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CULP INC
Form 8-K
August 26, 2004

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 8-K

CURRENT REPORT

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

Date of Report (Date of earliest event reported) August 26, 2004

CULP, INC.

(Exact name of registrant as specified in its charter)

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

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

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

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Item 2.02 - Results of Operations and Financial Condition

On August 26, 2004, Culp, Inc. (the "Registrant" or the "company") issued a news release to announce its financial results for the first quarter ended August 1, 2004. The news release is attached hereto as Exhibit 99(a).

Also on August 26, 2004, the Registrant released a Financial Information Release containing additional financial information and disclosures about the Registrant's first quarter ended August 1, 2004. The Financial Information Release is attached hereto as Exhibit 99(b).

The news release and Financial Information Release contain disclosures about proforma income statement information, which reconciles the reported income statement information with proforma results, which exclude restructuring and related charges and credits. The company has included this proforma information in order to show operational performance excluding the effects of restructuring and related charges and credits that are not expected to occur on a regular basis. Management believes this presentation aids in the comparison of financial results among comparable financial periods.

Forward Looking Information. This Report and the exhibits attached hereto contain statements that may be deemed "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 27A of the Securities and Exchange Act of 1934). Such statements are inherently subject to risks and uncertainties. Further, forward looking statements are intended to speak only as of the date on which they are made. 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," "estimate," "plan" and "project" and their derivatives, and include but are not limited to statements about expectations for the company's future sales, gross profit and operating income margins, SG&A or other expenses and earnings. Factors that could influence the matters discussed in such statements include the level of housing starts and sales of existing homes, consumer confidence, trends in disposable income, and general economic conditions. Decreases in these economic indicators could have a negative effect on the company's business and prospects. Likewise, increases in interest rates, particularly home mortgage rates, and increases in consumer debt or the general rate of inflation, could affect the company adversely. In addition, 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. Also, economic and political instability in international areas could affect the company's operations or sources of goods in those areas, as well as demand for the company's products in international markets. Finally, unanticipated delays or costs in executing restructuring actions could cause the cumulative effect of restructuring actions to fail to meet the objectives set forth by management. Other factors that could affect the matters discussed in forward looking statements are included in the company's periodic reports filed

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- o Long-term debt-to-capital ratio of 33.3 percent compared with 44.5 percent a year ago.
- o Earnings expectation for the second quarter of fiscal 2005 is net income of \$0.13 to \$0.17 per diluted share.

Overview

For the three months ended August 1, 2004, net sales were \$67.8 million compared with \$73.7 million a year ago, a 7.9 percent decline. The first quarter of fiscal 2005 included 13 weeks versus 14 weeks for the same quarter of fiscal 2004. The company reported a net loss of \$1,052,000, or \$0.09 per diluted share, for the first quarter of fiscal 2005 compared with a net loss of \$411,000, or \$0.04 per diluted share, for the first quarter of fiscal 2004. Excluding restructuring and related charges and credits of approximately \$42,000, net of income taxes, the net loss for the first quarter of fiscal 2005 was \$1,094,000, or \$0.09 per diluted share.

"Considering one less week's sales, our average weekly sales for the first fiscal quarter of 2005 were \$5.2 million compared with \$5.3 million in the prior-year period, a decrease of less than 1.0 percent," commented Robert G. Culp, III, chairman of the board and chief executive officer of Culp, Inc. "The first quarter of our fiscal year is typically the slowest period for Culp and the furniture industry with scheduled plant vacation shutdowns. The seasonal slowdown, combined with the continued weakness in consumer demand for furniture throughout the summer, accounted for this modest drop. We believe our competitive position is strong and we are excited about the growth opportunities in our mattress ticking business and our offshore sourcing strategy."

Mattress Fabrics Segment

Mattress fabric (known as mattress ticking) sales were \$26.0 million compared with \$27.2 million for the first quarter of fiscal 2004, a 4.7 percent decline. As noted, these results reflect a 13-week period versus a 14-week period last year. Average weekly sales for the first quarter of fiscal 2005 were \$2.0 million compared with \$1.9 million in the prior-year period, an increase of 2.7 percent. This increase is especially noteworthy considering our customers' recent transition to one-sided mattresses, which utilize one-third less fabric. Operating income for this segment was \$2.9 million, or 11.2 percent of sales, compared with \$4.1 million, or 15.2 percent of sales, for the prior-year period. Operating income was primarily affected by one week's less sales for the quarter and inventory markdowns related to certain customer programs. These factors are expected to have significantly less impact on the segment's second quarter results.

Culp remarked, "We are seeing positive trends in our mattress ticking business and continue to make gains with key customers. Consumer trends and the attractiveness of this product category for retailers favor further growth in bedding demand, and we believe that Culp is well positioned to benefit from this growth as a leading provider of mattress ticking. Additionally, unlike upholstery fabrics, the mattress fabric business is not being threatened by Asian imports because of the relatively low average price points and labor content and the just-in-time delivery requirements of this business. Further, Asian imports of finished mattresses have been limited to less than four percent of the U.S. market because of high shipping costs as well as the customized product lines and strong brand name recognition associated with mattresses. With our leadership in product design, superior customer service and delivery performance, and a globally competitive cost structure, we expect that the mattress ticking business will account for an increasing percentage of Culp's overall sales and profitability in fiscal 2005."

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Upholstery Fabrics Segment

Sales for this segment were \$41.9 million, a 9.8 percent decline compared with \$46.5 million in the first quarter of fiscal 2004. Average weekly sales for the first quarter of fiscal 2005 were \$3.2 million compared with \$3.3 million in the prior year period, a decrease of 2.9 percent. Sales of upholstery fabrics reflect soft demand by furniture retailers during the summer months. Additional factors affecting the demand for upholstery fabrics are the current consumer preference for leather furniture and increased competition from imported fabrics, including cut and sewn kits, primarily from Asia.

"It has become increasingly evident that competitive forces in the global marketplace are significantly changing the face of the furniture and the upholstery fabrics industries," added Culp. "However, we believe that Culp has made significant progress in adapting our business model to take advantage of this transition and position ourselves more effectively in this environment. First, we have significantly adjusted our cost structure and domestic manufacturing capacity over the past several years. Second, we have focused on design creativity and product development to provide breadth and innovation in the fabrics offered to our customers to meet changing consumer preferences. Third, we have implemented a dual strategy to aggressively develop offshore sourcing capabilities for Culp. In fiscal 2003 we put in place the necessary resources to begin sourcing from Asia certain upholstery fabrics that we do not manufacture, and we have continued to expand these resources. The other component of Culp's offshore sourcing strategy is our China operation, where we are now well underway with our manufacturing operations and our fabric shipments to customers. Sales of upholstery fabrics produced outside of our U.S. manufacturing plants, which include the popular micro-denier suedes and fabrics produced at our China facility, accounted for approximately \$5.5 million, or 13.1 percent, of upholstery fabric sales for the quarter. Sourced fabrics accounted for approximately \$2.1 million, or 4.5 percent of upholstery fabric sales for the same period last year."

Operating loss for the upholstery fabrics segment was \$2.6 million, or 6.1 percent of sales, compared with a loss of \$1.7 million, or 3.7 percent of sales, for the same period last year. The segment loss in each period was primarily due to underutilization of the company's U.S. manufacturing capacity. Culp noted, "If sales continue to be under pressure in the upholstery fabrics segment, we are prepared to take the necessary actions to further adjust our cost structure and U.S. capacity, as we have demonstrated in recent years."

Balance Sheet

"One of our key financial objectives for fiscal 2005 is to continue to capitalize on the strength of our balance sheet," added Culp. "At the end of the first fiscal quarter, our balance sheet reflects approximately \$12.0 million in cash and cash equivalents. Long-term debt now stands at \$51.1 million compared with \$76.6 million a year ago. As a result, our long-term debt-to-capital ratio is now 33.3 percent compared with 44.5 percent a year ago. Our balance sheet is sound with significantly lower debt, excellent liquidity and the financial flexibility to pursue our strategic initiatives."

Outlook

Commenting on the business outlook, Culp said, "Mattress ticking sales have already picked up during the early part of our second quarter. For the current quarter, we expect sales in this segment to be moderately ahead of second quarter sales last year and expect that operating income will approximate last year's level. With respect to the upholstery fabrics segment, the outlook remains uncertain for a sustained recovery in retail furniture business conditions. We are optimistic that upholstery fabric sales will also pick up in the fall, as is seasonally typical in the furniture industry. For the second

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quarter, upholstery fabrics segment sales are expected to decrease less than the first quarter decline of 9.8 percent. While we do expect to be profitable in the upholstery fabrics segment, operating income will be down considerably from last year's second quarter. At this time, we expect to report net income in the range of \$0.13 to \$0.17 per share diluted, with the actual results depending primarily on the level of demand throughout the quarter. We believe the excellence in our design creativity, the strength in our mattress ticking business, the aggressive expansion of our offshore sourcing capabilities and our sound balance sheet effectively position Culp in today's marketplace."

Culp, Inc. is one of the world's largest marketers of mattress fabrics for bedding and upholstery fabrics for furniture. The company's fabrics are used principally in the production of bedding products and residential and commercial upholstered furniture.

This release contains statements that may be deemed "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 27A of the Securities and Exchange Act of 1934). Such statements are inherently subject to risks and uncertainties. Further, forward-looking statements are intended to speak only as of the date on which they are made. 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," "estimate," "plan" and "project" and their derivatives, and include but are not limited to statements about expectations for the company's future sales, operating income, gross profit margins, SG&A or other expenses, and earnings. Factors that could influence the matters discussed in such statements include the level of housing starts and sales of existing homes, consumer confidence, trends in disposable income, and general economic conditions. Decreases in these economic indicators could have a negative effect on the company's business and prospects. Likewise, increases in interest rates, particularly home mortgage rates, and increases in consumer debt or the general rate of inflation, could affect the company adversely. In addition, 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. Also, economic and political instability in international areas could affect the company's operations or sources of goods in those areas, as well as demand for the company's products in international markets. Finally, unanticipated delays or costs in executing restructuring actions could cause the cumulative effect of restructuring actions to fail to meet the objectives set forth by management. Other factors that could affect the matters discussed in forward-looking statements are included in the company's periodic reports filed with the Securities and Exchange Commission.

CULP, INC.
Condensed Financial Highlights
(Unaudited)

	Three Months Ended	
	August 1, 2004	August 3, 2003
Net sales	\$67,849,000	\$73,676,000
Net loss	\$ (1,052,000)	\$ (411,000)
Basic and diluted net loss per share:		
Basic	\$ (0.09)	\$ (0.04)

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Diluted	\$	(0.09)	\$	(0.04)
=====				
Average shares outstanding:				
Basic		11,547,000		11,515,000
Diluted		11,547,000		11,515,000

Reconciliation of Net Loss as Reported to Pro Forma Net Loss
(Unaudited)

	Three Months Ended	
	August 1, 2004	August 3, 2003

Net loss, as reported	\$ (1,052,000)	\$ (411,000)
Restructuring and related charges (credits), net of income taxes	(42,000)	-0-

Pro forma net loss	\$ (1,094,000)	\$ (411,000)
=====		

Reconciliation of Net Loss Per Share as Reported to Pro Forma Net Loss Per Share
(Unaudited)

	Three Months Ended	
	August 1, 2004	August 3, 2003

Net loss per share, as reported	\$ (0.09)	\$ (0.04)
Restructuring and related charges (credits), net of income taxes	-0-	-0-

Pro forma net loss per share	\$ (0.09)	\$ (0.04)
=====		

-END-

Exhibit 99(b)

CULP, INC. FINANCIAL INFORMATION RELEASE
CONSOLIDATED STATEMENTS OF LOSS
FOR THE THREE MONTHS ENDED August 1, 2004 AND August 3, 2003

(Amounts in Thousands, Except for Per Share Data)

	THREE MONTHS ENDED (UNAUDITED)		

	Amounts		
	August 1, 2004	August 3, 2003	% Over (Under)

Net sales	\$ 67,849	73,676	(7.9) %
Cost of sales (1)	59,174	62,198	(4.9) %

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Gross profit	8,675	11,478	(24.4) %
Selling, general and administrative expenses	9,280	10,516	(11.8) %
Restructuring credit	(138)	0	100.0 %
Income (loss) from operations	(467)	962	(148.5) %
Interest expense	940	1,497	(37.2) %
Interest income	(27)	(122)	(77.9) %
Other expense	214	239	(10.5) %
Loss before income taxes	(1,594)	(652)	(144.5) %
Income taxes*	(542)	(241)	124.9 %
Net loss	\$ (1,052)	(411)	(156.0) %
Net loss per share-basic	\$ (0.09)	(0.04)	(125.0) %
Net loss per share-diluted	\$ (0.09)	(0.04)	(125.0) %
Net loss per share, diluted, excluding restructuring and related charges and credits (2)	\$ (0.09)	(0.04)	(125.0) %
Average shares outstanding-basic	11,547	11,515	0.3 %
Average shares outstanding-diluted	11,547	11,515	0.3 %

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

(1) Cost of sales includes \$75.0 of restructuring related charges for the three months ended August 1, 2004.

(2) Reconciliation of net loss as reported to pro forma net loss:

	THREE MONTHS ENDED		
	Amounts		
	August 1, 2004	August 3, 2003	% Over (Under)
Net loss, as reported	\$ (1,052)	(411)	(156.0) %
Restructuring and related charges (credits), net of taxes (a)	(42)	0	100.0 %
Proforma net loss	(1,094)	(411)	(166.2) %
Pro forma net loss per share-basic	\$ (0.09)	(0.04)	(125.0) %
Pro forma net loss per share-diluted	\$ (0.09)	(0.04)	(125.0) %

(a) Represents the \$138.0 restructuring credit, offset by the \$75.0 in restructuring related charges, net of taxes to arrive at \$42.0.

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CULP, INC. FINANCIAL INFORMATION RELEASE
CONSOLIDATED BALANCE SHEETS
AUGUST 1, 2004, AUGUST 3, 2003 AND MAY 2, 2004
Unaudited
(Amounts in Thousands)

	Amounts		Increase (Decrease)	
	August 1, 2004	August 3, 2003	Dollars	Percent
Current assets				
Cash and cash equivalents	\$ 11,946	15,094	(3,148)	(20.9)
Short-term investments	0	15,014	(15,014)	(100.0)
Accounts receivable	24,242	24,227	15	0.1
Inventories	52,083	49,275	2,808	5.7
Deferred income taxes	9,256	12,303	(3,047)	(24.8)
Other current assets	1,645	4,001	(2,356)	(58.9)
Total current assets	99,172	119,914	(20,742)	(17.3)
Property, plant & equipment, net	78,880	83,299	(4,419)	(5.3)
Goodwill	9,240	9,240	0	0.0
Other assets	1,307	1,934	(627)	(32.4)
Total assets	\$ 188,599	214,387	(25,788)	(12.0)
Current liabilities				
Current maturities of long-term debt	\$ 545	517	28	5.4
Accounts payable	14,857	18,648	(3,791)	(20.3)
Accrued expenses	10,880	12,856	(1,976)	(15.4)
Accrued restructuring	4,656	7,141	(2,485)	(34.8)
Income taxes payable	606	0	606	100.0
Total current liabilities	31,544	39,162	(7,618)	(19.5)
Long-term debt , less current maturities	50,519	76,034	(25,515)	(33.6)
Deferred income taxes	4,138	3,851	287	7.5
Total liabilities	86,201	119,047	(32,846)	(27.6)
Shareholders' equity	102,398	95,340	7,058	7.4
Total liabilities and shareholders' equity	\$ 188,599	214,387	(25,788)	(12.0)
Shares outstanding	11,548	11,515	33	0.3

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* Derived from audited financial statements

CULP, INC. FINANCIAL INFORMATION RELEASE
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE THREE MONTHS ENDED AUGUST 1, 2004 AND AUGUST 3, 2003

Unaudited
(Amounts in Thousands)

	THREE MONTHS ENDED	
	Amounts	
	August 1, 2004	August 3, 2003
Cash flows from operating activities:		
Net loss	\$ (1,052)	(411)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation	3,362	3,444
Amortization of other assets	37	45
Stock-based compensation	52	53
Restructuring credit	(138)	0
Changes in assets and liabilities:		
Accounts receivable	6,477	8,032
Inventories	(3,038)	277
Other current assets	(11)	(797)
Other assets	206	256
Accounts payable	112	(845)
Accrued expenses	(2,148)	(1,215)
Accrued restructuring	(228)	(602)
Income taxes payable	(1,244)	(349)
	2,387	7,888
Cash flows from investing activities:		
Capital expenditures	(4,375)	(1,875)
Purchases of short-term investments	0	(5,038)
	(4,375)	(6,913)
Cash flows from financing activities:		
Payments on vendor-financed capital expenditures	(675)	(287)
Proceeds from issuance of long-term debt	34	51
Proceeds from common stock issued	7	0
	(634)	(236)
Increase (decrease) in cash and cash equivalents	(2,622)	739
Cash and cash equivalents at beginning of period	14,568	14,355
Cash and cash equivalents at end of period	\$ 11,946	15,094

CULP, INC. FINANCIAL INFORMATION RELEASE
 FINANCIAL ANALYSIS
 August 1, 2004

	FISCAL 04		FISCAL 05		
	Q1	Q1	Q2	Q3	Q4
INVENTORIES					
Inventory turns	5.0	4.7			
RECEIVABLES					
Days sales in receivables	32	30			
WORKING CAPITAL					
Current ratio	3.1	3.1			
Operating working capital turnover (1)	5.1	5.1			
Operating working capital (1)	\$54,854	\$61,468			
PROPERTY, PLANT & EQUIPMENT					
Depreciation rate	6.2%	6.1%			
Percent property, plant & equipment are depreciated	62.3%	64.2%			
Capital expenditures	\$6,747 (2)	\$4,543			
LEVERAGE					
Total liabilities/equity	124.7%	84.2%			
Long-term debt/equity	80.3%	49.9%			
Long-term debt/capital employed (3)	44.5%	33.3%			
Long-term debt	\$76,551	\$51,064			
OTHER					
Book value per share	\$8.28	\$8.87			
Employees at quarter end	2,383	2,235			
Sales per employee (annualized)	\$121,628	\$119,190			
Capital employed (3)	\$171,891	\$153,462			

- (1) Working capital for this calculation is accounts receivable, inventories and accounts payable.
 (2) Expenditures for entire year.
 (3) Capital employed represents long-term debt plus stockholders equity; Long-term debt is long-term debt plus current maturities of of long-term debt.

CULP, INC. FINANCIAL INFORMATION RELEASE
 SALES, GROSS PROFIT AND OPERATING INCOME (LOSS) BY SEGMENT/DIVISION
 FOR THE THREE MONTHS ENDED AUGUST 1, 2004 AND AUGUST 3, 2003

(Amounts in thousands)

THREE MONTHS ENDED (UNAUDITED)

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Net Sales by Segment	Amounts			Percent of
	August 1, 2004	August 3, 2003	% Over (Under)	August 1, 2004
Mattress Fabrics				
Culp Home Fashions	\$ 25,953	27,220	(4.7) %	38.3 %
Upholstery Fabrics				
Culp Decorative Fabrics	23,919	29,617	(19.2) %	35.3 %
Culp Velvets/Prints	17,977	16,839	6.8 %	26.5 %
	41,896	46,456	(9.8) %	61.7 %
Net Sales	\$ 67,849	73,676	(7.9) %	100.0 %
Gross Profit by Segment				Gross Pro
Mattress Fabrics	\$ 4,794	6,072	(21.0) %	18.5 %
Pro forma Upholstery Fabrics	3,956	5,406	(26.8) %	9.4 %
Restructuring related charges (1)	75	0	100.0 %	0.2 %
Upholstery Fabrics gross profit	3,881	5,406	(28.2) %	9.3 %
Gross Profit	\$ 8,675	11,478	(24.4) %	12.8 %
Operating Income (loss) by Segment				Operating Inco
Mattress Fabrics	\$ 2,899	4,144	(30.0) %	11.2 %
Pro forma Upholstery Fabrics	(2,619)	(1,719)	(52.4) %	(6.3) %
Restructuring and related charges and credits (1)	63	0	100.0 %	0.2 %
Upholstery Fabrics operating loss	(2,556)	(1,719)	(48.7) %	(6.1) %
Unallocated corporate expenses	(810)	(1,463)	44.6 %	(1.2) %
Operating income (loss)	\$ (467)	962	(148.5) %	(0.7) %
Depreciation by Segment				
Mattress Fabrics	\$ 916	944	(3.0) %	
Upholstery Fabrics	2,446	2,499	(2.1) %	

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Total Depreciation \$ 3,362 3,444 (2.4) %
 =====

(1) Restructuring and related charges include a credit of \$138.0 for the reversal of certain accrued expenses, offset by \$75.0 in equipment dismantling charges; both related to the closing of the Lumberton manufacturing facility.

CULP, INC. FINANCIAL INFORMATION RELEASE
 SALES, GROSS PROFIT AND OPERATING INCOME (LOSS) BY SEGMENT
 FOR THE FISCAL YEAR ENDED MAY 2, 2004

(UNAUDITED)
 (Amounts in thousands)

Net Sales by Segment

	QTR 1		QTR 2		QTR 3		M
	August 3, 2003	% of Sales	November 2, 2003	% of Sales	February 1, 2004	% of Sales	
Mattress Fabrics							
Culp Home Fashions	\$ 27,220	36.9%	26,788	32.4%	25,114	32.8%	27
Upholstery Fabrics							
Culp Decorative Fabrics	29,617	40.2%	32,459	39.2%	29,678	38.8%	32
Culp Velvets/Prints	16,839	22.9%	23,484	28.4%	21,769	28.4%	25
	46,456	63.1%	55,943	67.6%	51,447	67.2%	57
Net Sales	\$ 73,676	100.0%	82,731	100.0%	76,561	100.0%	85

Gross Profit by Segment

Mattress Fabrics	\$ 6,072	22.3%	6,329	23.6%	5,093	20.3%	5
Upholstery Fabrics	5,406	11.6%	10,409	18.6%	9,375	18.2%	9
Gross profit	\$ 11,478	15.6%	16,738	20.2%	14,468	18.9%	15

Operating Income (loss) by Segment

Mattress Fabrics	\$ 4,144	15.2%	4,247	15.9%	3,039	12.1%	3
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Pro forma Upholstery Fabrics	(1,719)	-3.7%	3,452	6.2%	2,260	4.4%	2
Restructuring credit	0	0.0%	0	0.0%	0	0.0%	(1)

Upholstery Fabrics operating income (loss)	(1,719)	-3.7%	3,452	6.2%	2,260	4.4%	3

Unallocated corporate expenses	(1,463)	-2.0%	(1,257)	-1.5%	(1,113)	-1.5%	

Operating income	\$ 962	1.3%	6,442	7.8%	4,186	5.5%	6
=====							
Depreciation by Segment							

Mattress Fabrics	\$ 944		942		937		
Upholstery Fabrics	2,499		2,498		2,476		2,

Total Depreciation	\$ 3,444		3,439		3,412		3,
=====							

CULP, INC. FINANCIAL INFORMATION RELEASE
 FINANCIAL NARRATIVE
 for the three months ended August 1, 2004 and August 3, 2003

OVERVIEW

Highlights for the first quarter ended August 1, 2004 , include:

- o Mattress fabrics segment average weekly sales up 2.7 percent during period of transition to one-sided mattresses.
- o Aggressive expansion of offshore sourcing capabilities, resulting in sales of sourced upholstery fabrics more than doubling over the same period last year.
- o Long-term debt-to-capital ratio of 33.3% compared with 44.5% a year ago.
- o Earnings expectation for the second quarter of fiscal 2005 is net income of \$0.13 to \$0.17 per diluted share.

GENERAL - The first quarter of the fiscal year is typically the slowest period for the company and the furniture industry due to scheduled plant vacation shutdowns. The seasonal slowdown, combined with the continued weakness in consumer demand for furniture throughout the summer, accounted for this modest drop. In addition, the first quarter of fiscal 2005 included 13 weeks versus 14 weeks for the same period of fiscal 2004. For the first quarter of fiscal 2005, net sales decreased 7.9% to \$67.8 million. Average weekly sales for the first quarter of fiscal 2005 were \$5.2 million compared with \$5.3 million in the prior year period, a decrease of less than 1.0%. The company reported a net loss of

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\$1,052,000, or \$0.09 per share diluted, compared with a net loss of \$411,000, or \$0.04 per share diluted, in the first quarter of fiscal 2004. Excluding restructuring and related charges and credits of approximately \$42,000, net of income taxes, the net loss for the quarter was \$1,094,000. These results are in line with the previously announced guidance of an expected loss of \$0.08 to \$0.13 per share.

STATEMENT OF OPERATIONS COMMENTS

MATTRESS FABRICS SEGMENT (See page 5 - Sales, Gross Profit and Operating Income (Loss) by Segment)

Net Sales -- Mattress fabric sales (known as mattress ticking) for the first quarter of fiscal 2005 decreased 4.7% to \$26.0 million compared with \$27.2 million for the same period a year ago. As noted above, these results reflect a 13 week period versus a 14 week period last year. Average weekly sales for the first quarter of fiscal 2005 were \$2.0 million compared with \$1.9 million in the prior year period, an increase of 2.7%. While sales, on a comparable basis, continue to be affected by the recent customers' transition to one-sided mattresses, which utilize one-third less fabric, the mattress ticking segment experienced higher sales, on an average weekly basis, by expanding business with certain key accounts. Also, mattress manufacturers are currently incurring higher costs for other mattress components, such as steel, as well as costs associated with flame retardant requirements. As a result of these increased costs, mattress manufacturers are placing additional pressure on mattress ticking prices, and in some instances manufacturers are moving to lower priced ticking.

Mattress ticking yards sold during the first quarter of fiscal 2005 were 10.8 million compared with 10.5 million yards in the first quarter of last year. The average selling price was \$2.38 per yard for the first quarter, compared to \$2.57 per yard in the same quarter last year, a decrease of 7.4%.

Operating income -- For the first quarter of fiscal 2005, the mattress fabrics segment reported operating income of \$2.9 million, or 11.2% of sales, compared with \$4.1 million, or 15.2% of sales, for the prior year period. Operating income was primarily impacted by fewer sales weeks and inventory markdowns related to certain customer programs. These factors are expected to have significantly less impact on the segment's second quarter results.

UPHOLSTERY FABRICS SEGMENT (See page 5 - Sales, Gross Profit and Operating Income (Loss) by Segment)

Net Sales -- Upholstery fabric sales for the first quarter of fiscal 2005 decreased 9.8% to \$41.9 million when compared to the first quarter of fiscal 2004. Average weekly sales for the first quarter of fiscal 2005 were \$3.2 million compared with \$3.3 million in the prior year period, a decrease of 2.9%. The lower sales primarily reflect soft demand by furniture retailers, as well as current consumer preference for leather furniture and increased competition from imported fabrics, including cut and sewn kits, primarily from Asia.

With the company's offshore sourcing efforts, including the China platform, the company is experiencing higher sales of upholstery fabric products produced outside of the company's U.S. manufacturing plants. These sales, which include microdenier suedes and fabrics produced at the company's China plant, increased 162% over the prior year period and accounted for approximately \$5.5 million, or 13.1% of upholstery fabric sales for the quarter. Offshore sourced fabrics of \$2.1 million accounted for approximately 4.5% of upholstery fabric sales for the

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same period last year.

Upholstery fabric yards sold during the first quarter were 9.3 million versus 10.6 million in the first quarter of fiscal 2004, a decline of 12.3%. Average selling price was \$4.25 per yard for the first quarter compared with \$4.13 per yard in the same quarter of last year, an increase of 2.9%, due to higher average selling prices in both the CDF and CVP divisions.

Operating income (loss) -- Operating loss for the first quarter of fiscal 2005 was \$2.6 million, or 6.1% of sales, compared with a loss of \$1.7 million, or 3.7% of sales, for the same period last year. The segment loss in each period was primarily due to underutilization of the company's U.S. manufacturing capacity. If sales continue to be under pressure in the upholstery fabrics segment, management is prepared to take the necessary actions to further adjust the company's cost structure and U.S. capacity, as the company has demonstrated in recent years.

SG&A EXPENSES -- SG&A expenses of \$9.3 million for the first quarter of fiscal 2005 decreased approximately \$1.2 million, or 11.8%, from the prior year amount. As a percent of net sales, SG&A expenses decreased to 13.7% from 14.3% the previous year, due mostly to lower professional fees.

Unallocated Corporate Expenses - The unallocated corporate expense category includes certain items that have not been allocated to the company's segments (see Page 5 - Sales and Gross Profit/Operating Income (Loss) by Segment). The major components of unallocated corporate expenses include compensation and benefits for certain executive officers and all costs related to being a public company. For the first quarter of fiscal 2005, unallocated corporate expenses totaled \$810,000 compared with \$1.5 million for the same period last year, reflecting a substantial decrease in professional fees.

INTEREST EXPENSE AND INTEREST INCOME -- Interest expense for the first quarter declined to \$940,000 from \$1.5 million the previous year due to lower borrowings outstanding. Interest income decreased to \$27,000 from \$122,000 the previous year due to lower invested balances in fiscal 2005.

INCOME TAXES -- The effective tax rate (taxes as a percentage of pretax income (loss)) for the first quarter of fiscal 2005 was 34.0% compared with 37.0% for the same period last year.

BALANCE SHEET COMMENTS

CASH AND CASH EQUIVALENTS - Cash and cash equivalents as of August 1, 2004 decreased to \$11.9 million from \$14.6 million at the end of fiscal 2004, primarily reflecting cash flow from operations of \$2.4 million and capital expenditures and payments on vendor financed capital expenditures of \$5.0 million.

WORKING CAPITAL -- Accounts receivable as of August 1, 2004 increased 0.1% from the year-earlier level. Days sales outstanding totaled 30 days at August 1, 2004 compared with 32 days a year ago. Inventories at the close of the first quarter increased 5.7% from a year ago. Inventory turns for the first quarter were 4.7 versus 5.0 for the year-earlier period. Operating working capital (comprised of accounts receivable and inventories, less trade accounts payable) was \$61.5 million at August 1, 2004, up from \$54.9 million a year ago.

PROPERTY, PLANT AND EQUIPMENT -- Capital spending for the first quarter of fiscal 2005 was \$4.5 million, including approximately \$3.9 million for the purchase of a building that will serve as the company's new corporate offices and as new space for the company's showrooms. The company expects the annual

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operating costs of the new building to be significantly lower than the lease and related costs associated with the current facilities. Depreciation for the first quarter was \$3.4 million, and is estimated at \$13.5 million for the full fiscal year. For fiscal 2005, the company anticipates capital expenditures to be approximately \$9.0 million, including the \$5.7 million budgeted for the building purchase and related renovations.

INTANGIBLE ASSETS -- As of August 1, 2004, \$9.2 million in goodwill is the company's only intangible asset. This goodwill is comprised of \$4.1 million related to the mattress fabrics segment, and \$5.1 million related to the Culp Decorative Fabrics division within the upholstery fabrics segment.

LONG-TERM DEBT -- The company's long-term debt of \$51.1 million is unsecured and is comprised of \$50.0 million in outstanding senior notes, with a fixed interest rate of 7.76%, and a \$1.1 million, non-interest bearing term loan with the Canadian government. Additionally, the company has a \$15.0 million revolving credit line with a bank, of which no balance is outstanding at August 1, 2004. The current bank agreement, which expires in August 2004, has been extended to August 2005. The first scheduled principal payment on the \$50.0 million senior notes is due March 2006 in the amount of \$7.5 million. The Canadian government loan is repaid in annual installments of approximately \$500,000 per year. The company was in compliance with all financial covenants in its loan agreements as of August 1, 2004.

CASH FLOW FROM OPERATIONS COMMENTS

Cash flow from operations was \$2.4 million for the first quarter of fiscal 2005, compared with \$7.9 million for the same period last year. This decrease was primarily due to higher inventory balances and lower cash generated from accounts receivable balances. For the first quarter of fiscal 2005, cash flow generated from operations, as well as a portion of existing cash on hand, was used for capital expenditures, most of which relate to the building purchase described above.

BUSINESS OUTLOOK

Mattress ticking sales have picked up during the early part of the company's second quarter. For the current quarter, management expects sales in this segment to be moderately ahead of second quarter sales last year and expects that operating income will approximate last year's level. With respect to the upholstery fabrics segments, the outlook remains uncertain for a sustained recovery in retail furniture business conditions. Management is optimistic that upholstery fabric sales will also pickup in the fall, as is seasonally typical in the furniture industry. For the second quarter, upholstery fabrics segment sales are expected to decrease less than the first quarter decline of 9.8%. While management expects to be profitable in the upholstery fabrics segment, operating income will be down considerably from last year's second quarter. At this time, the company expects to report net income in the range of \$0.13 to \$0.17 per share diluted, with the actual results depending primarily on the level of demand throughout the quarter. Management believes that the excellence in design creativity, the strength in the company's mattress ticking business, the company's aggressive expansion of its' offshore sourcing capabilities and the company's sound balance sheet effectively position Culp in today's marketplace.

