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 August 1, 1999

Commission File No. 0-12781

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.) |

| | |
|---|---|
| 101 S. Main St., High Point, North Carolina | 27261-2686 |
| (Address of principal executive offices) | (zip code) |

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 of the Securities Exchange Act of 1934 during the preceding 12 months and (2) has been subject to the filing requirements for at least the past 90 days.

YES X NO

Common shares outstanding at August 1, 1999: 12,040,484
Par Value: $.05

INDEX TO FORM 10-Q
For the period ended August 1, 1999

Item 1. Financial Statements

CULP, INC.
CONSOLIDATED STATEMENTS OF INCOME (LOSS)
FOR THREE MONTHS ENDED AUGUST 1, 1999 AND AUGUST 2, 1998

(Amounts in Thousands, Except for Per Share Data)

| | THREE MONTHS ENDED (UNAUDITED) | | | | |
|---|---|---|---|---|---|
| | Amounts | | | Percent of Sales | |
| | August 1, 1999 | August 2, 1998 | % Over (Under) | 2000 | 1999 |
| Net sales $ | 115,937 | 110,667 | 4.8 % | 100.0 % | 100.0 % |
| Cost of sales | 95,525 | 97,056 | (1.6)% | 82.4 % | 87.7 % |
| Gross profit | 20,412 | 13,611 | 50.0 % | 17.6 % | 12.3 % |
| Selling, general and administrative expenses | 15,038 | 14,473 | 3.9 % | 13.0 % | 13.1 % |
| Income (loss) from operations | 5,374 | (862) | 723.4 % | 4.6 % | (0.8)% |
| Interest expense | 2,416 | 2,361 | 2.3 % | 2.1 % | 2.1 % |
| Interest income | (17) | (53) | (67.9)% | (0.0)% | (0.0)% |
| Other expense (income), net | 555 | 770 | (27.9)% | 0.5 % | 0.7 % |
| Income (loss) before income taxes | 2,420 | (3,940) | 161.4 % | 2.1 % | (3.6)% |
| Income taxes * | 823 | (1,300) | 163.3 % | 34.0 % | 33.0 % |
| Net income (loss) $ | 1,597 | (2,640) | 160.5 % | 1.4 % | (2.4)% |
| Net income (loss) per share | $0.13 | ($0.20) | 165.0 % | | |
| Net income (loss) per share, assuming dilution | $0.13 | ($0.20) | 165.0 % | | |
| Dividends per share | $0.035 | $0.035 | 0.0 % | | |
| Average shares outstanding | 12,063 | 13,000 | (7.2)% | | |
| Average shares outstanding, assuming dilution | 12,219 | 13,203 | (7.5)% | | |

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

CULP, INC.
CONSOLIDATED BALANCE SHEETS
AUGUST 1, 1999, AUGUST 2, 1998 AND MAY 2, 1999
Unaudited
(Amounts in Thousands)

| | | Amounts | | Increase (Decrease) | | |
|---|---|---|---|---|---|---|
| | | August 1, 1999 | August 2, 1998 | Dollars | Percent | * May 2, 1999 |
| Current assets | | | | | | |
| Cash and cash investments | $ | 1,097 | 1,520 | (423) | (27.8)% | 509 |
| Accounts receivable | | 61,984 | 63,833 | (1,849) | (2.9)% | 70,503 |
| Inventories | | 75,337 | 79,358 | (4,021) | (5.1)% | 67,070 |
| Other current assets | | 10,860 | 7,511 | 3,349 | 44.6 % | 9,633 |
| Total current assets | | 149,278 | 152,222 | (2,944) | (1.9)% | 147,715 |
| Restricted investments | | 1,684 | 4,074 | (2,390) | (58.7)% | 3,340 |
| Property, plant & equipment, net | | 120,971 | 127,287 | (6,316) | (5.0)% | 123,310 |
| Goodwill | | 50,920 | 54,798 | (3,878) | (7.1)% | 51,269 |
| Other assets | | 4,969 | 4,317 | 652 | 15.1 % | 4,978 |
| Total assets | $ | 327,822 | 342,698 | (14,876) | (4.3)% | 330,612 |
| Current liabilities | | | | | | |
| Current maturities of long-term debt | $ | 1,678 | 3,250 | (1,572) | (48.4)% | 1,678 |
| Accounts payable | | 26,099 | 31,710 | (5,611) | (17.7)% | 25,687 |
| Accrued expenses | | 20,309 | 13,856 | 6,453 | 46.6 % | 21,026 |
| Income taxes payable | | 798 | 0 | 798 | 100.0 % | 0 |
| Total current liabilities | | 48,884 | 48,816 | 68 | 0.1 % | 48,391 |
| Long-term debt | | 136,228 | 154,383 | (18,155) | (11.8)% | 140,312 |
| Deferred income taxes | | 14,583 | 11,227 | 3,356 | 29.9 % | 14,583 |
| Total liabilities | | 199,695 | 214,426 | (14,731) | (6.9)% | 203,286 |
| Shareholders' equity | | 128,127 | 128,272 | (145) | (0.1)% | 127,326 |
| Total liabilities and shareholders' equity | $ | 327,822 | 342,698 | (14,876) | (4.3)% | 330,612 |
| Shares outstanding | | 12,040 | 12,995 | (955) | (7.3)% | 12,079 |

*  Derived from audited financial statements.

CULP, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE THREE MONTHS ENDED AUGUST 1, 1999 AND AUGUST 2, 1998
Unaudited
(Amounts in Thousands)

| | THREE MONTHS ENDED | |
|---|---|---|
| | Amounts | |
| | August 1, 1999 | August 2, 1998 |
| Cash flows from operating activities: | | |
| Net income (loss) | $ 1,597 | (2,640) |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: | | |
| Depreciation | 4,759 | 4,376 |
| Amortization of intangible assets | 399 | 398 |
| Changes in assets and liabilities: | | |
| Accounts receivable | 8,519 | 9,940 |
| Inventories | (8,267) | (764) |
| Other current assets | (1,227) | 297 |
| Other assets | (41) | (11) |
| Accounts payable | 270 | (3,017) |
| Accrued expenses | (717) | (4,080) |
| Income taxes payable | 798 | (1,282) |
| Net cash provided by operating activities | 6,090 | 3,217 |
| Cash flows from investing activities: | | |
| Capital expenditures | (2,420) | (2,858) |
| Purchases of restricted investments | (15) | (53) |
| Sale of restricted investments | 1,671 | 0 |
| Net cash used in investing activities | (764) | (2,911) |
| Cash flows from financing activities: | | |
| Proceeds from issuance of long-term debt | 3,333 | 2,071 |
| Principal payments on long-term debt | (7,417) | (75) |
| Change in accounts payable-capital expenditures | 142 | (2,487) |
| Dividends paid | (423) | (455) |
| Payments to acquire common stock | (393) | (160) |
| Proceeds from common stock issued | 20 | 8 |
| Net cash used in financing activities | (4,738) | (1,098) |
| Increase (decrease) in cash and cash investments | 588 | (792) |
| Cash and cash investments at beginning of period | 509 | 2,312 |
| Cash and cash investments at end of period | $ 1,097 | 1,520 |

CULP, INC.
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(Unaudited)

(Dollars in thousands, except per share data)

| | Common Stock Shares | Common Stock Amount | Capital Contributed in Excess of Par Value | Retained Earnings | Total Shareholders' Equity |
|---|---|---|---|---|---|
| Balance, May 3, 1998 | 13,007,021 | $ 650 | $ 40,882 | $ 89,987 | $ 131,519 |
| Cash dividends ($0.14 per share) | | | | (1,788) | (1,788) |
| Net income | | | | 3,102 | 3,102 |
| Common stock issued in connection with stock option plans | 10,750 | 1 | 34 | | 35 |
| Common stock purchased | (938,600) | (47) | (2,950) | (2,545) | (5,542) |
| Balance, May 2, 1999 | 12,079,171 | 604 | 37,966 | 88,756 | 127,326 |
| Cash dividends ($0.035 per share) | | | | (423) | (423) |
| Net income | | | | 1,597 | 1,597 |
| Common stock issued in connection with stock option plans | 7,313 | | 20 | | 20 |
| Common stock purchased | (46,000) | (2) | (145) | (246) | (393) |
| Balance, August 1, 1999 | 12,040,484 | $ 602 | $ 37,841 | $ 89,684 | $ 128,127 |

Culp, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

1. Basis of Presentation

The accompanying unaudited consolidated financial statements of Culp, Inc. and subsidiary, include all adjustments, consisting only of normal, recurring adjustments and accruals, which are, in the opinion of management, necessary for fair presentation of the results of operations and financial position. Results of operations for interim periods may not be indicative of future results. The unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements, which are incorporated by reference in the company's annual report on Form 10-K filed with the Securities and Exchange Commission on July 30, 1999 for the fiscal year ended May 2, 1999.

2. Accounts Receivable

A summary of accounts receivable follows (dollars in thousands):

| | August 1, 1999 | May 2, 1999 |
|---|---|---|
| Customers | $ 64,690 | $ 73,089 |
| Allowance for doubtful accounts | (1,564) | (1,452) |
| Reserve for returns and allowances | (1,142) | (1,134) |
| | $ 61,984 | $ 70,503 |

3. Inventories

Inventories are carried at the lower of cost or market. Cost is determined for substantially all inventories using the LIFO (last-in, first-out) method.

A summary of inventories follows (dollars in thousands):

| | August 1, 1999 | May 2, 1999 |
|---|---|---|
| Raw materials | $ 45,540 | $ 40,728 |
| Work-in-process | 6,206 | 6,790 |
| Finished goods | 29,313 | 24,885 |
| Total inventories valued at FIFO cost | 81,059 | 72,403 |
| Adjustments of certain inventories to the LIFO cost method | (1,478) | (1,478) |
| Adjustments of certain inventories to market | (4,244) | (3,855) |
| | $ 75,337 | $ 67,070 |

4. Restricted Investments

Restricted investments were purchased with proceeds from industrial revenue bond issues and are invested pending application of such proceeds to project costs or repayment of the bonds. The investments are stated at cost which approximates market value.

5. Accounts Payable

A summary of accounts payable follows (dollars in thousands):

| | August 1, 1999 | May 2, 1999 |
|---|---|---|
| Accounts payable-trade | $ 25,720 | $ 25,450 |
| Accounts payable-capital expenditures | 379 | 237 |
| | $ 26,099 | $ 25,687 |

6. Accrued Expenses

A summary of accrued expenses follows (dollars in thousands):

| | August 1, 1999 | May 2, 1999 |
|---|---|---|
| Compensation and benefits | $ 11,425 | $ 13,136 |
| Other | 8,884 | 7,890 |
| | $ 20,309 | $ 21,026 |

7. Long-Term Debt

A summary of long-term debt follows (dollars in thousands):

| | August 1, 1999 | May 2, 1999 |
|---|---|---|
| Senior unsecured notes | $ 75,000 | $ 75,000 |
| Industrial revenue bonds and other obligations | 33,519 | 35,278 |
| Revolving credit facility | 20,000 | 25,000 |
| Revolving line of credit | 3,333 | 0 |
| Obligations to sellers | 6,054 | 6,712 |
| | 137,906 | 141,990 |
| Less current maturities | (1,678) | (1,678) |
| | $ 136,228 | $ 140,312 |

The senior unsecured notes have a fixed coupon rate of 6.76% and an average remaining term of 9 years. The principal payments become due from March 2006 to March 2010 with interest payable semi-annually.

The company's revolving credit agreement (the "Credit Agreement") provides an unsecured multi-currency revolving credit facility, which expires in April 2002, with a syndicate of banks in the United States. The Credit Agreement provides for a revolving loan commitment of $88,000,000. The agreement requires payment of a quarterly facility fee in advance. On borrowings outstanding at August 1, 1999, the interest rate was 6.31%.

The company's $6,000,000 revolving line of credit expires on August 31, 2000. However, the line of credit will automatically be extended for an additional three-month period on each November 30, February 28, May 31 and August 31 unless the bank notifies the company that the line of credit will not be extended. On borrowings outstanding at August 1, 1999, the interest rate was 6.35%.

The industrial revenue bonds (IRBs) are generally due in balloon maturities which occur at various dates from 2006 to 2013. The IRBs are collateralized by restricted investments of $1,684,000 and letters of credit for the outstanding balance of the IRBs and certain interest payments due thereunder.

The company's loan agreements require, among other things, that the company maintain compliance with certain financial ratios. At August 1, 1999, the company was in compliance with these required financial covenants.

At August 1, 1999, the company had three interest rate swap agreements with a bank in order to reduce its exposure to floating interest rates on a portion of its variable rate borrowings. The following table summarizes certain data regarding the interest rate swaps:

| notational amount | interest rate | expiration date |
|---|---|---|
| $15,000,000 | 7.3% | April 2000 |
| $ 5,000,000 | 6.9% | June 2002 |
| $ 5,000,000 | 6.6% | July 2002 |

The estimated amount at which the company could terminate these agreements as of August 1, 1999 is approximately $149,000. Net amounts paid under these agreements increased interest expense by approximately $92,000 and $59,000 for the three months of fiscal 2000 and 1999, respectively. Management believes the risk of incurring losses resulting from the inability of the bank to fulfill its obligation under the interest rate swap agreements to be remote and that any losses incurred would be immaterial.

8. Cash Flow Information

Payments for interest and income taxes during the period were (dollars in thousands)

| | 2000 | 1999 |
|---|---|---|
| Interest | $1,340 | $ 1,231 |
| Income taxes | 1,186 | 1,637 |

9. Foreign Exchange Forward Contracts

The company generally enters into foreign exchange forward and option contracts as a hedge against its exposure to currency fluctuations on firm commitments to purchase certain machinery and equipment and raw materials. The company had approximately $3,700,000 of outstanding foreign exchange forward contracts as of August 1, 1999.

10. Net Income (Loss) Per Share

The following table reconciles the numerators and denominators of net income (loss) per share and net income (loss) per share, assuming dilution for the three-month periods ended August 1, 1999 and August 2, 1998:

| | THREE MONTHS ENDED | | | | | |
|---|---|---|---|---|---|---|
| | August 1, 1999 | | | August 2, 1998 | | |
| (Amounts in thousands, except per share data) | Income (Numerator) | Shares (Denominator) | Per Share Amount | (Loss) (Numerator) | Shares (Denominator) | Per Share Amount |
| Net income (loss) per share | $1,597 | 12,063 | $0.13 | ($2,640) | 13,000 | ($0.20) |
| Effect of dilutive securities: Options | - | 156 | | - | 203 | |
| Net income (loss) per share, assuming dilution | $1,597 | 12,219 | $0.13 | ($2,640) | 13,203 | ($0.20) |

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11. Segment Information

The company's operations are classified into two business segments: upholstery fabrics and mattress ticking. The upholstery fabrics segment principally manufactures and sells woven jacquards and dobbies, wet and heat-transfer prints, and woven and tufted velvets primarily to residential and commercial (contract) furniture manufacturers. The mattress ticking segment principally manufactures and sells woven jacquards, heat-transfer prints and pigment prints to bedding manufacturers.

The company internally manages and reports selling, general and administrative expenses, interest expense, interest income, other expense and income taxes on a total company basis. Thus, profit by business segment represents gross profit. In addition, the company internally manages and reports cash and cash investments, accounts receivable, other current assets, restricted investments, property, plant and equipment, goodwill and other assets on a total company basis. Thus, identifiable assets by business segment represent inventories.

Sales, gross profit and inventories for the company's operating segments are as follows:

(dollars in thousands):

| | 2000 | 1999 |
|---|---|---|
| Net sales | | |
| Upholstery Fabrics | $ 90,854 | $ 88,035 |
| Mattress Ticking | 25,083 | 22,632 |
| | $ 115,937 | $ 110,667 |
| Gross Profit | | |
| Upholstery Fabrics | $ 14,442 | $ 8,536 |
| Mattress Ticking | 5,970 | 5,075 |
| | $ 20,412 | $ 13,611 |
| Inventories | | |
| Upholstery Fabrics | $ 63,304 | $ 68,018 |
| Mattress Ticking | 12,033 | 11,340 |
| | $ 75,337 | $ 79,358 |

CULP, INC.
SALES BY SEGMENT/DIVISION
FOR THREE MONTHS ENDED AUGUST 1, 1999 AND AUGUST 2, 1998

(Amounts in thousands)

| | | THREE MONTHS ENDED (UNAUDITED) | | | | |
|---|---|---|---|---|---|---|
| | | Amounts | | | Percent of Total Sales | |
| Segment/Division | | August 1, 1999 | August 2, 1998 | % Over (Under) | 2000 | 1999 |
| Upholstery Fabrics | | | | | | |
| Culp Decorative Fabrics | $ | 50,516 | 51,445 | (1.8)% | 43.6 % | 46.5 % |
| Culp Velvets/Prints | | 36,209 | 29,994 | 20.7 % | 31.2 % | 27.1 % |
| Culp Yarn | | 4,129 | 6,596 | (37.4)% | 3.6 % | 6.0 % |
| | | 90,854 | 88,035 | 3.2 % | 78.4 % | 79.5 % |
| Mattress Ticking | | | | | | |
| Culp Home Fashions | | 25,083 | 22,632 | 10.8 % | 21.6 % | 20.5 % |
| | * $ | 115,937 | 110,667 | 4.8 % | 100.0 % | 100.0 % |

* U.S. sales were $92,124 and $84,310 for the three months of fiscal 2000 and fiscal 1999, respectively.The percentage increase in U.S. sales was 9.3% for the three months.

CULP, INC.
INTERNATIONAL SALES BY GEOGRAPHIC AREA
FOR THREE MONTHS ENDED AUGUST 1, 1999 AND AUGUST 2, 1998

(Amounts in thousands)

| | THREE MONTHS ENDED (UNAUDITED) | | | | |
|---|---|---|---|---|---|
| | Amounts | | | Percent of Total Sales | |
| Geographic Area | August 1, 1999 | August 2, 1998 | % Over (Under) | 2000 | 1999 |
| North America (Excluding USA) | $ 7,676 | 7,253 | 5.8 % | 32.2 % | 27.5 % |
| Europe | 2,929 | 3,683 | (20.5)% | 12.3 % | 14.0 % |
| Middle East | 6,992 | 8,300 | (15.8)% | 29.4 % | 31.5 % |
| Far East & Asia | 4,309 | 4,868 | (11.5)% | 18.1 % | 18.5 % |
| South America | 620 | 1,000 | (38.0)% | 2.6 % | 3.8 % |
| All other areas | 1,287 | 1,253 | 2.7 % | 5.4 % | 4.8 % |
| | $ 23,813 | 26,357 | (9.7)% | 100.0 % | 100.0 % |

International sales, and the percentage of total sales, for each of the last five fiscal years follows: fiscal 1995-$57,971 (19%); fiscal 1996-$77,397 (22%); fiscal 1997-$101,571 (25%); fiscal 1998-$137,223 (29%); and fiscal 1999-$113,354 (23%). International sales for the first quarter represented 20.5% and 23.8% for 2000 and 1999, respectively.

Item 2.

## Management's Discussion and Analysis of Financial Condition and Results of Operations

The following analysis of the financial condition and results of operations should be read in conjunction with the Financial Statements and Notes and other exhibits included elsewhere in this report.

### Overview

Culp is one of the largest manufacturers and marketers in the world for upholstery fabrics for furniture and is one of the leading global producers of mattress fabrics (or ticking). The company's fabrics are used primarily in the production of residential and commercial upholstered furniture and bedding products, including sofas, recliners, chairs, love seats, sectionals, sofa-beds, office seating and mattress sets. Although Culp markets fabrics at most price levels, the company emphasizes fabrics that have broad appeal in the promotional and popular-priced categories of furniture and bedding.

Culp's worldwide leadership as a manufacturer and marketer of upholstery fabrics and mattress ticking has been achieved through internal expansion and the integration of strategic acquisitions.

The company's operating segments are upholstery fabrics and mattress ticking, with related divisions organized within those segments. In upholstery fabrics, Culp Decorative Fabrics manufactures jacquard and dobby woven fabrics for residential and commercial furniture. Culp Velvets/Prints manufactures a broad range of printed and velvet fabrics used primarily for residential and juvenile furniture. Culp Yarn manufactures specialty filling yarn that is used by Culp and also marketed to outside customers. In mattress ticking, Culp Home Fashions manufactures and markets a broad array of fabrics used by bedding manufacturers.

### Three Months ended August 1, 1999 compared with Three Months ended August 2, 1998

Net Sales. Net sales for the first quarter of fiscal 2000 increased by $5.3 million, or 4.8%, compared with fiscal 1999. The company's sales of upholstery fabrics and mattress ticking increased $2.8 million and $2.5 million, respectively, or 3.2% and 10.8%, respectively, for the quarter compared with the prior year. During the first quarter of fiscal 1999, the company implemented a major reorganization from six business units to four divisions. This new corporate alignment grouped related operations together and was accompanied by several changes in managerial positions. The company believes that this move is aiding its growth through improved customer service, more effective use of design resources and increased manufacturing efficiency.

The increase in sales of upholstery fabrics reflects higher sales of upholstery fabrics to U.S.-based customers that offset a 9.7% decrease in international sales. Weakness in international sales, which the company believes has also affected other manufacturers of upholstery fabrics, has persisted since the close of fiscal 1998. The company has taken steps to mitigate the impact of this industry-wide trend by significantly curtailing production schedules for certain international-targeted fabrics, introducing a new line of printed cotton upholstery fabrics and shifting its marketing focus to geographic areas where demand appears more favorable. The company has a diversified global base of customers and is seeking to broaden that further to minimize exposure to economic uncertainties in any geographic area.

The increased sales by Culp Home Fashions (primarily mattress ticking) during the first quarter of fiscal 2000 marked a continuation of the longer-term expansion that this division has experienced. The introduction of new designs and fabric constructions and the advantages of the company's vertical integration are driving Culp's growth in mattress ticking. In particular, the ability to manufacture the jacquard greige (or unfinished) goods that are then printed to produce mattress ticking has aided Culp in meeting faster delivery schedules and providing improved overall customer service.

Gross Profit and Cost of Sales. Gross profit for the first quarter increased 50.0% to $20.4 million and increased as a percentage of net sales from 12.3% to 17.6%. The increase was due principally to the actions that the company took during fiscal 1999 to improve profitability, including a significant reduction in the capacity for manufacturing printed flock fabrics and an intense effort to reduce operating expenses and raise productivity. The cost of raw materials is remaining relatively stable in fiscal 2000.

Selling, General and Administrative Expenses. Selling, general and administrative expenses as a percentage of sales for the first quarter of fiscal 2000 were 13.0%, down slightly from 13.1% for the year-earlier period. The company has ongoing programs to contain operating expenses and believes that if the company meets its goal of increased net sales there will be improved economies of scale, leading to a decline in this percentage.

Interest Expense. Interest expense of $2.4 million for the first quarter was unchanged from a year ago. A lower average amount of borrowings outstanding was offset by lower capitalized interest related to capital expenditures and higher average interest rates.

Other Expense. Other expense decreased to $555,000 for the first quarter versus $770,000 a year ago due principally to the incidence of a non-recurring charge in the year-earlier period to write-off certain fixed assets.

Income Taxes. The effective tax rate for the first quarter of fiscal 2000 was 34.0%, up slightly from 33.0% for the year-earlier period.

Net Income (Loss) Per Share. Net income per share for the first quarter of 2000 totaled $0.13 per share diluted compared with a net loss per share diluted of ($0.20) a year ago.

Liquidity and Capital Resources Liquidity. Cash and cash investments were $1.1 million as of August 1, 1999, compared with $1.5 million at August 2, 1998, and $509,000 at the end of fiscal 1999. Funded debt (long-term debt, including current maturities, less restricted investments) was $136.2 million at August 1, 1999, down from $153.6 million at August 2, 1998 and $138.7 million at May 2, 1999. As a percentage of total capital (funded debt plus total stockholders' equity), the company's borrowings amounted to 51.5% at August 1, 1999, compared with 54.5% at August 2, 1998, and 52.1% at May 2, 1999. The company's working capital as of August 1, 1999 was $100.4 million, compared with $103.4 million as of August 2, 1998, and $99.3 million at the close of fiscal 1999.

The company's cash flow from operations was $6.1 million for the first quarter of fiscal 2000, consisting of $6.8 million from earnings (net income plus depreciation and amortization) offset by a $665,000 increase in working capital.

In separate authorizations in June 1998 and March 1999, the board of directors of the company authorized the use of a total of $10.0 million to repurchase the company's common stock. During fiscal 1999, the company repurchased 938,600 shares at an average price of $5.90 per share under these authorizations. During the first quarter of fiscal 2000, the company repurchased 46,000 shares at an average price of $8.55 per share.

Financing Arrangements. In April 1998, Culp completed the sale of $75 million of senior unsecured notes ("Notes") in a private placement to institutional investors. The Notes have a fixed coupon rate of 6.76% and an average remaining term of nine years.

Culp has an $88 million syndicated, unsecured, multi-currency revolving credit facility. The facility, which expires in April 2002, requires quarterly payments of interest on all outstanding borrowings and a quarterly facility fee paid in advance. As of August 1, 1999, the company had outstanding balances of $20 million under the credit facility.

The company also has a total of $33.5 million in currently outstanding industrial revenue bonds ("IRBs") which have been used to finance capital expenditures. The IRBs are collateralized by restricted investments of $1.7 million as of August 1, 1999 and letters of credit for the outstanding balance of the IRBs and certain interest payments due thereunder.

The company's loan agreements require, among other things, that the company maintain compliance with certain financial ratios. As of August 1, 1999, the company was in compliance with these financial covenants.

As of August 1, 1999, the company had three interest rate swap agreements to reduce its exposure to floating interest rates on a $25 million notional amount. The effect of these contracts is to "fix" the interest rate payable on $25 million of the company's variable rate borrowings at a weighted average rate of 7.1%. The company also enters into foreign exchange forward and option contracts to hedge against currency fluctuations with respect to firm commitments to purchase certain machinery, equipment and raw materials. The company had approximately $3.7 million of outstanding foreign exchange forward contracts as of August 1, 1999.

Capital Expenditures. The company maintains an ongoing program of capital expenditures designed to increase capacity as needed, enhance manufacturing efficiencies through modernization and increase the company's vertical integration. Capital expenditures for the first quarter of fiscal 2000 totaled $2.4 million compared with $2.9 million in the year-earlier period. The company currently projects capital spending of approximately $20 million in fiscal 2000.

The company believes that cash flows from operations and funds available under existing credit facilities and committed IRB financings will be sufficient to fund capital expenditures and working capital requirements for the foreseeable future.

Inflation

The cost of the company's raw materials has been generally stable during the past four quarters. Factors that reasonably can be expected to influence margins in the future include changes in raw material prices, trends in other operating costs and overall competitive conditions.

## Seasonality

The company's business is slightly seasonal, with increased sales during the second and fourth fiscal quarters. This seasonality results from one-week closings of the company's manufacturing facilities, and the facilities of most of its customers in the United States, during the first and third quarters for the holiday weeks including July 4th and Christmas.

## Year 2000 Considerations

Management has developed a plan to modify the company's information technology to recognize the year 2000. The plan has three distinct areas of focus; namely, traditional information systems, technology used in support areas, and preparedness of suppliers and customers.

The initiative for traditional information systems, which started in 1992, has led to substantial completion of the assessment, required changes and testing of the company's operational systems (order entry, billing, sales, finished goods) and financial systems (payroll, human resources, accounts payable, accounts receivable, general ledger, fixed assets). The company is currently focused on modifying the remaining systems that support the company's manufacturing processes. The programming and testing of these systems was substantially completed by April 1, 1999, and implementation of these systems was substantially completed by June 30, 1999. The remaining system implementations are scheduled for completion during the second quarter of fiscal 2000 (ending October 31, 1999).

The second area of focus has been an assessment of non-traditional information technology, which includes the electronics in equipment such as telephone switches and manufacturing equipment. Inventories of this equipment have been completed and correspondence has been initiated with vendors and suppliers of this equipment. The company is currently evaluating the vendor responses and testing the equipment. After the testing phase is complete, the company will conduct a review of the inventories and the testing procedures, with this phase expected to also be completed during the second quarter of fiscal 2000.

The third area of focus is communications with suppliers and customers to understand their level of readiness and assure a constant flow of materials to support business plans. Communication to date has shown a high level of awareness and planning by these parties. The company has a response rate in the 60% - 70% range, and at the present time no material problems or concerns are indicated by these responses. However, if a significant vendor or customer is non-compliant, the company can give no assurance that such occurrence will not have an adverse affect on the company's results. The company believes its action plans will minimize these risks and prevent any major interruptions in the flow of materials and products.

Formal contingency plans will not be formulated unless the company has identified specific areas where there is a substantial risk of year 2000 problems occurring. No such areas have been identified.

The plan is being administered by a team of internal staff and management. Costs incurred in the company's readiness effort are being expensed as incurred. Anticipated costs are expected to approximate $800,000 and to date an estimated $700,000 has been spent. This project, and the year 2000 issue in general, are not expected to have a significant effect on the company's operations, though no assurance can be given in this regard.

The discussion in this section contains year 2000 readiness disclosures within the meaning of the Year 2000 Information and Readiness Disclosure Act of 1998.

## Forward-Looking Information

The company's quarterly report on Form 10-Q contains statements that could be deemed "forward-looking statements," within the meaning of the federal securities laws. Such statements are inherently subject to risks and uncertainties. Forward-looking statements are statements that include projections, expectations or beliefs about future events or results or otherwise are not statements of historical fact. Such statements are often characterized by qualifying words such as "expect," "believe," "estimate," "plan," and "project" and their derivatives. Factors that could influence the matters discussed in such statements include the level of housing starts and sales of existing homes, consumer confidence, trends in disposable income and general economic conditions. Decreases in these economic indicators could have a negative effect on the company's business and prospects. Likewise, increases in interest rates, particularly home mortgage rates, and increases in consumer debt or the general rate of inflation, could affect the company adversely. Because of the significant percentage of the company's sales derived from international shipments, strengthening of the U.S. dollar against other currencies could make the company's products less competitive on the basis of price in markets outside the United States. Additionally, economic and political instability in the international area could affect the demand for the company's products.

## New Accounting Pronouncements

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities," effective for periods beginning after June 15, 2000, although early adoption is allowed. This statement establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. The company has not determined the financial impact of adopting this SFAS and has not determined if it will adopt its provisions prior to its effective date.

## Item 3. Quantitative and Qualitative Disclosures About Market Risk

The company is exposed to market risk from changes in interest rates on debt and foreign currency exchange rates. The company's market risk sensitive instruments are not entered into for trading purposes. The company has not experienced any significant changes in market risk since August 1, 1999.

The company's exposure to interest rate risk consists of floating rate debt based on the London Interbank Offered Rate plus an adjustable margin under the company's revolving credit agreement and variable rate debt in connection with the industrial revenue bonds. To lower or limit overall borrowing costs, the company enters into interest rate swap agreements to modify the interest characteristics of portions of its outstanding debt. The agreements entitle the company to receive or pay to the counterparty (a major bank), on a quarterly basis, the amounts, if any, by which the company's interest payments covered by swap agreements differ from those of the counterparty. These amounts are recorded as adjustments to interest expense. The fair value of the swap agreements and changes in fair value resulting from changes in market interest rates are not recognized in the consolidated financial statements. The annual impact on the company's results of operations of a 100 basis point interest rate change on the August 1, 1999 outstanding balance of the variable rate debt would be approximately $550,000 irrespective of any swaps associated with this debt.

The company's exposure to fluctuations in foreign currency exchange rates is due primarily to a foreign subsidiary domiciled in Canada and purchases of certain machinery, equipment and raw materials in foreign currencies. The company's Canadian subsidiary uses the United States dollar as its functional currency. The company generally does not use financial derivative instruments to hedge foreign currency exchange rate risks associated with the Canadian subsidiary. However, the company generally enters into foreign exchange forward and option contracts as a hedge against its exposure to currency fluctuations on firm commitments to purchase certain machinery, equipment and raw materials. The Canadian subsidiary is not material to the company's consolidated results of operations; therefore, the impact of a 10% change in the exchange rate at August 1, 1999 would not have a significant impact on the company's results of operations or financial position. In addition, the company had approximately $3.7 million of outstanding foreign exchange forward contracts as of August 1, 1999. As a result, any change in exchange rates would not have a significant impact on the company's results of operations or financial position as the foreign exchange forward contracts have "fixed" the exchange rate.

Part II - Other Information

Item 6. Exhibits and Reports on Form 8-K

The following exhibits are filed as part of this report or incorporated by reference. Management contracts, compensatory plans, and arrangements are marked with an asterisk (*).

3(i) Articles of Incorporation of the Company, as amended, were filed as Exhibit 3(i) to the Company's Form 10-Q for the quarter ended January 29, 1995, filed March 15, 1995, and are incorporated herein by reference.

3(ii) Restated and Amended Bylaws of the Company, as amended, were filed as Exhibit 3(b) to the Company's Form 10-K for the year ended April 28, 1991, filed July 25, 1991, and are incorporated herein by reference.

10(a) Loan Agreement dated December 1, 1988 with Chesterfield County, South Carolina relating to Series 1988 Industrial Revenue Bonds in the principal amount of $3,377,000 was filed as Exhibit 10(n) to the Company's Form 10-K for the year ended April 29, 1989, and is incorporated herein by reference.

10(b) Loan Agreement dated November 1, 1988 with the Alamance County Industrial Facilities and Pollution Control Financing Authority relating to Series A and B Industrial Revenue Refunding Bonds in the principal amount of $7,900,000, was filed as exhibit 10(o) to the Company's Form 10-K for the year ended April 29, 1990, and is incorporated herein by reference.

10(c) Loan Agreement dated January 5, 1990 with the Guilford County Industrial Facilities and Pollution Control Financing Authority, North Carolina, relating to Series 1989 Industrial Revenue Bonds in the principal amount of $4,500,000, was filed as Exhibit 10(d) to the Company's Form 10-K for the year ended April 19, 1990, filed on July 15, 1990, and is incorporated herein by reference.

10(d) Loan Agreement dated as of December 1, 1993 between Anderson County, South Carolina and the Company relating to $6,580,000 Anderson County, South Carolina Industrial Revenue Bonds (Culp, Inc. Project) Series 1993, was filed as Exhibit 10(o) to the Company's Form 10-Q for the quarter ended January 30, 1994, filed March 16, 1994, and is incorporated herein by reference.

10(e) Form of Severance Protection Agreement, dated September 21, 1989, was filed as Exhibit 10(f) to the Company's Form 10-K for the year ended April 29, 1990, filed on July 25, 1990, and is incorporated herein by reference. (*)

10(f) Lease Agreement, dated January 19, 1990, with Phillips Interests, Inc. was filed as Exhibit 10(g) to the Company's Form 10-K for the year ended April 29, 1990, filed on July 25, 1990, and is incorporated herein by reference.

10(g) Management Incentive Plan of the Company, dated August 1986 and amended July 1989, filed as Exhibit 10(o) to the Company's Form 10-K for the year ended May 3, 1992, filed on August 4, 1992, and is incorporated herein by reference. (*)

10(h) Lease Agreement, dated September 6, 1988, with Partnership 74 was filed as Exhibit 10(h) to the Company's Form 10-K for the year ended April 28, 1991, filed on July 25, 1990, and is incorporated herein by reference.

10(i) Amendment and Restatement of the Employee's Retirement Builder Plan of the Company dated May 1, 1981 with amendments dated January 1, 1990 and January 8, 1990 were filed as Exhibit 10(p) to the Company's Form 10-K for the year ended May 3, 1992, filed on August 4, 1992, and is incorporated herein by reference. (*)

10(j) First Amendment of Lease Agreement dated July 27, 1992 with Partnership 74 Associates was filed as Exhibit 10(n) to the Company's Form 10-K for the year ended May 2, 1993, filed on July 29, 1993, and is incorporated herein by reference.

10(k) Second Amendment of Lease Agreement dated April 16, 1993, with Partnership 52 Associates was filed as Exhibit 10(l) to the Company's Form 10-K for the year ended May 2, 1993, filed on July 29, 1993, and is incorporated herein by reference.

10(l) 1993 Stock Option Plan was filed as Exhibit 10(o) to the Company's Form 10-K for the year ended May 2, 1993, filed on July 29, 1993, and is incorporated herein by reference. (*)

10(m) First Amendment to Loan Agreement dated as of December 1, 1993 by and between The Guilford County Industrial

Facilities and Pollution Control Financing Authority and the Company was filed as Exhibit 10(p) to the Company's Form 10-Q, filed on March 15, 1994, and is incorporated herein by reference.

10(n) First Amendment to Loan Agreement dated as of December 16, 1993 by and between The Alamance County Industrial Facilities and Pollution Control Financing Authority and the Company was filed as Exhibit 10(q) to the Company's Form 10-Q, filed on March 15, 1994, and is incorporated herein by reference.

10(o) First Amendment to Loan Agreement dated as of December 16, 1993 by and between Chesterfield County, South Carolina and the Company was filed as Exhibit 10(r) to the Company's Form 10-Q, filed on March 15, 1994, and is incorporated herein by reference.

10(p) Amendment to Lease dated as of November 4, 1994, by and between the Company and RDC, Inc. was filed as Exhibit 10(w) to the Company's Form 10-Q, for the quarter ended January 29, 1995, filed on March 15, 1995, and is incorporated herein by reference.

10(q) Amendment to Lease Agreement dated as of December 14, 1994, by and between the Company and Rossville Investments, Inc. (formerly known as A & E Leasing, Inc.), was filed as Exhibit 10(y) to the Company's Form 10-Q, for the quarter ended January 29, 1995, filed on March 15, 1995, and is incorporated herein by reference.

10(r) Interest Rate Swap Agreement between Company and First Union National Bank of North Carolina dated April 17, 1995, was filed as Exhibit 10(aa) to the Company's Form 10-K for the year ended April 30, 1995, filed on July 26, 1995, and is incorporated herein by reference.

10(s) Performance-Based Stock Option Plan, dated June 21, 1994, was filed as Exhibit 10(bb) to the Company's Form 10-K for the year ended April 30, 1995, filed on July 26, 1995, and is incorporated herein by reference. (*)

10(t) Interest Rate Swap Agreement between Company and First Union National Bank of North Carolina, dated May 31, 1995 was filed as exhibit 10(w) to the Company's Form 10-Q for the quarter ended July 30, 1995, filed on September 12, 1995, and is incorporated herein by reference.

10(u) Interest Rate Swap Agreement between Company and First Union National Bank of North Carolina, dated July 7, 1995 was filed as exhibit 10(x) to the Company's Form 10-Q for the quarter ended July 30, 1995, filed on September 12, 1995, and is incorporated herein by reference.

10(v) Second Amendment of Lease Agreement dated June 15, 1994 with Partnership 74 Associates was filed as Exhibit 10(v) to the Company's Form 10-Q for the quarter ended October 29, 1995, filed on December 12, 1995, and is incorporated herein by reference.

10(w) Lease Agreement dated November 1, 1993 by and between the Company and Chromatex, Inc. was filed as Exhibit 10(w) to the Company's Form 10-Q for the quarter ended October 29, 1995, filed on December 12, 1995, and is incorporated herein by reference.

10(x) Lease Agreement dated November 1, 1993 by and between the Company and Chromatex Properties, Inc. was filed as Exhibit 10(x) to the Company's Form 10-Q for the quarter ended October 29, 1995, filed on December 12, 1995, and is incorporated herein by reference.

10(y) Amendment to Lease Agreement dated May 1, 1994 by and between the Company and Chromatex Properties, Inc. was filed as Exhibit 10(y) to the Company's Form 10-Q for the quarter ended October 29, 1995, filed on December 12, 1995, and is incorporated herein by reference.

10(z) Canada-Quebec Subsidiary Agreement on Industrial Development (1991), dated January 4, 1995, was filed as Exhibit 10(z) to the Company's Form 10-Q for the quarter ended October 29, 1995, filed on December 12, 1995, and is incorporated herein by reference.

10(aa) Loan Agreement between Chesterfield County, South Carolina and the Company dated as of April 1, 1996 relating to Tax Exempt Adjustable Mode Industrial Development Bonds (Culp, Inc. Project) Series 1996 in the aggregate principal amount of $6,000,000 was filed as Exhibit 10(aa) to the Company's Form 10-K for the year ended April 28, 1996, and is incorporated herein by reference.

10(bb) Loan Agreement between the Alamance County Industrial Facilities and Pollution Control Financing Authority, North Carolina and the Company, dated December 1, 1996, relating to Tax Exempt Adjustable Mode Industrial Development Revenue Bonds, (Culp, Inc. Project Series 1996) in the aggregate amount of $6,000,000 was filed as Exhibit 10(cc) to the Company's Form 10-Q for the quarter ended January 26, 1997, and is incorporated herein by reference.

10(cc) Loan Agreement between Luzerne County, Pennsylvania and the Company, dated as of December 1, 1996, relating to Tax-Exempt Adjustable Mode Industrial Development Revenue Bonds (Culp, Inc. Project) Series 1996 in the aggregate principal amount of $3,500,000 was filed as Exhibit 10(dd) to the Company's Form 10-Q for the quarter ended January 26, 1997, and is incorporated herein by reference.

10(dd) Second Amendment to Lease Agreement between Chromatex Properties, Inc. and the Company, dated April 17, 1997 was filed as Exhibit 10(dd) to the Company's Form 10-K for the year ended April 27, 1997, and is incorporated herein by reference.

10(ee) Lease Agreement between Joseph E. Proctor (doing business as JEPCO) and the Company, dated April 21, 1997 was filed as Exhibit 10(ee) to the Company's Form 10-K for the year ended April 27, 1997, and is incorporated herein by reference.

10(ff) $125,000,000 Revolving Loan Facility dated April 23, 1997 by and among the Company and Wachovia Bank of Georgia, N.A., as agent, and First Union National Bank of North Carolina, as documentation agent was filed as Exhibit 10(ff) to the Company's Form 10-K for the year ended April 27, 1997, and is incorporated herein by reference.

10(gg) Revolving Line of Credit for $4,000,000 dated April 23, 1997 by and between the Company and Wachovia Bank of North Carolina, N.A. was filed as Exhibit 10(gg) to the Company's Form 10-K for the year ended April 27, 1997, and is incorporated herein by reference.

10(hh) Reimbursement and Security Agreement between Culp, Inc. and Wachovia Bank of North Carolina, N.A., dated as of April 1, 1997, relating to $3,337,000 Principal Amount, Chesterfield County, South Carolina Industrial Revenue Bonds (Culp, Inc. Project) Series 1988 was filed as Exhibit 10(hh) to the Company's Form 10-K for the year ended April 27, 1997, and is incorporated herein by reference.

Additionally, there are Reimbursement and Security Agreements between Culp, Inc. and Wachovia Bank of North Carolina, N.A., dated as of April 1, 1997 in the following amounts and with the following facilities:

$7,900,000 Principal Amount, Alamance County Industrial Facilities and Pollution Control Financing Authority Industrial Revenue Refunding Bonds (Culp, Inc. Project) Series A and B.

$4,500,000 Principal Amount, Guilford County Industrial Facilities and Pollution Control Financing Authority Industrial Development Revenue Bonds (Culp, Inc. Project) Series 1989.

$6,580,000 Principal Amount, Anderson County South Carolina Industrial Revenue Bonds (Culp, Inc. Project) Series 1993.

$6,000,000 Principal Amount, Chesterfield County, South Carolina Tax-Exempt Adjustable Mode Industrial Development Revenue Bonds (Culp, Inc. Project) Series 1996.

$6,000,000 Principal Amount, The Alamance County Industrial Facilities and Pollution Control Financing Authority Tax-exempt Adjustable Mode Industrial Development Revenue Bonds (Culp, Inc. Project) Series 1996.

$3,500,000 Principal Amount, Luzerne County Industrial Development Authority Tax-Exempt Adjustable Mode Industrial Development Revenue Bonds (Culp, Inc. Project) Series 1996.

10(ii) Loan Agreement and Reimbursement and Security Agreement dated July 1, 1997 with the Robeson County Industrial Facilities and Pollution Control Financing Authority relating to the issuance of Tax-Exempt Adjustable Mode Industrial Development Revenue Bonds (Culp, Inc. Project), Series 1997 in the aggregate principal amount of $8,500,000 was filed as Exhibit 10(ii) to the Company's Form 10-Q for the quarter ended August 3, 1997, and is incorporated herein by reference.

10(jj) Asset Purchase Agreement dated as of August 4, 1997 by and between Culp, Inc., Phillips Weaving Mills, Inc., Phillips Printing Mills, Inc., Phillips Velvet Mills, Inc., Phillips Mills, Inc., Phillips Property Company, LLC, Phillips Industries, Inc. and S. Davis Phillips was filed as Exhibit (10jj) to the Company's Form 10-Q for the quarter ended November 2, 1997, and is incorporated herein by reference.

10(kk) Asset Purchase Agreement dated as of October 14, 1997 among Culp, Inc., Artee Industries, Incorporated, Robert T. Davis, Robert L. Davis, Trustee u/a dated 8/25/94, Robert

L. Davis, Louis W. Davis, Kelly D. England, J. Marshall Bradley, Frankie S. Bradley and Mickey R. Bradley was filed as Exhibit 10(kk) to the Company's Form 10-Q for the quarter ended November 2, 1997, and is incorporated herein by reference.

10(ll) Form of Note Purchase Agreement (providing for the issuance by Culp, Inc. of its $20 million 6.76% Series A Senior Notes due 3/15/08 and its $55 million 6.76% Series B Senior Notes due 3/15/10), each dated March 4, 1998, between Culp, Inc. and each of the following:
1. Connecticut General Life Insurance Company;
2. The Mutual Life Insurance Company of New York;
3. United of Omaha Life Insurance Company;
4. Mutual of Omaha Insurance Company;
5. The Prudential Insurance Company of America;
6. Allstate Life Insurance Company;
7. Life Insurance Company of North America; and
8. CIGNA Property and Casualty Insurance Company
This agreement was filed as Exhibit 10(ll) to the Company's Form 10-K for the year ended May 3, 1998, and is incorporated herein by reference.

10(mm) First Amendment to Credit Agreement dated July 22, 1998 among Culp, Inc., Wachovia Bank, N.A., as agent, First Union National Bank, as documentation agent, and Wachovia Bank, N.A., First Union National Bank, SunTrust Bank, Atlanta, and Cooperatieve Centrale Raiffeisen-Boerenleeenbank B.A., Rabobank Nederland, New York Branch, as lenders. This amendment was filed as Exhibit 10(mm) to the Company's Form 10-Q for the quarter ended August 2, 1998, and is incorporated herein by reference.

10(nn) Second Amendment to Credit Agreement dated October 26, 1998, among Culp, Inc., Wachovia Bank, N.A., as agent, First Union National Bank, as documentation agent, and Wachovia Bank, N.A., First Union National Bank, and SunTrust Bank, Atlanta, as lenders. This amendment was filed as Exhibit 10(nn) to the Company's Form 10-Q for the quarter ended November 1, 1998, and is incorporated herein by reference.

27 Financial Data Schedule

(b) Reports on Form 8-K:

The following report on Form 8-K was filed during the period covered by this report:

(1) Form 8-K dated June 2, 1999, included under Item 5, Other Events, included the Company's press release for quarterly earnings and the Financial Information Release relating to certain financial information for the quarter ended May 2, 1999.

SIGNATURE

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

CULP, INC.
(Registrant)

Date: September 15, 1999 By: s/s Phillip W. Wilson
Phillip W. Wilson
Vice President and Chief Financial and Accounting Officer

(Authorized to sign on behalf of the registrant and also signing as principal financial officer)

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