarter of fiscal 2023; and (iv) rent expense incurred over the terms of the existing respective lease agreements.

The $2.0 million as of October 29, 2023, represents right of use assets of $1.2 million and $818,000 located in China and the U.S., respectively. The $5.9 million as of October 30, 2022, represents right of use assets of $2.5 million, $2.0 million, and $1.4 million located in Haiti, 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.

Other Income Statement Categories

| | Three Months Ended | | |
|---|---|---|---|
| *(dollars in thousands)* | October 29, 2023 | October 30, 2022 | % Change |
| SG&A expenses | $ 10,045 | $ 9,103 | 10.3 % |
| Interest income | 282 | 79 | 257.0 % |
| Other income | 49 | 829 | (94.1 )% |

| | Six Months Ended | | |
|---|---|---|---|
| *(dollars in thousands)* | October 29, 2023 | October 30, 2022 | % Change |
| SG&A expenses | $ 19,874 | $ 17,968 | 10.6 % |
| Interest income | 627 | 96 | 553.1 % |
| Other income | 145 | 747 | (80.6 )% |

*Selling, General, and Administrative Expenses*

The increase in selling, general, and administrative expenses during the second quarter and first half of fiscal 2024, compared with the second quarter and first half of fiscal 2023, is due to a variety of factors, including (i) wage inflation; (ii) higher incentive compensation expense that relates to annual bonuses; (iii) higher professional and consulting fees; (iv) an increase in provision for bad debts reflecting current unfavorable macro-economic conditions relating to furniture and bedding products; and (v) an increase in sampling expense driven by new product roll outs in both business segments.

*Interest Income*

The increase in interest income is due primarily to higher market interest rates during the second quarter and first half of fiscal 2024, as compared with the second quarter and first half of fiscal 2023.

*Other 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 and Canada.

The change in other income during the second quarter and first half of fiscal 2024, as compared with the second quarter and first half of fiscal 2023, is due mostly to 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 second quarter and first half of fiscal 2024, as compared with the second quarter and first half of fiscal 2023. During the second quarter of fiscal 2024, we reported foreign currency exchange gains associated with our operations located in China totaling $228,000, compared with $1.0 million during the second quarter of fiscal 2023. During the first half of fiscal 2024, we reported foreign currency exchange gains associated with our operations located in China totaling $679,000, compared with $1.2 million during the first half of fiscal 2023.

The foreign currency exchange gain totaling $679,000 reported during the first half of fiscal 2024 related to our operations in China, was mostly non-cash, and was partially offset by $452,000 of income tax expense. The income tax expense of $452,000 was associated with taxable foreign currency exchange gains 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 our U.S. dollar denominated balance sheet accounts associated with our operations located in China are considered taxable income, as we incur income tax expense and pay income taxes in China's local currency. The $452,000 of income tax expense 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.

<u>Income Taxes</u>

*Effective Income Tax Rate & Income Tax Expense*

We recorded income tax expense of $1.2 million, or (26.8%) of loss before income taxes, for the six-month period ending October 29, 2023, compared with income tax expense of $2.0 million, or (12.9%) of loss before income taxes, for the six-month period ending October 30, 2022

Our effective income tax rates for the six-month periods ended October 29, 2023, and October 30, 2022, 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 six-month periods ended October 29, 2023, and October 30, 2022, 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, and Haiti 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 six-month periods ending October 29, 2023, and October 30, 2022:

| | October 29, 2023 | October 30, 2022 |
|---|---|---|
| U.S. federal income tax rate | 21.0 % | 21.0 % |
| U.S. valuation allowance | (32.8) | (36.7) |
| Withholding taxes associated with foreign jurisdictions | (9.9) | (3.3) |
| Foreign income tax rate differential | (5.7) | 3.2 |
| Stock-based compensation | (4.2) | (0.6) |
| Tax effects of local currency foreign exchange gains | 5.1 | 4.7 |
| Other | (0.3) | (1.2) |
| | (26.8%) | (12.9)% |

Our consolidated effective income tax rates during the first half of fiscal 2024 and fiscal 2023 were both adversely affected by the mix of earnings between our U.S. operations and foreign subsidiaries, as our taxable income stems from our operations located in China and Canada, which have higher income tax rates than the U.S. In addition, during the first half of fiscal 2024 and the first half of fiscal 2023, 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. However, the income tax charge associated with the full valuation allowance applied against our U.S. net deferred income tax assets was lower during the first half of fiscal 2024 compared with the first half of fiscal 2023, as our $(11.8) million U.S. pre-tax loss incurred during the first half of fiscal 2024 was significantly lower than the $(20.7) million U.S. pre-tax loss incurred during the first half of fiscal 2023.

During the first half of fiscal 2024, we incurred a lower consolidated pre-tax loss totaling $(4.5) million, compared with $(15.8) million during the first half of fiscal 2023. 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 half of fiscal 2024, as compared with the first half of fiscal 2023.

*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 October 29, 2023, 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 through 2023, and we are currently expecting significant U.S. pre-tax losses to continue during fiscal 2024. 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 October 29, 2023, October 30, 2022, and April 30, 2023, valuation allowances against our net deferred income tax assets pertain to the following:

| *(dollars in thousands)* | October 29, 2023 | October 30, 2022 | April 30, 2023 |
|---|---|---|---|
| U.S. federal and state net deferred income tax assets | $ 17,839 | $ 13,958 | $ 16,345 |
| U.S. capital loss carryforward | 2,330 | 2,330 | 2,330 |
| | $ 20,169 | $ 16,288 | $ 18,675 |

*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 October 29, 2023, October 30, 2022, 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 October 29, 2023, October 30, 2022, and April 30, 2023, respectively.

*Income Taxes Paid*

The following table sets forth taxes paid by jurisdiction for the six months ended October 29, 2023, and October 30, 2022, respectively:

| *(dollars in thousands)* | Six Months Ended October 29, 2023 | Six Months Ended October 30, 2022 |
|---|---|---|
| United States Transition Tax Payment | $ 499 | $ 265 |
| China Income Taxes, Net of Refunds | 1,278 | 1,286 |
| Canada Income Taxes, Net of Refunds | 336 | 161 |
| | $ 2,113 | $ 1,712 |

*Future Liquidity*

We are currently projecting annual cash income tax payments of approximately $3.2 million for fiscal 2024, compared with $2.3 million for fiscal 2023. Our estimated income tax payments for fiscal 2024 are management's current projections only and can be affected by actual earnings from our foreign subsidiaries located in China and Canada versus annual projections; changes in the foreign exchange rates associated with our China operations in relation to the U.S. dollar; 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.

Additionally, we currently expect to pay minimal income taxes in the U.S. on a cash basis during fiscal 2024 due to the immediate expensing of U.S. capital expenditures and our existing U.S. federal net operating loss carryforwards that totaled $48.2 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.

As of October 29, 2023, 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.

**Liquidity and Capital Resources**

Liquidity

*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 October 29, 2023, we believe our cash of $15.2 million and the current availability under our revolving credit lines totaling $26.2 million (Refer to Note 10 of the consolidated financial statements for further details) will be sufficient to fund our foreseeable business needs, commitments, and contractual obligations.

As of October 29, 2023, our cash totaled $15.2 million, a decrease of $5.8 million compared with cash of $21.0 million as of April 30, 2023. This decrease was mostly due to net cash used in operating activities totaling $(4.5) million and capital expenditures related to our mattress fabrics segment totaling $(2.0) million, partially offset by proceeds from the sale of our rabbi trust investments totaling $986,000 to fund withdrawals from our deferred compensation plan for certain retired employees.

Our net cash used in operating activities was $(4.5) million during the first half of fiscal 2024, a decrease of $10.6 million compared with net cash provided by operating activities of $6.2 million during the first half of fiscal 2023. This trend mostly reflects (i) a significant increase in accounts payable during the first half of fiscal 2023 primarily related to our upholstery fabrics operations located in China, as the mandated COVID-19 related shutdowns were lifted during this period, and which increase in accounts payable did not recur during the first half of fiscal 2024; (ii) a significant decrease in inventory during the first half of fiscal 2023 due to a significant (23.2%) decline in net sales during the period, which significant decline did not recur during the first half of fiscal 2024; (iii) annual incentive payments made during the first quarter of fiscal 2024, which payments did not occur during the first quarter of fiscal 2023; (iv) payments to certain retired employees totaling $986,000 for withdrawals from our deferred compensation plan during the first half of fiscal 2024; partially offset by (v) an increase in cash earnings during the first half of fiscal 2024 compared with the first half of fiscal 2023.

As of October 29, 2023, there were no outstanding borrowings under our lines 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, (ii) supply chain disruptions, (iii) rising 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)* | October 29, 2023 | October 30, 2022 | April 30, 2023 |
|---|---|---|---|
| United States | $ 5,047 | $ 11,255 | $ 9,769 |
| China | 9,301 | 5,734 | 10,669 |
| Canada | 482 | 1,194 | 281 |
| Haiti | 375 | 945 | 236 |
| Cayman Islands | 9 | 9 | 9 |
| | $ 15,214 | $ 19,137 | $ 20,964 |

*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 six-month periods ending October 29, 2023, or October 30, 2022, respectively. As a result, as of October 29, 2023, $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 third quarter of fiscal 2024.

*Dividends*

In June 2022, our board of directors suspended the company's quarterly cash dividend. Considering the current and expected macroeconomic conditions, we believe that preserving capital and managing our liquidity is in the company's best interest to support future growth and the long-term interests of our shareholders. Accordingly, we do not expect to pay any dividends through at least the third quarter of fiscal 2024.

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 $38.4 million as of October 29, 2023, compared with $48.6 million as of October 30, 2022, and $39.2 million as of April 30, 2023. Operating working capital turnover was 5.5 during the second quarter of fiscal 2024, compared with 4.4 during the second quarter of fiscal 2023, and 4.6 during the fourth quarter of fiscal 2023.

*Accounts Receivable*

Accounts receivable was $23.0 million as of October 29, 2023, an increase of $593,000, or 2.6%, compared with $22.4 million as of October 30, 2022. This trend reflects a slight increase in net sales during the second quarter of fiscal 2024, as compared with the second quarter of fiscal 2023. Net sales were $58.7 million during the second quarter of fiscal 2024, an increase of $344,000, or 0.6%, compared with net sales of $58.4 million during the second quarter of fiscal 2023. Days' sales outstanding were 34 days for the second quarter of fiscal 2024 and 33 days for the second quarter of fiscal 2023.

Accounts receivable was $23.0 million as of October 29, 2023, a decrease of $1.7 million, or 7.0%, compared with $24.8 million as of April 30, 2023. This decrease primarily reflects a decrease in net sales during the second quarter of fiscal 2024, as compared with the fourth quarter of fiscal 2023. Net sales were $58.7 million during the second quarter of fiscal 2024, a decrease of $2.7 million, or 4.4%, compared with net sales of $61.4 million during the fourth quarter of fiscal 2023. Days' sales outstanding were 34 days during the second quarter of fiscal 2024, compared with 35 days during the fourth quarter of fiscal 2023.

*Inventory*

As of October 29, 2023, inventory decreased by $7.8 million, or 14.9%, compared with October 30, 2022. This trend reflects improved raw materials inventory management in relation to current customer demand trends related to our mattress fabrics segment and promotional programs to reduce aged raw materials and finished goods associated with both our mattress fabrics and upholstery fabrics segments.

As of October 29, 2023, inventory decreased by $615,000, or 1.4%, compared with April 30, 2023. This decrease is primarily due to a decrease in net sales during the second quarter of fiscal 2024, as compared with the fourth quarter of fiscal 2023. Net sales for the second quarter of fiscal 2024 were $58.7 million, a decrease of $2.7 million, or 4.4%, compared with net sales of $61.4 million during the fourth quarter of fiscal 2023.

Inventory turns were 4.6 for the second quarter of fiscal 2024, as compared with 4.3 for the second quarter of fiscal 2023 and 4.7 for the fourth quarter of fiscal 2023.

*Accounts Payable - Trade*

Accounts payable - trade was $27.9 million as of October 29, 2023, an increase of $3.6 million, or 14.8%, compared with $24.3 million as of October 30, 2022. This trend stems from management's focus on extending credit terms with certain vendors during the second quarter of fiscal 2024.

Accounts payable - trade was $27.9 million as of October 29, 2023, a decrease of $1.5 million, or 5.2%, compared with $29.4 million as of April 30, 2023. This trend reflects a decline in net sales during the second quarter of fiscal 2024, as compared with the fourth quarter of fiscal 2023. Net sales were $58.7 million during the second quarter of fiscal 2024, a decrease of $2.7 million, or 4.4%, compared with net sales of $61.4 million during the fourth quarter of fiscal 2023. The decrease in accounts payable as a result of the decline in net sales was partially offset by management's focus on extending credit terms with certain vendors during the second quarter of fiscal 2024.

Financing Arrangements

Currently, we have revolving credit agreements with banks for our U.S parent company and our operations located in China. As of October 29, 2023, we did not have any outstanding borrowings associated with our revolving credit agreements. Our loan agreements require, among other things, that we maintain compliance with certain financial covenants. As of October 29, 2023, 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 half of fiscal 2024 totaled $2.0 million and were mostly related to machinery and equipment associated with our mattress fabrics segment. Capital expenditures on a cash basis during the first half of fiscal 2023 totaled $1.1 million and pertained to machinery and equipment associated with our former upholstery cut and sew operation located in Haiti, manufacturing equipment associated with our mattress fabrics segment, and IT equipment associated with both our business segments.

Depreciation expense was $3.3 million during the first half of fiscal 2024, compared with $3.5 million for the same period a year ago. Depreciation expense mostly related to our mattress fabrics segment for both periods.

For the remainder of fiscal 2024, 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 by operating activities.

*Accounts Payable – Capital Expenditures*

As of October 29, 2023, we had amounts due regarding capital expenditures totaling $298,000 that pertained to outstanding vendor invoices, none of which were financed. The total amount outstanding of $298,000 is required to be paid based on normal credit terms.

*Purchase Commitments – Capital Expenditures*

As of October 29, 2023, we had open purchase commitments to acquire equipment for our mattress fabrics segment totaling $1.6 million.

**Critical Accounting Policies and Recent Accounting Developments**

As of October 29, 2023, 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.

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.

**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.

**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 and continuing through the second quarter of fiscal 2024, raw material costs started to decline due to lower oil prices and slowing global demand; however, higher costs and lower availability of labor remained challenging during fiscal 2023 and continuing through the second quarter of fiscal 2024.

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

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 our revolving credit agreements.

Effective January 19, 2023, we entered into a second amended and restated U.S. revolving credit agreement (the "Amended Agreement") that established an asset-based revolving credit facility that required interest to be charged at a rate (applicable interest rate of 6.80% as of October 29, 2023) calculated using an applicable margin over the Federal Reserve Bank of New York's secured overnight fund rate, as defined in the Amended Agreement. As of October 29, 2023, there were no outstanding borrowings under the Amended Agreement.

Our revolving credit line associated with our operations located in China bears interest at a rate determined by the Chinese government at the time of borrowing. As of October 29, 2023, there were no borrowings outstanding under our revolving credit agreement associated with our operations located in China.

*Foreign Currency*

We are exposed to market risk from changes in the value of foreign currencies related to our subsidiaries domiciled in Canada and China. We try to maintain a natural hedge by keeping a balance of our assets and liabilities denominated in the local currency of our subsidiaries domiciled in Canada and China. However, there is no assurance that we will be able to continually maintain this natural hedge. Our foreign subsidiaries use the United States dollar as their functional currency. A substantial portion of the company's imports purchased outside the United States are denominated in U.S. dollars. A 10% change in the above exchange rates as of October 29, 2023, would not have materially affected our results of operations or financial position.

## ITEM 4. CONTROLS AND PROCEDURES

As of October 29, 2023, 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 October 29, 2023, 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 October 29, 2023. 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, 2023, for the fiscal year ended April 30, 2023.

Item 1A. Risk Factors

There have not been any material changes to our risk factors during the three months ended October 29, 2023. 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, 2023, for the fiscal year ended April 30, 2023.

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) |
|---|---|---|---|---|
| July 31, 2023 to September 3, 2023 | — | — | — | $3,248,094 |
| September 4, 2023 to October 1, 2023 | — | — | — | $3,248,094 |
| October 2, 2023 to October 29, 2023 | — | — | — | $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 6. Exhibits

**The following exhibits are submitted as part of this report.**

| | |
|---|---|
| 10.1 | Form of Annual Incentive Award Agreement |
| 10.2 | Form of Restricted Stock Unit Agreement for restricted stock units granted to executive officers pursuant to the Amended and Restated Equity Incentive Plan |
| 10.3 | Written Description of Outside Director Compensation |
| 10.4 | Form of Restricted Stock Unit Agreement for restricted stock units granted to outside directos pursuant to the Amended and Restated Equity Incentive Plan |
| 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. |
| 101.INS | Inline XBRL Instance Document |
| 101.SCH | Inline XBRL Taxonomy Extension 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.**<br>**(Registrant)** |
| Date: December 8, 2023 | By: | /s/ Kenneth R. Bowling |
| | | Kenneth R. Bowling<br>Executive Vice President and Chief Financial Officer<br>(Authorized to sign on behalf of the registrant and also signing as principal financial officer and principal accounting officer) |

# ANNUAL INCENTIVE AWARD AGREEMENT

**THIS ANNUAL INCENTIVE AWARD AGREEMENT** (the "**Agreement**"), dated as of ______________, is between **CULP, INC.**, a North Carolina corporation (the "**Corporation**"), and ____________________ ("**Recipient**").

## Background Statement

The Corporation desires to grant to Recipient an Annual Incentive Award (the "**Award**") pursuant to the Culp, Inc. Amended and Restated Equity Incentive Plan (the "**Plan**"). Capitalized terms used but not defined in this Agreement shall have the meanings given to them in the Plan.

## STATEMENT OF AGREEMENT

**NOW**, **THEREFORE**, the parties hereby agree as follows:

**Section 1.Grant of Award**. The Corporation hereby grants to Recipient the Award described below.

The Award will pay an incentive bonus for the Performance Period stated below to Recipient upon final determination by the Compensation Committee (the "**Committee**") of the Corporation's board of directors that a bonus payment is due pursuant to the terms of this Agreement and the Plan.

The bonus payment due hereunder is calculated with reference to the Total Bonus Percentage for the Reporting Unit in which Recipient participates. The bonus due to Recipient is the Total Bonus Percentage for Recipient's Reporting Unit multiplied by Recipient's Bonus Opportunity, as such terms are defined in **Schedule A** attached hereto.

**Performance Period**: The Corporation's fiscal year ending ___________.

**Reporting Unit**: _________

**Bonus Opportunity**: Recipient's Bonus Opportunity is _____% of Recipient's base salary during the Performance Period.

The maximum Total Bonus Percentage for this award for each Reporting Unit is 200%. In addition, the Committee shall have the authority to, in its discretion, reduce the amount of any Recipient's bonus payment based upon any considerations the Committee deems relevant.

**Section 2.Vesting**. The bonus amount to be paid hereunder will vest and become payable upon final determination of the amount to be paid by the Corporation and the Committee, provided, however, that if such determination is made by the Committee prior to the Corporation's filing with the Securities and Exchange Commission ("**SEC**") of its annual report on Form 10-K that relates to the financial results for the applicable Performance Period, then the bonus amount to be paid hereunder will not vest and become payable until after such filing is complete.

Notwithstanding the foregoing, all unvested Awards (and a bonus payment at Recipient's Bonus Opportunity) shall immediately vest and become payable upon the occurrence of the following:

(a) termination of Recipient's employment by reason of the death or Disability of Recipient; or

(b) Recipient's employment is terminated by the Corporation in anticipation of a Change of Control, or

(c) Recipient is employed by the Corporation or an affiliate thereof at the time a Change of Control occurs, and at any time during the 18-month period following such Change of Control (provided that the bonus payment provided for hereunder shall have not already become due and been paid):

(i) Recipient's employment is terminated by the Corporation or an affiliate thereof for any reason other than for death, Disability or Cause, or

(ii) Recipient terminates his/her employment for Good Reason within one year following the initial existence of the conditions giving rise to such Good Reason;

provided, however, that in the event any of the foregoing triggering events occurs after the end of the Performance Period but prior to the vesting of the Awards, then the amount of the bonus payment to Recipient shall be the amount that would be due hereunder based on the performance of the Recipient's Reporting Unit calculated in accordance with the Bonus Percentages set forth in **Schedule A** hereto (i.e., it shall not be paid at Recipient's Bonus Opportunity, but shall be paid based on the Total Bonus Percentage for Recipient's Reporting Unit multiplied by Recipient's Bonus Opportunity), and such award shall not vest and become payable until final determination of the amount to be paid by the Corporation and the Committee (or, if such determination is made prior to the Corporation's filing with the SEC of its annual report on Form 10-K that relates to the financial results for the applicable Performance Period, then after such filing is complete).

**Additional Definitions**. For purposes of this Agreement, the following terms shall have the meanings indicated below:

"**Cause**" shall mean (i) the commission by Recipient of a felony (or crime involving moral turpitude); (ii) theft, conversion, embezzlement or misappropriation by Recipient of funds or other assets of the Corporation or its Subsidiaries or any other act of fraud with respect to the Corporation or its Subsidiaries (including without limitation the acceptance of bribes or kickbacks or other acts of self-dealing); (iii) intentional, grossly negligent or unlawful misconduct by Recipient that causes significant harm to the Corporation or its Subsidiaries; or (iv) repeated instances of intoxication with alcohol or drugs while conducting business during regular business hours.

"**Change of Control**" shall have the meaning given to such term in the Plan. In addition, for an award that vests according to any Financial Reporting Measure of a

Division, "**Change of Control**" shall be deemed to have occurred upon consummation of a sale of all or substantially all of the assets of such Division by the Corporation to an unaffiliated third party.

"**Disability**" shall have the meaning given to such term in the primary disability benefit plan of the Corporation in which Recipient participates. In the absence of any such plan, "**Disability**" shall mean any physical or mental impairment that renders Recipient unable to perform the essential functions of Recipient's job with the Corporation and its Subsidiaries for a period of at least 120 days, either with or without reasonable accommodation. At the Corporation's request, Recipient shall submit to an examination by a duly licensed physician who is mutually acceptable to the Corporation and Recipient for the purpose of ascertaining the existence of a Disability, and shall authorize the physician to release the results of Recipient's examination to the Corporation.

"**Good Reason**" shall mean, without Recipient's express written consent, the existence of any of the following conditions unless such conditions are fully corrected within 30 days after Recipient notifies the Corporation of the existence of such conditions as hereinafter provided:

(d) a material diminution in Recipient's authority, duties or responsibilities;

(e) a material diminution in the authority, duties or responsibilities of the supervisor to whom Recipient is required to report;

(f) a material diminution in Recipient's base salary, other than as a result of across-the-board salary reductions similarly affecting all management personnel of the Corporation; or

(g) a material change in the geographic location at which Recipient must regularly perform services for the Corporation.

Recipient shall notify the Corporation that he/she believes that one or more of the conditions described above exists, and of his/her intention to terminate employment for Good Reason as a result thereof, within 60 days after the time that he/she gains knowledge of such conditions. Recipient shall not deliver a notice of termination of employment for Good Reason until 30 days after he/she delivers the notice described in the preceding sentence, and Recipient may do so only if the conditions described in such notice have not been fully corrected by the Corporation.

"**Financial Reporting Measures**" shall mean measures that are determined and presented in accordance with the accounting principles used in preparing the Corporation's financial statements, and all other measures that are derived wholly or in part from such measures. Stock price and total shareholder return (and any measures that are derived wholly or in part from stock price or total shareholder return) shall for purposes of this Agreement be considered Financial Reporting Measures. For the avoidance of doubt, a measure need not be presented in the Corporation's financial statements or included in a filing with the SEC in order to be considered a Financial Reporting Measure.

"**Incentive-Based Compensation**" means any compensation that is granted, earned or vested based wholly or in part upon the attainment of a Financial Reporting Measure.

**Section 3.Settlement**.

As soon as reasonably practicable following (i) a determination by the Corporation and the Committee that a bonus payment is due hereunder and (ii) the Corporation's filing with the SEC of its annual report on Form 10-K that relates to the financial results for the applicable Performance Period of the Award, the bonus will be paid in cash, or will be paid in accordance with any proper and valid election under the Culp, Inc. Deferred Compensation Plan for Key Employees, but only if such election has been made in accordance with the policies and procedures of the Corporation pursuant to such plan.

**Section 4.Forfeiture**. All bonus amounts that do not vest pursuant to **Section 2** shall automatically be cancelled and forfeited by Recipient effective as of the earlier to occur of (a) the first day after the end of the Performance Period (to the extent that none of Adjusted Operating Income, Adjusted Operating Cash Flow, or Net Sales for the relevant Reporting Unit is sufficient to cause any bonus payment to vest pursuant to the terms of this Agreement), (b) the date on which the Committee determines in its discretion as set forth in **Section 1** that no bonus is payable pursuant to this Agreement, (c) the termination by Recipient of his/her employment with the Corporation or its Subsidiaries for any reason, except as otherwise determined by the Committee, in its sole discretion (for example, under circumstances in which Recipient will continue providing Services to the Corporation as a director, consultant, or independent contractor following any such termination by Recipient, or such other circumstances as determined by the Committee), or (d) the termination by the Corporation of Recipient's employment with the Corporation or its Subsidiaries for any reason (including with or without Cause) (each such event being referred to herein as a "**Forfeiture Event**"). Upon the occurrence of a Forfeiture Event, all unvested bonus amounts shall automatically, without further action by the Corporation or Recipient, be cancelled and forfeited.

**Section 5.Tax Matters**.

(a) Recipient shall promptly pay to the Corporation all federal, state and local income, social security and payroll taxes of any kind required by law to be withheld with respect to the vesting or payment of a bonus hereunder, and the Corporation, to the extent permitted by law, have the right to deduct from any payment of any kind otherwise due to Recipient all federal, state and local income, social security and payroll taxes of any kind required by law to be withheld with respect to the vesting or payment of a bonus earned hereunder.

(b) Notwithstanding anything in this Agreement to the contrary, if a Change of Control occurs and if Recipient is entitled under any agreement or arrangement (including, without limitation, this Agreement) to receive compensation that would constitute a parachute payment (including, without limitation, the vesting of any rights) within the meaning of Section 280G of the Internal Revenue Code of 1986, as amended (the "**Code**") but for the operation of this sentence, then the amount of all such payments shall be reduced, as determined by the Corporation, to the extent necessary to cause the aggregate present value of all payments in the nature of compensation to Recipient that are contingent on a change in the ownership or effective control of the Corporation, or in the ownership of a substantial portion of the assets of the Corporation, not to exceed 2.99 times Recipient's "base amount," all within the meaning of Section 280G of the Code and the regulations promulgated thereunder. The parties intend for the immediately preceding sentence to be interpreted and applied so as to prevent Recipient from receiving, with respect to a Change of Control, an excess parachute payment within the meaning of Section 280G of the Code.

**Section 6.Clawback**.

(a) If the Corporation's reported financial or operating results become subject to a material negative restatement, the Committee, in its discretion, may require Recipient to pay to the Corporation an amount corresponding to the amount that the Committee determines would not have been vested or paid if the Corporation's results as originally published had been equal to the Corporation's results as subsequently restated; provided that any requirement or claim under this Section 6(a) must be made, if at all, within five years after the date the amount claimed was originally vested or paid, whichever is later.

In addition, pursuant to the Corporation's Dodd-Frank Clawback Policy (as amended from time to time, the "Clawback Policy"), if the Committee determines that recoupment of compensation paid hereunder is required pursuant to the Clawback Policy, the Committee will require Recipient to repay or return compensation awarded hereunder. By acceptance of any Award or bonus payment hereunder, Recipient expressly acknowledges and agrees that any and all amounts paid to Recipient hereunder, and any other Incentive-Based Compensation paid by the Corporation to the Recipient, are and will be fully subject to the terms of the Clawback Policy (provided that Recipient is, or becomes, an individual that is subject to the Clawback Policy) and agrees to cooperate fully with the Corporation to facilitate the recovery of any and all amounts paid pursuant to this Agreement and any other Incentive-Based Compensation paid by the Corporation that the Committee determines in its sole discretion is required to be recovered pursuant to the terms of the Clawback Policy.

The obligations of Recipient to make payments or return bonus amounts paid hereunder pursuant to this Section 6(a) are independent of any involvement by such Recipient in events that led to the restatement. The provisions of this Section 6(a) are in addition to, not in lieu of, any remedies that the Corporation may have against any persons whose misconduct caused or contributed to a need to restate the Corporation's reported results.

(b) If at any time within three years of the vesting or payment of any award to Recipient under this Agreement, whichever is later, Recipient's employment is terminated for Cause (or, if such termination is deemed not to be for Cause, but the Corporation determines at any time during such three-year period that the Corporation could have terminated Recipient's employment for Cause based on Recipient's conduct during his or her time of employment with the Corporation), then if any part of the underlying conduct or circumstances giving rise to such determination of Cause by the Corporation took place at any time during the applicable vesting period for each such award, as specified in this Agreement, then the Committee may require Recipient to pay to the Corporation an amount corresponding to each award that vested or was paid to Recipient pursuant to this Agreement.

By acceptance of any Award or bonus payment hereunder, Recipient expressly acknowledges and agrees that any and all amounts paid to Recipient hereunder are and will be fully subject to the terms of the foregoing clawback provisions, and agrees to cooperate fully with the Corporation to facilitate the recovery of any such amounts that the Committee requires to be recovered pursuant to the foregoing.

**Section 7.Miscellaneous**.

(a) **Governing Law**. This Agreement shall be construed, administered and governed in all respects under and by the applicable internal laws of the State of North Carolina, without giving effect to the principles of conflicts of laws thereof.

(b) **Entire Agreement; Amendment and Waiver**. This Agreement and the Award granted hereunder shall be subject to the terms of the Plan, which hereby is incorporated into this Agreement as though set forth in full herein. Recipient hereby acknowledges receipt of a copy of the Plan. This Agreement and the Plan reflect the entire agreement between the parties hereto and supersede any prior or contemporaneous written or oral understanding or agreement regarding the subject matter hereof. This Agreement may not be modified, amended, supplemented or waived except by a writing signed by the parties hereto, and such writing must refer specifically to this Agreement.

(c) **Assignment; Binding Effect**. Except as permitted by the Plan, this Agreement and the Award granted hereunder may not be assigned, pledged, hypothecated or transferred by Recipient in any manner. This Agreement, as amended from time to time, shall be binding upon, inure to the benefit of and be enforceable by the heirs, successors and assigns of the parties hereto; provided, however, that this provision shall not permit any assignment in contravention of the terms contained elsewhere herein.

(d) **No Right to Employment**. Nothing in this Agreement shall confer on Recipient any right to continue in the employ of the Corporation or any of its Subsidiaries.

(e) **Counterparts**. This Agreement may be executed in one or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument. Delivery of an executed counterpart of this Agreement by facsimile or other electronic device shall be equally as effective as delivery of an original executed counterpart of this Agreement. Any party delivering an executed counterpart of this Agreement by facsimile or other electronic device shall also deliver an original executed counterpart of this Agreement, but the failure to deliver an original executed counterpart of this Agreement shall not affect the validity, enforceability and binding effect of this Agreement.

(f) **Notices**. Any notice hereunder to the Corporation shall be addressed to the Corporation's principal executive office, Attention: Compensation Committee, and any notice hereunder to Recipient shall be addressed to Recipient at his last address in the records of the Corporation, subject to the right of either party to designate at any time hereafter in writing a different address. Any notice shall be deemed to have been given when delivered personally, one (1) day after dispatch if sent by reputable overnight courier, fees prepaid, or three (3) days following mailing if sent by registered mail, return receipt requested, postage prepaid and addressed as set forth above.

[Signature page is the next page.]

**IN WITNESS WHEREOF**, this Agreement has been duly executed as of the date first written above.

**CULP, INC.**,
a North Carolina corporation

By:
Name:
Title:

**RECIPIENT**

# RESTRICTED STOCK UNIT AGREEMENT

**THIS RESTRICTED STOCK UNIT AGREEMENT** (the "**Agreement**"), dated as of ______________________, is between **CULP, INC.**, a North Carolina corporation (the "**Corporation**"), and __________________ ("**Recipient**").

## Background Statement

The Corporation desires to grant to Recipient Restricted Stock Units (the "**Units**") pursuant to the Culp, Inc. Amended and Restated Equity Incentive Plan (the "**Plan**"). Capitalized terms used but not defined in this Agreement shall have the meanings given to them in the Plan.

## STATEMENT OF AGREEMENT

**NOW**, **THEREFORE**, the parties hereby agree as follows:

**Section 1.Grant of Units**. On __________________ (the "**Grant Date**"), the Corporation hereby grants to Recipient ______ Units, ______ of which shall vest in accordance with Section 2(a) herein (the "**Time-Based Units**") upon a final determination by the Compensation Committee (the "**Committee**") of the satisfaction of the vesting conditions set forth herein and the number of Time-Based Units that have vested in connection therewith; and ______ of which shall vest in accordance with Section 2 herein and **Schedule A** attached hereto (the "**Performance-Based Units**") upon a final determination by the Committee of the satisfaction of the vesting conditions set forth herein and the number of Performance-Based Units that have vested in connection therewith, in each case pursuant to the terms set forth in this Agreement and the Plan. Each Time-Based Unit shall entitle Recipient to receive, upon vesting thereof in accordance with this Agreement and the Plan, one (1) share of common stock, par value $0.05 per share, of the Corporation ("**Common Stock**"). Each Performance-Based Unit shall entitle Recipient to receive, upon vesting thereof in accordance with this Agreement and the Plan, up to two shares of Common Stock. Except as permitted by the Plan, the Units may not be assigned, pledged, hypothecated or transferred in any manner. Recipient shall not have, with respect to any Units, any rights of a shareholder of the Corporation, including without limitation any right to vote as a shareholder of the Corporation or any right to receive distributions from the Corporation in respect of the Units. The Units are granted to the Recipient in connection with Recipient's employment with the Corporation.

**Section 2.Vesting**.

(a) Time-Based Units. Except as may otherwise be provided in the Plan or this Agreement, the Time-Based Units shall vest in the amounts set forth below:

On ________________ ____________ shares of Common Stock.

The Corporation shall, as soon as practicable upon the vesting of any Time-Based Units (but in no event later than sixty (60) days following the date on which such Time-Based Units vest), effect delivery of the shares of Common Stock with respect to such vested Time-Based Units to the Recipient (or, in the event of the Time-Based Units have passed to the estate or beneficiary of the Recipient or a permitted transferee, by such estate or beneficiary or permitted transferee) and, following such delivery of such shares, such vested Time-Based Units shall cease to be outstanding.

(b) Performance-Based Units. Except as may otherwise be provided in the Plan or this Agreement, the Performance-Based Units shall vest, if at all, based on the formula set forth in **Schedule A** attached hereto, which sets out the performance goals for each Fiscal Year within the Performance Period. Each Performance-Based Unit, if it vests, grants the Recipient the conditional right to receive, without payment and pursuant to and subject to the terms and conditions set forth in this Agreement and in the Plan, between zero and two shares of Common Stock, depending upon the performance of the Reporting Unit during the Performance Period as set forth in **Schedule A** attached hereto.

(c) The determination of whether, and the extent to which, the performance goals have been satisfied with respect to the Performance-Based Units, including the applicability of any modifiers as set forth in **Schedule A** hereto, will be made by the Committee in its sole and absolute discretion, following the end of the Performance Period, pursuant to the terms set forth in this Agreement and the Plan. The Corporation shall, as soon as practicable upon the determination by the Committee, pursuant to this **Section 2** and **Schedule A** attached hereto, of the extent to which the performance goals for the Performance Period have been satisfied and the number of shares of Common Stock determined to be earned upon vesting of such Performance-Based Units (but, not later than sixty (60) days thereafter), effect delivery of such shares of Common Stock to the Recipient (or, in the event of the Performance-Based Units have passed to the estate or beneficiary of the Recipient or a permitted transferee, by such estate or beneficiary or permitted transferee) and, following such delivery of such shares, the Performance-Based Units shall cease to be outstanding. If the final determination of the satisfaction of the vesting conditions for any Performance-Based Units is made by the Committee prior to the Corporation's filing with the Securities and Exchange Commission ("**SEC**") of its annual report on Form 10-K that relates to the financial results for any portion of the applicable Performance Period with respect to any Performance-Based Units, then no Performance-Based Units will vest, and no Common Stock will be issued, until after such filing is complete. The Committee may in its sole discretion increase or decrease the number of shares of Common Stock that vest with respect to a Performance Share for the Performance Cycle to equitably account for any events or developments affecting achievement of the performance goals occurring during the Performance Cycle that were not anticipated at the Grant Date.

(d) Notwithstanding the foregoing, all unvested Units (at the rate of one (1) share of Common Stock per Unit for Time-Based Units and at the number of shares at the Target level set forth in **Schedule A** for each Fiscal Year of the Performance Period with respect to Performance-Based Units) shall immediately vest upon:

(i) termination of Recipient's employment by reason of the death or Disability of Recipient; or

(ii) Recipient's employment is terminated by the Corporation in anticipation of a Change of Control, or (iii)Recipient is employed by the Corporation or an affiliate thereof at the time a Change of Control occurs, and at any time during the three-year period following such Change of Control (provided that the Units granted hereunder and related shares have not otherwise vested):

(1) Recipient's employment is terminated by the Corporation or an affiliate thereof for any reason other than for death, Disability or Cause, or

(2) Recipient terminates his/her employment for Good Reason within one year following the initial existence of the conditions giving rise to such Good Reason;

provided, however, that in the event any of the foregoing triggering events occurs after the end of the Performance Period but prior to the vesting of the Units, then the number of Performance-Based Units that shall vest will be the actual number of Performance-Based Units that would have vested hereunder pursuant to Section 2(b) if the Recipient had been employed by the Corporation as of the vesting date (i.e., the number of Performance-Based Units shall not vest at the Target level, but shall vest based on the performance of the Reporting Unit as set forth in **Schedule A** hereto), and such Units shall not vest, and the associated number of shares shall not become issuable by the Corporation, until final determination by the Committee of the number of Units that have vested and shares issuable in connection therewith pursuant to the terms set forth in this Agreement and the Plan (or, if such determination is made prior to the Corporation's filing with the SEC of its annual report on Form 10-K that relates to the financial results for any portion of the applicable Performance Period, then after such filing is complete).

**Section 3.Definitions**. For purposes of this Agreement, the following terms shall have the meanings indicated below:

"**Cause**" shall mean (i) the commission by Recipient of a felony (or crime involving moral turpitude); (ii) theft, conversion, embezzlement or misappropriation by Recipient of funds or other assets of the Corporation or its Subsidiaries or any other act of fraud with respect to the Corporation or its Subsidiaries (including without limitation the acceptance of bribes or kickbacks or other acts of self-dealing); (iii) intentional, grossly negligent or unlawful misconduct by Recipient that causes significant harm to the Corporation or its Subsidiaries; or (iv) repeated instances of intoxication with alcohol or drugs while conducting business during regular business hours.

"**Change of Control**" shall have the meaning given to such term in the Plan. In addition, for an award that vests according to any Financial Reporting Measure of a Division, "**Change of Control**" shall be deemed to have occurred upon consummation of a sale of all or substantially all of the assets of such Division by the Corporation to an unaffiliated third party.

"**Disability**" shall have the meaning given to such term in the primary disability benefit plan of the Corporation in which Recipient participates. In the absence of any such plan, "**Disability**" shall mean any physical or mental impairment that renders Recipient unable to perform the essential functions of Recipient's job with the Corporation and its Subsidiaries for a period of at least 120 days, either with or without reasonable accommodation. At the Corporation's request, Recipient shall submit to an examination by a duly licensed physician who is mutually acceptable to the Corporation and Recipient for the purpose of ascertaining the existence of a Disability, and shall authorize the physician to release the results of Recipient's examination to the Corporation.

"**Good Reason**" shall mean, without Recipient's express written consent, the existence of any of the following conditions unless such conditions are fully corrected within 30 days after Recipient notifies the Corporation of the existence of such conditions as hereinafter provided:

(a) a material diminution in Recipient's authority, duties or responsibilities;

(b) a material diminution in the authority, duties or responsibilities of the supervisor to whom Recipient is required to report, including a requirement that Recipient report to a Corporation officer or employee instead of reporting directly to the Corporation's board of directors;

(c) a material diminution in Recipient's base salary, other than as a result of across-the-board salary reductions similarly affecting all management personnel of the Corporation; or

(d) a material change in the geographic location at which Recipient must regularly perform services for the Corporation.

Recipient shall notify the Corporation that he/she believes that one or more of the conditions described above exists, and of his/her intention to terminate employment for Good Reason as a result thereof, within 60 days after the time that he/she gains knowledge of such conditions. Recipient shall not deliver a notice of termination of employment for Good Reason until 30 days after he/she delivers the notice described in the preceding sentence, and Recipient may do so only if the conditions described in such notice have not been fully corrected by the Corporation.

"**Fiscal Year**" means the fiscal year of the Corporation, which is the 52- or 53-week period ending on the Sunday closest to April 30.

"**Financial Reporting Measures**" shall mean measures that are determined and presented in accordance with the accounting principles used in preparing the Corporation's financial statements, and all other measures that are derived wholly or in part from such measures. Stock price and total shareholder return (and any measures that are derived wholly or in part from stock price or total shareholder return) shall for purposes of this Agreement be considered Financial Reporting Measures. For the avoidance of doubt, a measure need not be presented in the Corporation's financial statements or included in a filing with the SEC in order to be considered a Financial Reporting Measure.

"**Incentive-Based Compensation**" means any compensation that is granted, earned or vested based wholly or in part upon the attainment of a Financial Reporting Measure.

“**Performance Period**” shall mean the Corporation’s three Fiscal Years beginning _________________, and ending _______________ (the “Performance Period”), with the first Fiscal Year within such Performance Period being referred to herein as “**Year 1**,” the second Fiscal Year within such Performance Period being referred to herein as “**Year 2**,” and the third Fiscal Year within such Performance Period being referred to herein as “**Year 3**.”

**Reporting Unit**: __________________

**Section 4.Settlement**. Subject to the terms herein, including in **Schedule A** hereto, as soon as reasonably practicable following (i) a determination by the Committee that all or some of the Units have vested pursuant to the terms of this Agreement, and (ii) the Corporation’s filing with the SEC of its annual report on Form 10-K that relates to the financial results for the applicable Performance Period for the Performance-Based Units granted hereunder, the Corporation shall issue directly to the Recipient shares of Common Stock with respect to all such Units that have vested. Such shares of Common Stock shall not be treated as issued and outstanding until such shares have been issued by the Corporation in accordance with all applicable laws and the Corporation’s bylaws and articles of incorporation. Any certificate(s) evidencing shares of Common Stock shall bear such legends as the Corporation shall determine to be necessary to comply with all laws, including all applicable federal and state securities laws. All such shares of Common Stock issued pursuant to this Agreement shall be fully paid and nonassessable.

**Section 5.Forfeiture**. All Units that have not vested pursuant to **Section 2** and **Schedule A** hereto shall automatically be cancelled and forfeited by Recipient effective as of the earlier to occur of (a) with respect to the Performance-Based Units, the first day after the end of the Performance Period (to the extent that the Committee determines that such Performance-Based Units will not vest pursuant to the terms of this Agreement), (b) the termination by Recipient of his/her employment with the Corporation or its Subsidiaries for any reason, except as otherwise determined by the Committee, in its sole discretion (for example, under circumstances in which Recipient will continue providing Services to the Corporation as a director, consultant, or independent contractor following any such termination by Recipient, or such other circumstances as determined by the Committee), or (c) the termination by the Corporation of Recipient’s employment with the Corporation or its Subsidiaries for any reason (including with or without Cause) (each such event being referred to herein as a “**Forfeiture Event**”). Upon the occurrence of a Forfeiture Event, all unvested Units shall automatically, without further action by the Corporation or Recipient, be cancelled and forfeited.

**Section 6.Tax Matters**.

(a) Recipient shall promptly pay to the Corporation all federal, state and local income, social security and payroll taxes of any kind required by law to be withheld with respect to the vesting of any Units and the issuance of shares of Common Stock in respect thereof. Subject to the approval of the Committee, Recipient may elect to satisfy this obligation by having the Corporation withhold shares of Common Stock that would otherwise be issued to Recipient with respect to any Units that have vested, which shares of Common Stock shall have a Fair Market Value (as of the date that the amount of the withholding requirement is to be determined) equal to the amount of such withholding requirement. If Recipient fails to make such payments as required (whether in cash or having shares of Common Stock withheld), the Corporation shall, to the extent permitted by law, have the right to deduct from any payment of any kind otherwise due to Recipient all federal, state and local income, social security and payroll taxes of any kind required by law to be withheld with respect to the vesting of Units and the issuance of shares of Common Stock in respect thereof.

(b) Notwithstanding anything in this Agreement to the contrary, if a Change of Control occurs and if Recipient is entitled under any agreement or arrangement (including, without limitation, this Agreement) to receive compensation that would constitute a parachute payment (including, without limitation, the vesting of any rights) within the meaning of Section 280G of the Internal Revenue Code of 1986, as amended (the "**Code**") but for the operation of this sentence, then the amount of all such payments shall be reduced, as determined by the Corporation, to the extent necessary to cause the aggregate present value of all payments in the nature of compensation to Recipient that are contingent on a change in the ownership or effective control of the Corporation, or in the ownership of a substantial portion of the assets of the Corporation, not to exceed 2.99 times Recipient's "base amount," all within the meaning of Section 280G of the Code and the regulations promulgated thereunder. The parties intend for the immediately preceding sentence to be interpreted and applied so as to prevent Recipient from receiving, with respect to a Change of Control, an excess parachute payment within the meaning of Section 280G of the Code.

**Section 7.Clawback**.

(a) If the Corporation's reported financial or operating results become subject to a material negative restatement, the Committee may require Recipient to pay to the Corporation an amount corresponding to each award to the Recipient under this Agreement, or otherwise return such Units or Common Stock, that the Committee determines would not have been vested or paid if the Corporation's results as originally published had been equal to the Corporation's results as subsequently restated; provided that any requirement or claim under this Section 7(a) must be made, if at all, within five years after the date the amount claimed was originally vested or paid, whichever is later.

In addition, pursuant to the Corporation's Dodd-Frank Clawback Policy (as amended from time to time, the "**Clawback Policy**"), if the Committee determines that recoupment of compensation paid hereunder is required pursuant to the Clawback Policy, the Committee will require Recipient to repay or return compensation awarded hereunder. By acceptance of any Award or bonus payment hereunder, Recipient expressly acknowledges and agrees that any and all amounts paid to Recipient hereunder, and any other Incentive-Based Compensation paid by the Corporation to the Recipient, are and will be fully subject to the terms of the Clawback Policy (provided that Recipient is, or becomes, an individual that is subject to the Clawback Policy) and agrees to cooperate fully with the Corporation to facilitate the recovery of any and all amounts paid pursuant to this Agreement and any other Incentive-Based Compensation paid by the Corporation that the Committee determines in its sole discretion is required to be recovered pursuant to the terms of the Clawback Policy.

The obligations of Recipient to make payments or return Common Stock pursuant to this Section 7(a) are independent of any involvement by such Recipient in events that led to the restatement. The provisions of this Section (a) are in addition to, not in lieu of, any remedies that the Corporation may have against any persons whose misconduct caused or contributed to a need to restate the Corporation's reported results.

(b) If at any time within three years of the vesting or payment of any award to Recipient under this Agreement, whichever is later, Recipient's employment is terminated for Cause (or, if such termination is deemed not to be for Cause, but the Corporation determines at any time during such three-year period that the Corporation could have terminated Recipient's employment for Cause based on Recipient's conduct during his or her time of employment with the Corporation), then if any part of the underlying conduct giving rise to such determination of Cause by the Corporation took place at any time during the applicable vesting period for each such award, as specified in this Agreement, then the Committee may require Recipient to pay to the Corporation an amount corresponding to each award that vested or was paid to Recipient pursuant to this Agreement, or to otherwise return such Units or Common Stock.

(c) By acceptance of any award or Units hereunder, Recipient expressly acknowledges and agrees that any and all Units or Common Stock, as well as the Award-Equivalent Value thereof, are and will be fully subject to the terms of the foregoing clawback provisions, and agrees to cooperate fully with the Corporation to facilitate the recovery of any Units or Common Stock and/or Award-Equivalent Value that the Committee requires to be recovered pursuant to the foregoing.

**Section 8.Miscellaneous**.

(a) **Governing Law**. This Agreement shall be construed, administered and governed in all respects under and by the applicable internal laws of the State of North Carolina, without giving effect to the principles of conflicts of laws thereof.

(b) **Entire Agreement; Amendment and Waiver**. This Agreement and the Units granted hereunder shall be subject to the terms of the Plan, which hereby is incorporated into this Agreement as though set forth in full herein. Recipient hereby acknowledges receipt of a copy of the Plan. This Agreement and the Plan reflect the entire agreement between the parties hereto and supersede any prior or contemporaneous written or oral understanding or agreement regarding the subject matter hereof. This Agreement may not be modified, amended, supplemented or waived except by a writing signed by the parties hereto, and such writing must refer specifically to this Agreement.

(c) **Assignment; Binding Effect**. Except as permitted by the Plan, this Agreement and the Units granted hereunder may not be assigned, pledged, hypothecated or transferred by Recipient in any manner. This Agreement, as amended from time to time, shall be binding upon, inure to the benefit of and be enforceable by the heirs, successors and assigns of the parties hereto; provided, however, that this provision shall not permit any assignment in contravention of the terms contained elsewhere herein.

(d) **No Right to Employment**. Nothing in this Agreement shall confer on Recipient any right to continue in the employ of the Corporation or any of its Subsidiaries.

(e) **Counterparts**. This Agreement may be executed in one or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument. Delivery of an executed counterpart of this Agreement by facsimile or other electronic device shall be equally as effective as delivery of an original executed counterpart of this Agreement. Any party delivering an executed counterpart of this Agreement by facsimile or other electronic device shall also deliver an original executed counterpart of this Agreement, but the failure to deliver an original executed counterpart of this Agreement shall not affect the validity, enforceability and binding effect of this Agreement.

(f) **Notices**. Any notice hereunder to the Corporation shall be addressed to the Corporation's principal executive office, Attention: Compensation Committee, and any notice hereunder to Recipient shall be addressed to Recipient at his/her last address in the records of the Corporation, subject to the right of either party to designate at any time hereafter in writing a different address. Any notice shall be deemed to have been given when delivered personally, one (1) day after dispatch if sent by reputable overnight courier, fees prepaid, or three (3) days following mailing if sent by registered mail, return receipt requested, postage prepaid and addressed as set forth above.

[Signature page is the next page.]

**IN WITNESS WHEREOF**, this Agreement has been duly executed as of the date first written above.

**CULP, INC.**,
a North Carolina corporation

By:
Name:
Title:

**RECIPIENT**

____________________________

Exhibit 10.3

## Summary of Non-Employee Director Compensation

Each non-employee director is paid during each year an annual cash retainer of $55,000 (except the Lead Director, who receives a $60,000 retainer), plus an annual grant of restricted stock units (which, upon vesting, shall convert into one share of the Company’s common stock per RSU) valued at $55,000 ($60,000 for the Lead Director) as of the date of grant.

The cash retainer is paid on a quarterly basis on the first business day of October, January, April and July of each year during the director’s service on the board of directors.

The amount of cash paid each quarter is 25% of the yearly cash retainer.

The restricted stock units are granted annually on the first business day immediately following the Company’s annual meeting of shareholders, and vest on the earlier of (i) the one-year anniversary of the date of grant and (ii) the next annual meeting of shareholders which is at least 50 weeks after the immediately preceding year’s annual meeting, provided that the non-employee director remains as a director of the Company through the vesting date, except in certain limited circumstances set forth in the related award agreement between the Company and the non-employee director.

The number of restricted stock units granted is the number of shares of the Company’s common stock valued at 100% of the annual RSU grant amount, to be determined with reference to the closing price of the Company’s common stock on the grant date, with partial shares rounded to the nearest whole number of shares. The restricted stock units are granted under the Company’s Amended and Restated Equity Incentive Plan and are granted pursuant to an award agreement between the Company and the non-employee director.

**Exhibit10.4**

# RESTRICTED STOCK UNIT AGREEMENT

**THIS RESTRICTED STOCK UNIT AGREEMENT** (the "**Agreement**"), dated as of______________, is between **CULP, INC.**, a North Carolina corporation (the "**Corporation**"), and_________________ ("**Recipient**").

## Background Statement

The Corporation desires to grant to Recipient Restricted Stock Units (the "**Units**") pursuant to the Culp, Inc. Amended and Restated Equity Incentive Plan (the "**Plan**"). Capitalized terms used but not defined in this Agreement shall have the meanings given to them in the Plan.

## STATEMENT OF AGREEMENT

**NOW**, **THEREFORE**, the parties hereby agree as follows:

**Section 1.Grant of Units**. The Corporation hereby grants to Recipient ______ Units. Each Unit shall entitle Recipient to receive, upon vesting thereof in accordance with this Agreement and the Plan, one (1) share of common stock, par value $0.05 per share, of the Corporation ("**Common Stock**"). Except as permitted by the Plan, the Units may not be assigned, pledged, hypothecated or transferred in any manner. Recipient shall not have, with respect to any Units, any rights of a shareholder of the Corporation, including without limitation any right to vote as a shareholder of the Corporation or any right to receive distributions from the Corporation in respect of the Units.

**Section 2.Vesting**. Except as may otherwise be provided in the Plan or this Agreement, the Units shall vest in the amounts set forth below:

> On the earlier of (i) the one-year anniversary of the date of grant and (ii) the next annual meeting of shareholders which is at least 50 weeks after the immediately preceding year's annual meeting, ___________ shares of Common Stock shall vest.

Notwithstanding the foregoing, all unvested Units (at the rate of one (1) share of Common Stock per Unit) shall immediately vest upon:

(a) termination of Recipient's service as a director of the Corporation by reason of the death or Disability of Recipient; or

(b) Recipient is removed as a director of the Corporation in anticipation of a Change of Control; or

(c) Recipient is serving as a director of the Corporation at the time a Change of Control occurs, and at any time during the one-year period following such Change of Control (provided that the Units granted hereunder and related shares have not otherwise vested), Recipient is removed as a director of the Corporation for any reason other than for death, Disability or Cause.

**Section 3.Definitions**. For purposes of this Agreement, the following terms shall have the meanings indicated below:

"**Cause**" shall mean (i) the commission by Recipient of a felony (or crime involving moral turpitude); (ii) theft, conversion, embezzlement or misappropriation by Recipient of funds or other assets of the Corporation or its Subsidiaries or any other act of fraud with respect to the Corporation or its Subsidiaries (including without limitation the acceptance of bribes or kickbacks or other acts of self-dealing); (iii) intentional, grossly negligent or unlawful misconduct by Recipient that causes significant harm to the Corporation or its Subsidiaries; or (iv) repeated instances of intoxication with alcohol or drugs while conducting business during regular business hours.

"**Change of Control**" shall have the meaning given to such term in the Plan.

"**Disability**" shall have the meaning given to such term in the primary disability benefit plan of the Corporation in which Recipient participates. In the absence of any such plan, "**Disability**" shall mean any physical or mental impairment that renders Recipient unable to perform the essential functions of Recipient's job with the Corporation and its Subsidiaries for a period of at least 120 days, either with or without reasonable accommodation. At the Corporation's request, Recipient shall submit to an examination by a duly licensed physician who is mutually acceptable to the Corporation and Recipient for the purpose of ascertaining the existence of a Disability, and shall authorize the physician to release the results of Recipient's examination to the Corporation.

**Section 4.Settlement.** As soon as reasonably practicable following a determination by the Corporation and the Compensation Committee (the "**Committee**") of the Corporation's board of directors that all or part of the Units have vested pursuant to the terms of this Agreement, the Corporation shall issue directly to the Recipient shares of Common Stock with respect to all such Units that have vested. Such shares of Common Stock shall not be treated as issued and outstanding until such shares have been issued by the Corporation in accordance with all applicable laws and the Corporation's bylaws and articles of incorporation. Any certificate(s) evidencing shares of Common Stock shall bear such legends as the Corporation shall determine to be necessary to comply with all laws, including all applicable federal and state securities laws. All such shares of Common Stock issued pursuant to this Agreement shall be fully paid and nonassessable.

**Section 5.Forfeiture**. All Units that do not vest pursuant to **Section 2** shall automatically be cancelled and forfeited by Recipient effective as of the date Recipient ceases to serve as a director of the Corporation for any reason, except as otherwise determined by the Committee, in its sole discretion (such event being referred to herein as a "**Forfeiture Event**"). Upon the occurrence of a Forfeiture Event, all unvested Units shall automatically, without further action by the Corporation or Recipient, be cancelled and forfeited.

**Section 6.Tax Matters**.

(a) Recipient shall promptly pay to the Corporation all federal, state and local income, social security and payroll taxes of any kind required by law to be withheld with respect to the vesting of any Units and the issuance of shares of Common Stock in respect thereof. Subject to the approval of the Committee, Recipient may elect to satisfy this obligation by having the Corporation withhold shares of Common Stock that would otherwise be issued to Recipient with respect to any Units that have vested, which shares of Common Stock shall have a Fair Market Value (as of the date that the amount of the withholding requirement is to be determined) equal to the amount of such withholding requirement. If Recipient fails to make such payments as required (whether in cash or having shares of Common Stock withheld), the Corporation shall, to the extent permitted by law, have the right to deduct from any payment of any kind otherwise due to Recipient all federal, state and local income, social security and payroll taxes of any kind required by law to be withheld with respect to the vesting of Units and the issuance of shares of Common Stock in respect thereof.

(b) Notwithstanding anything in this Agreement to the contrary, if a Change of Control occurs and if Recipient is entitled under any agreement or arrangement (including, without limitation, this Agreement) to receive compensation that would constitute a parachute payment (including, without limitation, the vesting of any rights) within the meaning of Section 280G of the Internal Revenue Code of 1986, as amended (the "**Code**") but for the operation of this sentence, then the amount of all such payments shall be reduced, as determined by the Corporation, to the extent necessary to cause the aggregate present value of all payments in the nature of compensation to Recipient that are contingent on a change in the ownership or effective control of the Corporation, or in the ownership of a substantial portion of the assets of the Corporation, not to exceed 2.99 times Recipient's "base amount," all within the meaning of Section 280G of the Code and the regulations promulgated thereunder. The parties intend for the immediately preceding sentence to be interpreted and applied so as to prevent Recipient from receiving, with respect to a Change of Control, an excess parachute payment within the meaning of Section 280G of the Code.

**Section 7.Clawback**. If at any time within three years of the vesting or payment of any award to Recipient under this Agreement, whichever is later, the Recipient is removed by the shareholders as a director of the Corporation (or voluntarily resigns as a director of the Corporation) for Cause (or, if such removal or resignation is deemed not to be for Cause, but the Corporation determines at any time during such three-year period that the shareholders of the Corporation could have sought to remove Recipient as a director of the Corporation for Cause based on Recipient's conduct during his or her time as a director of the Corporation), then if any part of the underlying conduct giving rise to such determination of Cause took place at any time during the applicable vesting period for each such award, as specified in this Agreement, then the Committee may require Recipient to pay to the Corporation an amount corresponding to each award that vested or was paid to Recipient pursuant to this Agreement, or to otherwise return such Units or Common Stock.

By acceptance of any award or Units hereunder, Recipient expressly acknowledges and agrees that any and all Units or Common Stock, as well as the equivalent cash value thereof with respect to any and all such Units or Common Stock, that have become vested, exercised, free of restriction or otherwise released to and/or monetized by or for the benefit of Recipient or any transferee or assignee thereof (collectively, the "**Award-Equivalent Value**"), are and will be fully subject to the terms of the foregoing clawback provision, and agrees to cooperate fully with the Corporation to facilitate the recovery of any Units or Common Stock and/or Award-Equivalent Value that the Committee requires to be recovered pursuant to the foregoing.

**Section 8.Miscellaneous**.

(a) **Governing Law**. This Agreement shall be construed, administered and governed in all respects under and by the applicable internal laws of the State of North Carolina, without giving effect to the principles of conflicts of laws thereof.

(b) **Entire Agreement; Amendment and Waiver**. This Agreement and the Units granted hereunder shall be subject to the terms of the Plan, which hereby is incorporated into this Agreement as though set forth in full herein. Recipient hereby acknowledges receipt of a copy of the Plan. This Agreement and the Plan reflect the entire agreement between the parties hereto and supersede any prior or contemporaneous written or oral understanding or agreement regarding the subject matter hereof. This Agreement may not be modified, amended, supplemented or waived except by a writing signed by the parties hereto, and such writing must refer specifically to this Agreement.

(c) **Assignment; Binding Effect**. Except as permitted by the Plan, this Agreement and the Units granted hereunder may not be assigned, pledged, hypothecated or transferred by Recipient in any manner. This Agreement, as amended from time to time, shall be binding upon, inure to the benefit of and be enforceable by the heirs, successors and assigns of the parties hereto; provided, however, that this provision shall not permit any assignment in contravention of the terms contained elsewhere herein.

(d) **Counterparts**. This Agreement may be executed in one or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument. Delivery of an executed counterpart of this Agreement by facsimile or other electronic device shall be equally as effective as delivery of an original executed counterpart of this Agreement. Any party delivering an executed counterpart of this Agreement by facsimile or other electronic device shall also deliver an original executed counterpart of this Agreement, but the failure to deliver an original executed counterpart of this Agreement shall not affect the validity, enforceability and binding effect of this Agreement.

(e) **Notices**. Any notice hereunder to the Corporation shall be addressed to the Corporation's principal executive office, Attention: Compensation Committee, and any notice hereunder to Recipient shall be addressed to Recipient at his/her last address in the records of the Corporation, subject to the right of either party to designate at any time hereafter in writing a different address. Any notice shall be deemed to have been given when delivered personally, one (1) day after dispatch if sent by reputable overnight courier, fees prepaid, or three (3) days following mailing if sent by registered mail, return receipt requested, postage prepaid and addressed as set forth above.

[Signature page is the next page.]

**IN WITNESS WHEREOF**, this Agreement has been duly executed as of the date first written above.

**CULP, INC.**,
a North Carolina corporation

By: ____
Name: ____
Title: ____

**RECIPIENT**

____
______________________________

**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: December 8, 2023

**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: December 8, 2023

**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 October 29, 2023, 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

December 8, 2023

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 October 29, 2023, 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

December 8, 2023

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.