CULP INC
Form 10-K
July 17, 2015

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

FORM 1O-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended May 3, 2015

Commission File No. 1-12597

CULP, INC.
(Exact name of registrant as specified in its charter)

NORTH CAROLINA (State or other jurisdiction of incorporation or other organization)	56-1001967 (I.R.S. Employer Identification No.)
1823 Eastchester Drive, High Point, North Carolina (Address of principal executive offices)	27265 (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	Name of Each Exchange On Which Registered
Common Stock, par value $.05/ Share	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES o NO x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Securities Exchange Act of 1934. YES o NO x

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 and (2) has been subject to the filing requirements for at least the past 90 days. YES x NO o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES x NO o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of "large accelerated filer, accelerated filer, and smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer o Accelerated Filer x Non-Accelerated Filer o

Smaller Reporting Company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). YES o NO x

As of May 3, 2015, 12,219,121 shares of common stock were outstanding. As of November 2, 2014, the aggregate market value of the voting stock held by non-affiliates of the registrant on that date was $198,300,713 based on the closing sales price of such stock as quoted on the New York Stock Exchange (NYSE), assuming, for purposes of this report, that all executive officers and directors of the registrant are affiliates.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Proxy Statement to be filed pursuant to Regulation 14A of the Securities and Exchange Commission in connection with its Annual Meeting of Shareholders to be held on September 16, 2015 are incorporated by reference into Part III of this Form 10-K.

CULP, INC.
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CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING INFORMATION

Parts I and II of this report 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 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, and we disclaim any duty to update or alter such statements whether as a result of 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,” “estimate,” “plan,” “project,” “anticipate,” “depend” an derivatives, and include but are not limited to statements about expectations for our future operations, production levels, sales, gross profit margins, operating income, capital expenditures, income taxes, SG&A or other expenses, earnings, cash flow, and other performance measures, as well as any statements regarding future economic or industry trends or future developments. 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 the company adversely. Changes in consumer tastes or preferences toward products not produced by us could erode demand for our products. 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 in the U.S. of products produced in those places. Also, economic and 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. 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 the “Risk Factors” section of this report in Item 1A. A forward-looking statement is neither a prediction nor a guarantee of future events or circumstances, and those future events or circumstances that may not occur.

PART 1

ITEM 1. BUSINESS

Overview

Culp, Inc. manufacturers, sources, and markets mattress fabrics and sewn covers used for covering mattresses and box springs, and upholstery fabrics, including cut and sewn kits, primarily used in production of upholstered furniture. The company competes in a fashion-driven business, and we strive to differentiate our products by placing sustained focus on innovation and design creativity. In addition, Culp places great emphasis on providing excellent and dependable service to our customers. Our focused efforts to protect our financial strength have allowed us to maintain our position as a financially stable and trusted supplier of innovative fabrics to bedding and furniture manufacturers.

We believe Culp is the largest producer of mattress fabrics in North America and one of the largest marketers of upholstery fabrics for furniture in North America, measured by total sales. We have two operating segments — mattress fabrics and upholstery fabrics. The mattress fabrics business markets primarily knitted and woven fabrics, and sewn covers made from those fabrics, which are used in the production of bedding products, including mattresses, box springs, and mattress sets. The upholstery fabrics business markets a variety of fabric products that are used principally in the production of residential and commercial upholstered furniture, including sofas, recliners, chairs, loveseats, sectionals, sofa-beds and office seating. Culp primarily markets fabrics that have broad appeal in the “good” and “better” priced categories of furniture and bedding.

Culp markets a variety of fabrics in different categories to a global customer base, including fabrics produced at our manufacturing facilities and fabrics produced by other suppliers. We had thirteen active manufacturing plants and distribution facilities as of the end of fiscal 2015, located in North and South Carolina; Quebec, Canada; and Shanghai, China. We also source fabrics from other manufacturers, located primarily in China and Turkey, with almost all of those fabrics produced specifically for Culp and created by Culp designers. We operate distribution centers in North Carolina and Shanghai, China, to facilitate distribution of our products.

Total net sales in fiscal 2015 were $310.2 million. The mattress fabrics segment had net sales of $179.7 million (58% of total net sales), while the upholstery fabrics segment had net sales of $130.4 million (42% of total net sales).

During fiscal 2015, both segments continued to build upon strategic initiatives and structural changes over the last several years. The flexible manufacturing and sourcing platform created through these changes has allowed Culp to place a greater emphasis on product innovation and the introduction of new designs to keep current with industry trends and differentiate our products. This approach has helped us drive consistent sales growth, with fiscal 2015 representing our sixth consecutive year of higher net sales.

Both the strength of furniture and mattress industries demand for our products has improved during the past several years, however overall sales have still not returned to the levels seen before the economic downturn. During the same period, we have experienced positive responses from customers to our innovative designs and new products introduced during these years, and our profits have responded accordingly. Pre-tax income reported for fiscal 2015 was $23.0 million, the highest level in Culp's history. An increasing percentage of our sales are now based on new product introductions.

The mattress fabrics segment has made strategic investments in capital projects and expansion initiatives in recent years, to maintain a more flexible approach to fabric sourcing, in line with challenging industry conditions. These expenditures included a record capital expenditure level for the segment in fiscal 2015 for expansion projects to provide increased manufacturing capacity and more efficient equipment for this segment, following several successful acquisitions. The mattress fabrics segment has also expanded its design capabilities with additional personnel and product software to enhance innovation. During fiscal 2013, this segment announced a new joint marketing agreement to market sewn mattress covers, which involved the establishment of a new production facility. Early in fiscal 2014, we completed an asset purchase and related consulting agreement that provided for, among other things, the purchase of equipment and certain other assets and the restructuring of prior consulting and non-compete agreements. These initiatives have allowed for further expansion of our mattress fabrics business.

Our upholstery fabrics segment underwent major changes over the past decade, transforming from a primarily U.S.-based manufacturing operation with large amounts of fixed assets, to a more flexible variable cost model, with most fabrics sourced in Asia. At the same time, we have maintained control over the key components of fabric production such as design, finishing, quality control, and distribution. These changes involved a multi-year restructuring process that ended in fiscal 2009, during which time our upholstery fabric sales declined considerably. This multi-year trend of declining upholstery revenues has reversed, and sales in this segment have now increased for each of the past six fiscal years. Since the end of the multi-year restructuring, we have focused on product innovation and marketing, including the exploration of new markets.

Additional information about trends and developments in each of our business segments is provided in the "Segments" discussion below.

General Information

Culp, Inc. was organized as a North Carolina corporation in 1972 and made its initial public offering in 1983. Since 1997, our stock has been listed on the New York Stock Exchange and traded under the symbol "CFI." Our fiscal year is the 52 or 53 week period ending on the Sunday closest to April 30. Our executive offices are located in High Point, North Carolina. References in this document to "Culp," the "company," "we," "our," and "us" refer to Culp, Inc. and its consolidated subsidiaries.

Culp maintains an Internet website at www.culp.com. We will make this annual report and our other annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to these reports available free of charge on our Internet site as soon as reasonably practicable after such material is electronically filed with, or furnished to, the Securities and Exchange Commission. Information included on our website is not incorporated by reference into this annual report.

Segments

Our two operating segments are mattress fabrics and upholstery fabrics. The following table sets forth certain information for each of our segments.

	Sales by Fiscal Year ($ in Millions) and Percentage of Total Company Sales								
Segment	Fiscal 2015			Fiscal 2014			Fiscal 2013		
Mattress Fabrics	$179.7	(58	%)	$160.7	(56	%)	$154.0	(57	%)
Upholstery Fabrics									
Non-U.S.-Produced	$119.1	(38	%)	$116.0	(40	%)	$102.1	(38	%)
U.S.-Produced	$11.3	(4	%)	$10.5	(4	%)	$12.7	(5	%)

Total Upholstery	$130.4	(42%)	$126.5	(44%)	$114.8	(43%)
Total company	$310.2	(100%)	$287.2	(100%)	$268.8	(100%)

Additional financial information about our operating segments can be found in Note 16 to the Consolidated Financial Statements included in Item 8 of this report.

Mattress Fabrics. The mattress fabrics segment, also known as Culp Home Fashions, manufactures and markets mattress fabric and mattress covers to bedding manufacturers. These products include woven jacquard fabrics, knitted fabrics, and some converted fabrics. Culp Home Fashions has manufacturing facilities located in Stokesdale and High Point, North Carolina, and St. Jerome, Quebec, Canada. One Stokesdale plant and the St. Jerome plant both manufacture and finish jacquard (damask) fabric. The main Stokesdale plant also finishes knitted fabric and houses the division offices and finished goods distribution capabilities, while the High Point and St. Jerome facilities house our knitted mattress fabrics manufacturing operations. During fiscal 2013, the mattress fabrics division established a second plant in Stokesdale to produce cut and sewn mattress covers, a growing product category that is used primarily by producers of specialty (non-innerspring) bedding. We have also maintained flexibility in our supply of the major categories of mattress fabrics with sourcing capacity located in Turkey and China. Most of our woven jacquard and knitted fabrics can be produced in multiple facilities (internal or external to the company), providing us with mirrored, reactive capacity involving state of the art capabilities across plant facilities.

Culp Home Fashions had capital expenditures during the past ten years totaling approximately $50 million, which primarily provided for increased knit machine capacity, faster and more efficient weaving machines, and the initial capital required for our sewn cover business. These capital expenditures also provided high technology finishing equipment for woven and knitted fabric and an improved platform for warehousing and distribution. In order to maintain our leading edge technology and support modernization and expansion projects, we significantly increased our capital investments in the mattress fabrics segment during fiscal 2015.

Asset acquisition transactions with Bodet & Horst USA, LP and Bodet & Horst GmbH & Co. KG, in fiscal 2009 and fiscal 2014, respectively, allowed us to enhance and secure our competitive position and to increase our mattress fabrics business. Prior to fiscal 2009, Bodet & Horst had been serving as our primary source of knitted mattress fabrics, and the two transactions allowed us to secure our supply for this important and growing product category, while also gaining control of product development and enhancing customer service. The transactions also involved consulting and non-compete agreements that enhanced our mattress fabrics product development and helped to secure our end markets. In addition to these transactions, we have continued to make further investments in knitting machines and finishing equipment, increasing our internal production capacity substantially.

Our sewn mattress cover business, established during fiscal 2013, participates in a joint marketing agreement for the production and marketing of sewn mattress covers and represents a further step in our efforts to respond to industry demands. The marketing venture is known as Culp-Lava Applied Sewn Solutions (CLASS), and is a joint marketing effort with A. Lava & Son Co. of Chicago, a leading provider of mattress covers. This manufacturing operation, located near our other plants in North Carolina, involves leased space and a limited capital investment in equipment. Teaming with A. Lava & Son allows us to have two mirrored manufacturing facilities and greater flexibility in meeting demand for mattress covers from bedding producers.

Upholstery Fabrics. The upholstery fabrics segment markets fabrics for residential and commercial furniture, including jacquard woven fabrics, velvets, microdenier suedes, woven dobbies, knitted fabrics, piece-dyed woven products, and polyurethane “leather look” fabrics. This segment operates fabric manufacturing facilities in Anderson, South Carolina, and Shanghai, China. We market fabrics produced in these two locations, as well as a variety of upholstery fabrics sourced from third party producers, mostly in China. In the past fiscal year, sales of non-U.S. produced upholstery accounted for approximately 90% of our upholstery fabric sales.

Our China facilities near Shanghai include fabric sourcing, finishing, warehousing, quality control and inspection operations, as well as a plant where sourced fabrics are cut and sewn into “kits” made to specifications of furniture manufacturing customers. More recent developments in our China operations include expansion of our product development and design capabilities in China and further strengthening of key strategic partnerships with mills. We also have expanded our marketing efforts to sell our China products in countries other than the U.S., including the Chinese local market. The U.S. facility in South Carolina produces a variety of woven upholstery fabrics, including velvets and certain decorative fabrics.

During fiscal 2015 we closed our distribution warehouse in Poland that had been established to support sales in Europe. We are currently reviewing the company’s best long-term strategy for marketing upholstery fabrics in Europe.

Over the past decade, we have moved our upholstery business from one that relied on a large fixed capital base that is difficult to adjust to a more flexible and scalable marketer of upholstery fabrics that meets changing levels of customer demand and style preferences. At the same time, we have maintained control of the most important “value added” aspects of our business, such as design, finishing, quality control, and logistics. This strategic approach has allowed us to limit our investment of capital in fixed assets and control the costs of our products, while continuing to leverage our design and finishing expertise, industry knowledge, and important relationships.

Our upholstery fabrics sales increased in fiscal 2015 for the sixth consecutive year. These gains reversed a ten-year trend of declining upholstery sales that ended with fiscal 2009, as we substantially overhauled our operating model during this time period. We believe our increased sales in the upholstery fabrics segment have been achieved primarily through implementation of a business strategy that included: 1) innovation in a low-cost environment, 2) speed-to-market execution, 3) consistent quality, 4) reliable service and lead times, and 5) increased recognition of and reliance on the Culp brand. Success in upholstery fabrics has been achieved through development of a unique business model that has enabled the upholstery segment to execute a strategy that we believe is clearly differentiated from our competitors. In this way, we have maintained our ability to provide furniture manufacturers with products from every category of fabric used to cover upholstered furniture, and to meet continually changing demand levels and consumer preferences.

Overview of Industry and Markets

Culp markets products primarily to manufacturers that operate in three principal markets. The mattress fabrics segment supplies the bedding industry, which produces mattress sets (mattresses, box springs, foundations and top of bed components). The upholstery fabrics segment supplies the residential furniture industry and, to a lesser extent, the commercial furniture industry. The residential furniture market includes upholstered furniture sold to consumers for household use, including sofas, sofa-beds, chairs, recliners and sectionals. The commercial furniture and fabrics market includes upholstered office seating and modular office systems sold primarily for use in offices and other institutional settings, fabrics used in the hospitality industry, and commercial textile wall coverings. The principal industries into which the company sells products are described below. Currently the vast majority of our products are sold to manufacturers for end use in the U.S., and thus the discussions below are focused on that market.

Overview of Bedding Industry

The bedding industry has contracted and expanded in recent years in accordance with the general economy, although traditionally the industry has been relatively mature and stable. This is due in part to the fact that a majority of bedding industry sales are replacement purchases, which are less volatile than sales based on economic growth and new household formations.

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Unlike the residential furniture industry, which continues to face intense competition from imports, the U.S. bedding industry has largely remained a North American-based business with limited competition from imports. Imports of bedding into the U.S. have increased in recent years, but imported beds still represent only a small fraction of total U.S. bedding sales. The primary reasons for this fact include: 1) the short lead times demanded by mattress manufacturers and retailers due to their quick service delivery model, 2) the limited inventory carried by manufacturers and retailers requires "just-in-time" delivery of product, 3) the customized nature of each manufacturer's and retailer's product lines, 4) high shipping and import duty costs, 5) the relatively low direct labor content in mattresses, and 6) strong brand recognition and importance.

A key trend driving the bedding industry is increased awareness among consumers about the health benefits of better sleep, with a greater focus on the quality of bedding products and an apparent willingness on the part of consumers to upgrade their bedding. Another important trend is the strong and growing emphasis on the design knitted or woven into mattress fabrics to enhance visual appeal and perceived value of the mattress on the retail floor. Mattress fabric design efforts are based on current trends in home decor and fashion. Another trend has been the growth in non-traditional sources for retail mattress sales such as wholesale warehouse clubs and the internet. These sales channels have the potential to increase overall consumption of goods due to convenience and high traffic volume, which in turn results in higher turnover of product. Among fabric types, knitted fabrics have continued to increase in popularity. Knitted fabric was initially used primarily on premium mattresses, but these products are now being placed increasingly on mattresses at mid-range to lower retail price points.

Overview of Residential and Commercial Furniture Industry

Sales of residential and commercial furniture were both severely affected by the global economic downturn in 2008-2009, and have now been in recovery for several years along with the overall economy. The pace of recovery since 2010 has been relatively steady, but modest, as has the growth rate for the economy as a whole. Sales of residential furniture are influenced significantly by the housing industry and by trends in home sales and household formations, while demand for commercial furniture generally reflects economic trends affecting businesses.

The sourcing of components and fully assembled furniture from overseas continues to play a major role in the furniture industry. By far, the largest source for these imports continues to be China. Imports of upholstery fabric, both in roll and in "kit" form, have also had a significant impact on the market for upholstery fabrics in recent years. Fabrics entering the U.S. from China and other low labor cost countries have resulted in increased price competition in the upholstery fabric and upholstered furniture markets.

Supply shortages and higher prices for leather have created increased opportunities for suppliers of "leather look" and suede fabrics, and for suppliers of upholstery generally. The residential furniture industry has been consolidating for several years, resulting in fewer, but larger, customers for marketers of upholstery fabrics. Intense price competition continues to be an important consideration for both residential and commercial furniture.

Products

As described above, our products include mattress fabrics and upholstery fabrics, which are the company's identified operating segments. These fabrics are sold in roll form and as sewn mattress covers by the Mattress Fabrics segment, and in roll form and as cut and sewn kits by the Upholstery Fabrics segment.

Mattress Fabrics Segment

Mattress fabrics segment sales constituted 56% to 58% of our total net sales in each of the past three fiscal years. The company has emphasized fabrics that have broad appeal at prices generally ranging from $1.50 to more than $10.00 per yard.

Upholstery Fabrics Segment

Upholstery fabrics segment sales totaled 42% to 44% of our sales for each of the past three fiscal years. The company has emphasized fabrics that have broad appeal at "good" and "better" prices, generally ranging from $3.00 to $8.25 per yard.

Culp Fabric Categories by Segment

We market products in most categories of fabric that manufacturers currently use for bedding and furniture. The following table indicates the product lines within each segment, and a brief description of their characteristics.

Mattress Fabrics	
Woven jacquards	Various patterns and intricate designs. Woven on complex looms using a variety of synthetic and natural yarns.
Converted	Suedes, pile and embroidered fabrics, and other specialty type products are sourced to offer diversity for higher end mattresses.
Knitted fabric	Various patterns and intricate designs produced on special-width circular knit machines utilizing a variety of synthetic and natural yarns. Knitted mattress fabrics have inherent stretching properties and spongy softness, which conforms well with layered foam packages.
Upholstery Fabrics	
Woven jacquards	Elaborate, complex designs such as florals and tapestries in traditional, transitional, and contemporary styles. Woven on intricate looms using a wide variety of synthetic and natural yarns.
Woven dobbies	Fabrics that use straight lines to produce geometric designs such as plaids, stripes, and solids in traditional and country styles. Woven on less complicated looms using a variety of weaving constructions and primarily synthetic yarns.
Velvets	Soft fabrics with a plush feel. Woven or knitted in basic designs, using synthetic yarns which are yarn dyed or piece dyed.
Suedes	Fabrics woven or knitted using microdenier polyester yarns, which are piece dyed and finished, usually by sanding. The fabrics are typically plain or small jacquard designs, with some being printed. These are sometimes referred to as microdenier suedes.
Faux leathers	Sueded or knitted base cloths which are overprinted with polyurethane, and composite products consisting of a base fabric which is coated with a top layer of polyurethane, which simulate the look and feel of leather.

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Manufacturing and Sourcing

Mattress Fabrics Segment

Our mattress fabrics segment operates four manufacturing plants, with two located in Stokesdale, North Carolina, and one each in High Point, North Carolina, and St. Jerome, Quebec, Canada. Over the past ten fiscal years, we made capital expenditures of approximately $50 million to consolidate all of our production of woven jacquards, or damask fabric, to these plants, modernize both knit and weaving equipment, enhance and provide knit and woven finishing capabilities, and expand capacity in each of these facilities. The result has been an increase in manufacturing efficiency and reductions in operating costs, as well as expanded product offerings.

Jacquard mattress fabrics and knitted fabrics are produced at the St. Jerome plant, with further jacquard capacity at our main Stokesdale facility along with knitting capacity at our High Point facility. Most finishing and inspection processes for mattress fabrics are conducted at the main Stokesdale plant. In fiscal 2013, we announced a new joint marketing arrangement with a producer of sewn mattress covers for bedding. This effort resulted in the establishment of an additional manufacturing facility in Stokesdale to produce and market sewn mattress covers.

In addition to the mattress fabrics we manufacture, we have important supply arrangements in place that allow us to source mattress fabric from strategic suppliers. A portion of our woven jacquard fabric and knitted fabric is obtained from a supplier located in Turkey, based on designs and a production schedule created by Culp. We are also sourcing some Culp-designed knitted fabrics from suppliers based in China, and we are sourcing certain converted fabric products (such as suedes, pile fabrics and embroidered fabrics) through our China platform.

Upholstery Fabrics Segment

We currently operate one upholstery manufacturing facility in the U.S. and four in China. The U.S. plant is located in Anderson, South Carolina, and mainly produces velvet upholstery fabrics with some production of certain decorative fabrics.

Our upholstery manufacturing facilities in China are all located within the same industrial area near Shanghai. At these facilities, we apply value-added finishing processes to fabrics sourced from a limited number of strategic suppliers in China, and we inspect sourced fabric there as well. In addition, the Shanghai operations include facilities where sourced fabric is cut and sewn to provide “kits” that are designed to be placed on specific furniture frames designated by our customers.

A large portion of our upholstery fabric products, as well as certain elements of our production processes, are being sourced from outside suppliers. The development of our facilities in China has provided a base from which to access a variety of products, including certain fabrics (such as microdenier suedes and polyurethane fabrics) that are not produced anywhere within the U.S. We have found opportunities to develop significant relationships with key overseas suppliers in China that allow us to source products on a cost-effective basis, while limiting our investment of capital in manufacturing assets. We source unfinished and finished fabrics, as well as a portion of our cut and sewn kits, from a limited number of strategic suppliers in China who are willing to commit significant capacity to meet our needs while working with our product development team to meet the demands of our customers. We also source a portion of our yarns for our U.S. operation through our China facilities. The remainder of our yarn is obtained from other suppliers around the world.

Product Design and Styling

Consumer tastes and preferences related to bedding and upholstered furniture change over time. The use of new fabrics and creative designs remains an important consideration for manufacturers to distinguish their products at retail and to capitalize on changes in preferred colors, patterns and textures. Culp's success is largely dependent on our ability to market fabrics with appealing designs and patterns. The process of developing new designs involves maintaining an awareness of broad fashion and color trends both in the United States and internationally.

Mattress Fabrics Segment

Design innovation is an increasingly important element of producing mattress fabrics. Price point delineation is accomplished through fabric quality as well as variation in design. Additionally, consumers are drawn to the mattress that is most visually appealing when walking into a retail showroom. Fiber differentiation also plays an important part in design. For example, rayon, organic cotton and other special fibers are incorporated into the design process to allow the retailer to offer consumers additional benefits related to their sleeping experience. Similarly, many fabrics contain special production finishes that enhance fabric performance.

Mattress fabric designs are not routinely introduced on a scheduled season. Designs are typically introduced upon the request of the customer as they plan introduction to their retailers. Additionally, we work closely with our customers on new design offerings around the major furniture markets such as High Point, North Carolina, and Las Vegas, Nevada.

Upholstery Fabrics Segment

The company has developed an upholstery fabrics design and product development team (with staff located in the U.S. and in China) with focus on designing for value primarily on body cloths, while promoting style leadership with pillow fabrics and color. The team searches continually for new ideas and for the best sources of raw materials, yarns, and fabrics, utilizing a supply network located mostly in China. Using these design elements, they develop product offerings using ideas and materials which take both fashion trends and cost considerations into account to offer products designed to meet the needs of furniture manufacturers and ultimately the desires of consumers.

Upholstery fabric designs are introduced at major fabric trade conferences that occur twice a year in the United States (June and December). In recent years we have become more aggressive in registering copyrights for popular fabric patterns and taking steps to discourage the illegal copying of our proprietary designs.

Distribution

Mattress Fabrics Segment

The vast majority of our shipments of mattress fabrics originate from our facilities in Stokesdale, North Carolina. Through arrangements with major customers and in accordance with industry practice, we maintain a significant inventory of mattress fabrics at our distribution facility in Stokesdale ("make to stock"), so that products may be shipped to customers with short lead times and on a "just in time" basis.

Upholstery Fabrics Segment

A majority of our upholstery fabrics are marketed on a "make to order" basis and are shipped directly from our distribution facilities in Burlington, North Carolina, and Shanghai, China. In addition to "make to order" distribution, an inventory comprised of a limited number of fabric patterns is held at our distribution facilities in Burlington and

Shanghai from which our customers can obtain quick delivery of sourced fabrics through a program known as "Culp Express." Beginning in fiscal 2010 and continuing through fiscal 2015, market share opportunities have been expanded through strategic selling partnerships.

Sources and Availability of Raw Materials

Mattress Fabrics Segment

Raw materials account for approximately 60%-70% of mattress fabric production costs. The mattress fabrics segment purchases synthetic yarns (polyester, polypropylene, and rayon), certain greige (unfinished) goods, latex adhesives, laminates, dyes, and other chemicals. Most of these materials are available from several suppliers and prices fluctuate based on supply and demand, the general rate of inflation, and particularly on the price of petrochemical products. The mattress fabrics segment has generally not had significant difficulty in obtaining raw materials.

Upholstery Fabrics Segment

Raw materials account for approximately 60%-70% of upholstery fabric manufacturing costs for products the company manufactures. This segment purchases synthetic yarns (polypropylene, polyester, acrylic, and rayon), acrylic staple fiber, latex adhesives, dyes and other chemicals from various suppliers.

Increased reliance by both our U.S. and China upholstery operations on outside suppliers for basic production needs such as base fabrics, yarns, and finishing services has caused the upholstery fabrics segment to become more vulnerable to price increases, delays, or production interruptions caused by problems within businesses that we do not control.

Both Segments

Many of our basic raw materials are petrochemical products or are produced from such products. For this reason, our material costs can be sensitive to changes in prices for petrochemicals and the underlying price of oil. During fiscal 2015, our profitability was aided somewhat by lower raw material prices due to lower oil prices, although raw material prices appeared to stabilize later in the year.

Seasonality

Mattress Fabrics Segment

The mattress fabrics business and the bedding industry in general are slightly seasonal, with sales being the highest in early spring and late summer, with another peak in mid-winter.

Upholstery Fabrics Segment

The upholstery fabrics business is somewhat seasonal, with sales often higher during our first and fourth fiscal quarters. In the past, seasonality resulted from one-week closings of our manufacturing facilities and the facilities of most of our customers in the United States during our first and third fiscal quarters for the holiday weeks of July 4th and Christmas. This effect has become less pronounced as a larger portion of our fabrics are produced or sold in locations outside of the U.S. The timing of the Chinese National Holiday in October and the Chinese New Year (which occurs in January or February each year) now have a more significant impact on upholstery sales than the effects of U.S. holiday periods.

Competition

Competition for our products is high and is based primarily on price, design, quality, timing of delivery, and service.

Mattress Fabrics Segment

The mattress fabrics market is concentrated in a few relatively large suppliers. We believe our principal mattress fabric competitors are Bekaert Textiles B.V., Global Textile Alliance, and several smaller companies producing knitted and other fabric.

Upholstery Fabrics Segment

In the upholstery fabric market, we compete against a large number of companies, ranging from a few large manufacturers comparable in size to Culp to small producers, and a growing number of “converters” of fabrics (companies who buy and re-sell, but do not manufacture fabrics). We believe our principal upholstery fabric competitors are Richloom Fabrics, Merrimack Fabrics, Morgan Fabrics, and Specialty Textile, Inc. (or STI), plus a large number of smaller competitors (both manufacturers and converters).

The trend in the upholstery fabrics industry to greater overseas competition and the entry of more converters has caused the upholstery fabrics industry to become substantially more fragmented in recent years, with lower barriers to entry. This has resulted in a larger number of competitors selling upholstery fabrics, with an increase in competition based on price.

Environmental and Other Regulations

We are subject to various federal and state laws and regulations, including the Occupational Safety and Health Act (“OSHA”) and federal and state environmental laws, as well as similar laws governing our manufacturing facilities in China and Canada. We periodically review our compliance with these laws and regulations in an attempt to minimize the risk of violations.

Our operations involve a variety of materials and processes that are subject to environmental regulation. Under current law, environmental liability can arise from previously owned properties, leased properties and properties owned by third parties, as well as from properties currently owned and leased by the company. Environmental liabilities can also be asserted by adjacent landowners or other third parties in toxic tort litigation.

In addition, under the Comprehensive Environmental Response, Compensation, and Liability Act of 1980, as amended (“CERCLA”), and analogous state statutes, liability can be imposed for the disposal of waste at sites targeted for cleanup by federal and state regulatory authorities. Liability under CERCLA is strict as well as joint and several.

The U.S. Congress is currently considering legislation to address climate change that is intended to reduce overall greenhouse gas emissions, including carbon dioxide. In addition, the U.S. Environmental Protection Agency has made a determination that greenhouse gas emissions may be a threat to human health and the environment. International agreements may also result in new regulations on greenhouse gas emissions. It is uncertain if, when, and in what form, a mandatory carbon dioxide emissions reduction program may be enacted either through legislation or regulation. However, if enacted, this type of program could materially increase our operating costs, including costs of raw materials, transportation, and electricity. It is difficult to predict the extent to which any new rules or regulations would affect our business, but we would expect the effect on our operations to be similar to that for other manufacturers, particularly those in our industry.

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We are periodically involved in environmental claims or litigation and requests for information from environmental regulators. Each of these matters is carefully evaluated, and the company provides for environmental matters based on information presently available. Based on this information, we do not believe that environmental matters will have a material adverse effect on either the company's financial condition or results of operations. However, there can be no assurance that the costs associated with environmental matters will not increase in the future. See the discussion of an environmental claim against the company that was settled late in fiscal 2014 in Note 11 to the financial statements contained in Item 8 hereof.

Employees

As of May 3, 2015, we had 1,188 employees, compared with 1,167 at the end of fiscal 2014. Overall, our total number of employees has remained fairly steady over the past five years, with increases in the mattress fabrics segment and decreases in the upholstery segment during that period.

The hourly employees at our manufacturing facility in Canada (approximately 13% of the company's workforce) are represented by a local, unaffiliated union. The collective bargaining agreement for these employees expires on February 1, 2017. We are not aware of any efforts to organize any more of our employees, and we believe our relations with our employees are good.

The following table illustrates the changes in the location of our workforce and number of employees, as of year-end, over the past five fiscal years.

	Number of Employees				
	Fiscal 2015	Fiscal 2014	Fiscal 2013	Fiscal 2012	Fiscal 2011
Mattress Fabrics Segment	631	592	577	492	466
Upholstery Fabrics Segment					
United States	129	129	121	113	130
Poland	-	4	5	8	6
China	424	438	464	497	543
Total Upholstery Fabrics Segment	553	571	590	618	679
Unallocated corporate	4	4	4	4	4
Total	1,188	1,167	1,171	1,114	1,149

Customers and Sales

Mattress Fabrics Segment

Major customers for our mattress fabrics include the leading bedding manufacturers: Serta-Simmons Bedding (SSB), Tempur + Sealy International, and Corsicana Bedding. The loss of one or more of these customers would have a material adverse effect on the company. Our two largest customers in the mattress fabrics segment are (1) SSB, accounting for approximately 23% of the company's overall sales in fiscal 2015, and (2) Tempur + Sealy International, Inc., accounting for approximately 8% of our overall sales in fiscal 2015. The loss of either of these customers would have a material adverse effect on the company. Our mattress fabrics customers also include many small and medium-size bedding manufacturers.

Upholstery Fabrics Segment

Our major customers for upholstery fabrics are leading manufacturers of upholstered furniture, including Ashley, Bassett, Best Home Furnishings, Flexsteel, Heritage Home Group (Broyhill and Lane), Jackson Furniture, Jonathan Louis, La-Z-Boy (La-Z-Boy Residential and England), and Southern Motion. Major customers for the company's fabrics for commercial furniture include HON Industries. Our largest customer in the upholstery fabrics segment is La-Z-Boy Incorporated, the loss of which would have a material adverse effect on the company. Our sales to La-Z-Boy accounted for approximately 13% of the company's total net sales in fiscal 2015.

The following table sets forth our net sales by geographic area by amount and percentage of total net sales for the three most recent fiscal years.

Net Sales by Geographic Area
(dollars in thousands)

	Fiscal 2015			Fiscal 2014			Fiscal 2013		
United States	$ 242,833	78.3	%	$ 232,078	80.8	%	$ 207,201	77.1	%
North America (Excluding USA)(1)	30,758	10.0		15,556	5.4		11,900	4.4	
Far East and Asia(2)	31,855	10.3		33,487	11.7		43,907	16.3	
All other areas	4,720	1.5		6,041	2.1		5,806	2.2	
Subtotal (International)	67,333	21.7		55,084	19.2		61,613	22.9	
Total	$ 310,166	100	%	$ 287,162	100	%	$ 268,814	100	%

(1) Of this amount, $24.1 million are attributable to shipments to Mexico in fiscal 2015, with corresponding amounts of $9.3 million in fiscal 2014 and $3.2 million in fiscal 2013. Sales are attributed to individual countries based upon the location that the company ships its products to for delivery to customers.

(2) Of this amount, $26.5 million are attributable to shipments to China in fiscal 2015, with corresponding amounts of $32.2 million in fiscal 2014 and $42.1 million in fiscal 2013.

For additional segment information, including the geographic location of long-lived assets, see Note 16 in the consolidated financial statements.

Backlog

Mattress Fabrics Segment

The backlog for mattress fabric is not a reliable predictor of future shipments because the majority of sales are on a just-in-time basis.

Upholstery Fabrics Segment

Although it is difficult to predict the amount of backlog that is "firm," we have reported the portion of the upholstery fabric backlog from customers with confirmed shipping dates within five weeks of the end of the fiscal year. On May 3, 2015 the portion of the upholstery fabric backlog with confirmed shipping dates prior to June 7, 2015, was $9.4 million, all of which are expected to be filled early during fiscal 2016, as compared to $9.1 million as of the end of fiscal 2014 (for confirmed shipping dates prior to June 1, 2014).

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ITEM 1A. RISK FACTORS

Our business is subject to risks and uncertainties. In addition to the matters described above under "Cautionary Statement Concerning Forward-Looking Information," set forth below are some of the risks and uncertainties that could cause a material adverse change in our results of operations or financial condition.

Continued economic weakness could negatively affect our sales and earnings.

Overall demand for our products depends upon consumer demand for furniture and bedding, which is subject to variations in the general economy. Because purchases of furniture or bedding are discretionary purchases for most individuals and businesses, demand for these products is sometimes more easily influenced by economic trends than demand for other products. Economic downturns can affect consumer spending habits and demand for home furnishings, which reduces the demand for our products and therefore can cause a decrease in our sales and earnings. Continuing weak economic conditions have caused a decrease in consumer spending and demand for home furnishings, including goods that incorporate our products. If these conditions persist, our business will be negatively affected.

It has been challenging to maintain and increase sales levels in the upholstery fabrics segment.

Increased competition and fragmentation of the upholstery fabrics business, including a dramatic shift to imported fabrics and resulting price deflation for upholstery fabrics, have led to a significant reduction in the size of our upholstery business. Opportunities for growth and profitability gains for this segment are encouraging, but there is no assurance that we will be able to maintain or consistently grow this business in the future.

Greater reliance on offshore operations and foreign sources of products or raw materials increases the likelihood of disruptions to our supply chain or our ability to deliver products to our customers on a timely basis.

We rely significantly on operations in distant locations, particularly China, and in addition we have been purchasing a significant share of our products and raw materials from offshore sources. At the same time, our domestic manufacturing capacity for the upholstery fabrics segment has been greatly reduced. These changes have caused us to rely on a much longer supply chain and on a larger number of suppliers that we do not control, both of which are inherently subject to greater risks of delay or disruption. In addition, operations and sourcing in foreign areas are subject to the risk of changing local governmental rules, taxes, changes in import rules or customs, potential political unrest, or other threats that could disrupt or increase the costs of operating in foreign areas or sourcing products overseas. Changes in the value of the U.S. dollar versus other currencies can 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 can have a negative impact on our sales of products produced in those countries. Any of the risks associated with foreign operations and sources could cause unanticipated increases in operating costs or disruptions in business, which could negatively impact our ultimate financial results.

We may have difficulty managing the outsourcing arrangements being used for products and services.

We rely on outside sources for various products and services, including yarn and other raw materials, greige (unfinished) fabrics, finished fabrics, and services such as weaving and finishing. Increased reliance on outsourcing lowers our capital investment and fixed costs, but it decreases the amount of control that we have over certain elements of our production capacity. Interruptions in our ability to obtain raw materials or other required products or services from our outside suppliers on a timely and cost effective basis, especially if alternative suppliers cannot be immediately obtained, could disrupt our production and damage our financial results.

Write-offs or write-downs of assets would result in a decrease in our earnings and shareholders' equity.

The company has long-lived assets, consisting mainly of property, plant and equipment and goodwill. ASC Topic 360 establishes an impairment accounting model for long-lived assets such as property, plant, and equipment and requires the company to assess for impairment whenever events or changes in circumstances indicate that the carrying value of the asset may not be recovered. ASC Topic 350 requires that goodwill be tested at least annually for impairment or whenever events or changes in circumstances indicate that the carrying value of the asset may not be recovered. Although no material write-downs were experienced in the past several fiscal years, there is no assurance that future write-downs of fixed assets or goodwill will not occur if business conditions deteriorate.

Changes in the price, availability, and quality of raw materials could increase our costs or cause production delays and sales interruptions, which would result in decreased earnings.

We depend upon outside suppliers for most of our raw material needs, and we rely upon outside suppliers for component materials such as yarn and unfinished fabrics, as well as for certain services such as finishing and weaving. Fluctuations in the price, availability, and quality of these goods and services could have a negative effect on our production costs and ability to meet the demands of our customers, which would affect our ability to generate sales and earnings. In many cases, we are not able to pass through increased costs of raw materials or increased production costs to our customers through price increases. In particular, many of our basic raw materials are petrochemical products or are produced from such products. For this reason, our material costs are especially sensitive to changes in prices for petrochemicals and the underlying price of oil. Increases in prices for oil, petrochemical products or other raw materials and services provided by outside suppliers could significantly increase our costs and negatively affect earnings. Increases in market prices for certain fibers and yarns had a material adverse impact on our profit margins during fiscal 2011 and 2012. Although our raw material costs were lower during our three most recent fiscal years, higher raw material prices could have a negative effect on our profits in the future.

Increases in energy costs would increase our operating costs and could adversely affect earnings.

Higher prices for electricity, natural gas, and fuel increase our production and shipping costs. A significant shortage, increased prices, or interruptions in the availability of these energy sources would increase the costs of producing and delivering products to our customers, and would be likely to adversely affect our earnings. In many cases, we are not able to pass along the full extent of increases in our production costs to customers through price increases. Energy costs have varied significantly during recent fiscal years, and remain a volatile element of our costs. Further increases in energy costs could have a negative effect on our earnings.

Business difficulties or failures of large customers could result in a decrease in our sales and earnings.

We currently have several customers that account for a substantial portion of our sales. In the mattress fabrics segment, several large bedding manufacturers have large market shares and comprise a significant portion of our mattress fabric sales, with Serta Simmons Holdings, LLC accounting for approximately 23% of consolidated net sales, and Tempur Sealy International, Inc. accounting for approximately 8% of consolidated net sales, in fiscal 2015. In the upholstery fabrics segment, La-Z-Boy Incorporated accounted for approximately 13% of consolidated net sales during fiscal 2015, and several other large furniture manufacturers comprised a significant portion of sales. A business failure or other significant financial difficulty by one or more of our major customers, or the loss of one or more of these customers, could cause a significant loss in sales, an adverse effect on our earnings, and difficulty in collection of our trade accounts receivable.

Loss of market share due to competition would result in declines in sales and could result in losses or decreases in earnings.

Our business is highly competitive, and in particular the upholstery fabric industry is fragmented and is experiencing an increase in the number of competitors. As a result, we face significant competition from a large number of competitors, both foreign and domestic. We compete with many other manufacturers of fabric, as well as converters who source fabrics from various producers and market them to manufacturers of furniture and bedding. In many cases, these fabrics are sourced from foreign suppliers who have a lower cost structure than the company. The highly competitive nature of our business means we are constantly subject to the risk of losing market share. As a result of increased competition, there have been deflationary pressures on the prices for many of our products, which make it more difficult to pass along increased operating costs such as raw materials, energy or labor in the form of price increases and puts downward pressure on our profit margins. Also, the large number of competitors and wide range of product offerings in our business can make it more difficult to differentiate our products through design, styling, finish, and other techniques.

If we fail to anticipate and respond to changes in consumer tastes and fashion trends, our sales and earnings may decline.

Demand for various types of upholstery fabrics and mattress coverings changes over time due to fashion trends and changing consumer tastes for furniture and bedding. Our success in marketing our fabrics depends upon our ability to anticipate and respond in a timely manner to fashion trends in home furnishings. If we fail to identify and respond to these changes, our sales of these products may decline. In addition, incorrect projections about the demand for certain products could cause the accumulation of excess raw material or finished goods inventory, which could lead to inventory mark-downs and decreases in earnings.

Increasing dependence on information technology systems comes with specific risks, including cybersecurity breaches and data leaks, which could have an adverse effect on our business.

We increasingly rely on technology systems and infrastructure. Greater dependence on such systems heightens the risk of potential vulnerabilities from system failure and malfunction, breakdowns due to natural disasters, human error, unauthorized access, power loss, and other unforeseen events. Data privacy breaches by employees and others with or without authorized access to our systems poses risks that sensitive data may be permanently lost or leaked to the public or other unauthorized persons. With the growing use and rapid evolution of technology, not limited to cloud-based computing and mobile devices, there are additional risks of unintentional data leaks. There is also the risk of our exposure to theft of confidential information, intentional vandalism, industrial espionage, and a variety of cyber-attacks that could compromise our internal technology system and infrastructure, or result in data leakage in-house or at our third-party providers and business partners. Failures of technology or related systems, or an improper release of confidential information, could damage our business or subject us to unexpected liabilities.

We are subject to litigation and environmental regulations that could adversely impact our sales and earnings.

We have been, and in the future may be, a party to legal proceedings and claims, including environmental matters, product liability, and employment disputes, some of which claim significant damages. We face the continual business risk of exposure to claims that our business operations have caused personal injury or property damage. We maintain insurance against product liability claims and in some cases have indemnification agreements with regard to environmental claims, but there can be no assurance that these arrangements will continue to be available on acceptable terms or that such arrangements will be adequate for liabilities actually incurred. Given the inherent uncertainty of litigation, there can be no assurance that claims against the company will not have a material adverse impact on our earnings or financial condition. We are also subject to various laws and regulations in our business, including those relating to environmental protection and the discharge of materials into the environment. We could incur substantial costs as a result of noncompliance with or liability for cleanup or other costs or damages under environmental laws or other regulations.

We must comply with a number of governmental regulations applicable to our business, and changes in those regulations could adversely affect our business.

Our products and raw materials are and will continue to be subject to regulation in the United States by various federal, state, and local regulatory authorities. In addition, other governments and agencies in other jurisdictions regulate the manufacture, sale, and distribution of our products and raw materials. Also, rules and restrictions regarding the importation of fabrics and other materials, including custom duties, quotas and other regulations, are continually changing. Environmental laws, labor laws, tax regulations, and other regulations continually affect our business. All of these rules and regulations can and do change from time to time, which can increase our costs or require us to make changes in our manufacturing processes, product mix, sources of products and raw materials, or distribution. Changes in the rules and regulations applicable to our business may negatively impact our sales and earnings.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Our headquarters are located in High Point, North Carolina. As of the end of fiscal 2015, we owned or leased fourteen active manufacturing, and distribution facilities and our corporate headquarters. The following is a list of our principal administrative, manufacturing and distribution facilities. The manufacturing facilities and distribution centers are organized by segment.

Location	Principal Use	Approx. Total Area (Sq. Ft.)	Expiration of Lease
Administrative:			
High Point, North Carolina (1)	Upholstery fabric division offices and corporate headquarters	29,812	2025
Mattress Fabrics:			
Stokesdale, North Carolina	Manufacturing, distribution, and division offices	230,000	Owned
Stokesdale, North Carolina	Warehouse	56,950	2017
High Point, North Carolina (1)	Manufacturing	63,522	2023
High Point, North Carolina	Warehouse and offices	65,886	2017
Summerfield, North Carolina	Manufacturing	39,320	2018
St. Jerome, Quebec, Canada	Manufacturing	202,500	Owned
Upholstery Fabrics:			
Anderson, South Carolina	Manufacturing	99,000	Owned
Burlington, North Carolina	Finished goods distribution	132,000	2016
Shanghai, China	Manufacturing and offices	68,677	2018
Shanghai, China	Manufacturing and offices	89,857	2018
Shanghai, China	Manufacturing and warehousing	89,861	2017
Shanghai, China	Manufacturing and warehousing	64,583	2017
Shanghai, China	Warehouse	48,610	2016

(1) Includes all options to renew.

We believe that our facilities are in good condition, well-maintained and suitable and adequate for present utilization. In the upholstery fabrics segment, we have the ability to source upholstery fabric from outside suppliers to meet current and expected demand trends and further increase our output of finished goods. This ability to source upholstery fabric is part of our long-term strategy to have a low-cost platform that is scalable, but not capital intensive. In the mattress fabrics segment, management has estimated that it is currently performing at near capacity. Also, we have the ability to source additional mattress fabric from outside suppliers to further increase our ultimate output of finished goods.

ITEM 3. LEGAL PROCEEDINGS

Our legal proceedings are described more fully in Note 11 in the notes to the consolidated financial statements.

ITEM 4. MINE SAFETY DISCLOSURE

Not applicable.

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS, AND ISSUER PURCHASES OF EQUITY SECURITIES

Registrar and Transfer Agent

Computershare Trust Company, N.A.
c/o Computershare Investor Services
Post Office Box 30170
College Station, TX 77842
(800) 254-5196
(781) 575-2879 (Foreign shareholders)
www.computershare.com/investor

Stock Listing

Culp, Inc. common stock is traded on the New York Stock Exchange ("NYSE") under the symbol CFI. As of May 3, 2015, Culp, Inc. had approximately 2,890 shareholders based on the number of holders of record and an estimate of individual participants represented by security position listings.

Analyst Coverage

These analysts cover Culp, Inc.:

Raymond, James & Associates - Budd Bugatch, CFA

Value Line – Craig Sirois

Sidoti & Company, LLC – James Fronda

Stifel Financial Corp – John A. Baugh, CFA

Dividends and Share Repurchases; Sales of Unregistered Securities

Share Repurchases

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)
February 2, 2015 to March 8, 2015	-	$ -	-	$ 4,256,235

March 9, 2015 to April 5, 2015	-	$	-	-	$	4,256,235
April 6, 2015 to May 3, 2015	-	$	-	-	$	4,256,235
Total	-	$	-	-	$	4,256,235

(1) On February 25, 2014, we announced that our board of directors approved an authorization for us to acquire up to $5.0 million of our common stock.

Dividends

Fiscal 2015

During fiscal 2015, dividend payments totaled $7.6 million, of which $4.9 million represented a special cash dividend payment in the first quarter of $0.40 per share, and $2.7 million represented our regularly quarterly cash dividend payments ranging from $0.05 to $0.06 per share.

Fiscal 2014

During fiscal 2014, we paid quarterly dividends totaling $2.2 million that ranged from $0.04 to $0.05 per share.

Fiscal 2013

During fiscal 2013, dividend payments totaled $7.6 million, of which $6.1 million represented a special cash dividend payment of $0.50 per share, and $1.5 million represented our regular quarterly dividend payments of $0.03 per share.

On June 18, 2015, we announced that our board of directors approved the payment of a special cash dividend of $0.40 per share and a regular cash dividend payment of $0.06 per share. These dividend payments are payable on July 15, 2015, to shareholders of record as of July 1, 2015.

Future dividend payments are subject to Board approval and may be adjusted at the Board's discretion as business needs or market conditions change.

Sales of Unregistered Securities

There were no sales of unregistered securities during fiscal 2015, 2014, or 2013.

Performance Comparison

The following graph shows changes over the five fiscal years ending May 3, 2015 in the value of $100 invested in (1) the common stock of the company, (2) the Hemscott Textile Manufacturing Group Index reported by Standard and Poor's, consisting of eight companies (including the company) in the textile industry, and (3) the Standard & Poor's 500 Index.

The graph assumes an initial investment of $100 at the end of fiscal 2010 and the reinvestment of all dividends during the periods identified.

Market Information

See Item 6, Selected Financial Data, and Selected Quarterly Data in Item 8, for market information regarding the company's common stock.

ITEM 6. SELECTED FINANCIAL DATA

(amounts in thousands, except per share, ratios & other, stock data)	fiscal 2015	fiscal 2014	fiscal 2013	fiscal 2012	fiscal 2011	percent change 2015/2014
INCOME STATEMENT DATA						
net sales	$ 310,166	287,162	268,814	254,443	216,806	8.0 %
cost of sales	254,599	238,256	219,284	214,711	179,966	6.9 %
gross profit	55,567	48,906	49,530	39,732	36,840	13.6 %
selling, general, and administrative expenses	32,778	28,657	28,445	25,026	21,069	14.4 %
restructuring expense	-	-	-	-	28	0.0 %
income from operations	22,789	20,249	21,085	14,706	15,743	12.5 %
interest expense	64	427	632	780	881	-85.0 %
interest income	(622)	(482)	(419)	(508)	(240)	29.0 %
other expense	391	1,261	583	236	40	-69.0 %
income before income taxes	22,956	19,043	20,289	14,198	15,062	20.5 %
income taxes	7,885	1,596	1,972	902	(1,102)	394.0 %
net income	$ 15,071	17,447	18,317	13,296	16,164	-13.6 %
depreciation	$ 5,773	5,312	5,115	4,865	4,372	8.7 %
weighted average shares outstanding	12,217	12,177	12,235	12,711	12,959	0.3 %
weighted average shares outstanding, assuming dilution	12,422	12,414	12,450	12,866	13,218	0.1 %
PER SHARE DATA						
net income per share - basic	$ 1.23	1.43	1.50	1.05	1.25	-13.9 %
net income per share - diluted	1.21	1.41	1.47	1.03	1.22	-13.7 %
dividends per share	$ 0.62	0.18	0.62	-	-	244.4 %
book value	$ 9.77	9.12	7.82	7.00	6.06	7.1 %
BALANCE SHEET DATA						
operating working capital (4)	$ 41,829	41,120	39,228	30,596	23,921	1.7 %
property, plant and equipment, net	36,078	31,376	30,594	31,279	30,296	15.0 %
total assets	171,368	160,935	144,706	144,716	130,051	6.5 %
capital expenditures	11,174	5,310	4,457	5,919	6,302	110.4 %
dividends paid	7,579	2,204	7,593	-	-	243.9 %
long-term debt, current maturities of long-term debt and line of credit	2,200	4,986	7,161	10,012	11,547	-55.9 %

(1)												
shareholders' equity	119,427		111,744		95,583		89,000		80,341		6.9	%
capital employed (3)	79,184		77,394		72,699		67,887		62,521		2.3	%
RATIOS & OTHER DATA												
gross profit margin	17.9	%	17.0	%	18.4	%	15.6	%	17.0	%		
operating income margin	7.3	%	7.1	%	7.8	%	5.8	%	7.3	%		
net income margin	4.9	%	6.1	%	6.8	%	5.2	%	7.5	%		
effective income tax rate	34.3	%	8.4	%	9.7	%	6.4	%	(7.3	)%		
debt to total capital employed ratio (1)	2.8	%	6.4	%	9.9	%	14.7	%	18.5	%		
operating working capital turnover (4)	7.7		7.0		7.4		8.9		8.8			
days sales in receivables	34		35		31		36		34			
inventory turnover	6.1		6.0		5.9		6.6		6.6			
STOCK DATA												
stock price												
high	$ 29.19		21.10		18.15		11.81		14.10			
low	16.60		14.93		9.00		7.05		6.56			
close	26.02		18.61		16.25		11.05		10.08			
P/E ratio (2)												
high	24		15		12		11		12			
low	14		11		6		7		5			
daily average trading volume (shares)	38.6		27.5		40.9		30.6		58.0			

(1) Debt includes long-term and current maturities of long-term debt and line of credit.

(2) P/E ratios based on trailing 12-month net income per share.

(3) Capital employed represents long-term and current maturities of long-term debt, lines of credit, current and noncurrent deferred income tax liabilities, current and long-term income taxes payable, stockholders' equity, offset by cash and cash equivalents, short-term and long-term investments, current and noncurrent deferred income tax assets, and income taxes receivable.

(4) Operating working capital for this calculation is accounts receivable and inventories, offset by accounts payable-trade and account payable - capital expenditures.

ITEM 7. 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 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. Fiscal 2015 included 53 weeks. Fiscal 2014 and 2013 each included 52 weeks. 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 to bedding manufacturers. The upholstery fabrics segment sources, manufacturers and sells fabrics primarily to residential furniture manufacturers.

We evaluate the operating performance of our segments based upon income from operations before certain unallocated corporate expenses, and other non-recurring items. Cost of sales in both segments include costs to 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, all costs related to being a public company, and other miscellaneous expenses.

Executive Summary

Results of Operations

(dollars in thousands)	Twelve Months Ended May 3, 2015	April 27, 2014	% Change
Net sales	$ 310,166	$ 287,162	8.0 %
Gross profit	55,567	48,906	13.6 %
Gross profit margin	17.9 %	17.0 %	5.3 %
SG&A expenses	32,778	28,657	14.4 %
Income from operations	22,789	20,249	12.5 %
Operating margin	7.3 %	7.1 %	2.8 %
Income before income taxes	22,956	19,043	20.5 %
Income taxes	7,885	1,596	394.0 %
Net income	15,071	17,447	(13.6)%

Net Sales

Our net sales for fiscal 2015 increased by 8% compared with fiscal 2014, with mattress fabrics net sales up 12% and upholstery fabric net sales up 3% over the prior year. Throughout fiscal 2015, we have continued to execute our strategy with a focus on design creativity, product innovation, and customer service. This strategic focus has driven our sales performance with key and new customers as we can offer a wide range of products in both our business segments. In addition, our scalable and flexible manufacturing platform supports our ability to compete in a fashion-driven business that is always changing.

The 53 week period in fiscal 2015 compared to the 52 week period in fiscal 2014 also contributed to the higher net sales.

See the Segment Analysis section located in the Results of Operations for further details.

Income Before Income Taxes

The increase in income before income taxes primarily reflects the increases in net sales noted above and the significant improvement in our mattress fabric segment's operating results in fiscal 2015. Contributing to the improvement in our mattress fabric segment's operating results were the benefits from our $9.5 million capital expansion project that increased our production capacity, added finishing capabilities, and improved our overall efficiency and throughput. We also benefited from lower input costs in both of our business segments, especially during the second half of fiscal 2015. Partially offsetting the improvement in gross profit was the increase in SG&A expenses due primarily to higher sales and higher incentive compensation expense reflecting stronger financial results in relation to pre-established performance targets.

Additionally, income before income taxes for fiscal 2015 was affected by the decrease in other expense in comparison to fiscal 2014. Other expense was $391,000 and $1.3 million for fiscal 2015 and 2014, respectively. This decrease was primarily due to more favorable foreign currency exchange rates associated with operations located in China for fiscal 2015 compared with the same period a year ago. Also, a non-recurring charge of $206,000 was recorded in the first quarter of fiscal 2014 for the settlement of litigation relating to the environmental claims associated with a closed facility, and there was no comparable charge recorded in fiscal 2015.

See the Segment Analysis section located in the Results of Operations for further details.

Income Taxes

We reported income tax expense of $7.9 million or 34.3% of income before income taxes for fiscal 2015, compared to income tax expense of $1.6 million or 8.4% of income before income taxes for fiscal 2014. The income tax expense reported in fiscal 2014 included an income tax benefit of $5.4 million to record the U.S. income tax effects of the undistributed earnings from our foreign subsidiaries located in China, which was treated as a discrete event in the third quarter of fiscal 2014, as it pertained to a change in judgment on prior period's accumulated earnings and profits. There was no comparable income tax benefit recorded in fiscal 2015.

See the Income Taxes section located in the Results of Operations and Note 9 of the consolidated financial statements for further details.

Liquidity

At May 3, 2015, our cash and cash equivalents and short-term investments totaled $39.7 million and exceeded our total debt (all of which is classified in current maturities of long-term debt) of $2.2 million. We currently have one remaining annual $2.2 million principal payment due on our long-term debt in August 2015.

The $39.7 million is up from $35.6 million at the end of last fiscal year despite significant uses of cash in fiscal 2015. These included $10.5 million on capital expenditures, $8.3 million on dividend payments and common stock repurchases, $2.7 million on payments on our long-term debt and lines of credit, and $1.7 million on long-term investment purchases associated with our Rabbi Trust that is partially funding our deferred compensation plan.

Our net cash provided by operating activities of $26.1 million for fiscal 2015, increased 29% compared with $20.2 million for fiscal 2014. This increase is primarily due to the increase in cash flow from earnings and improved working capital management in both our business segments.

Dividend Program

During fiscal 2015, dividend payments totaled $7.6 million, of which $4.9 million represented a special cash dividend payment in the first quarter of $0.40 per share, and $2.7 million represented our regularly quarterly cash dividend payments ranging from $0.05 to $0.06 per share.

During fiscal 2014, we paid quarterly dividends totaling $2.2 million that ranged from $0.04 to $0.05 per share.

On June 18, 2015, we announced that our board of directors approved the payment of a special cash dividend of $0.40 per share and a regular cash dividend payment of $0.06 per share. These dividend payments are payable on July 15, 2015, to shareholders of record as of July 1, 2015.

Future dividend payments are subject to board approval and may be adjusted at the Board's discretion as business needs or market conditions change.

Common Stock Repurchases

On February 25, 2014, we announced that our board of directors approved an increase to $5.0 million in the authorization for us to acquire 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 amount of shares purchased and the timing of such purchases will be based on working capital requirements, market and general business conditions, and other factors including alternative investment opportunities.

During fiscal 2015, we purchased 43,014 shares of our common stock at a cost of $745,000, all of which were purchased in the first and second quarters. At May 3, 2015, we had $4.3 million available for additional repurchases of our common stock.

During fiscal 2014, there were no repurchases of our common stock.

Since June 2011, and including the special and regular dividends paid in July, we have returned approximately $35 million to shareholders in the form of regular quarterly and special dividends and share repurchases.

Results of Operations

The following table sets forth certain items in our consolidated statements of net income as a percentage of net sales.

	Fiscal 2015		Fiscal 2014		Fiscal 2013	
Net sales	100.0	%	100.0	%	100.0	%
Cost of sales	82.1		83.0		81.6	
Gross profit	17.9		17.0		18.4	
Selling, general and administrative expenses	10.6		10.0		10.6	
Income from operations	7.3		7.1		7.8	
Interest expense, net	(0.2	)	(0.1	)	0.0	
Other expense	0.1		0.4		0.2	
Income before income taxes	7.4		6.6		7.5	
Income taxes *	34.3		8.4		9.7	
Net income	4.9	%	6.1	%	6.8	%

* Calculated as a percentage of income before income taxes.

2015 compared with 2014

Segment Analysis

Mattress Fabrics Segment

	Twelve Months Ended						
(dollars in thousands)		May 3, 2015			April 27, 2014	% Change	
Net sales	$	179,739		$	160,705	11.8	%
Gross profit		32,877			27,477	19.7	%
Gross profit margin		18.3	%		17.1 %	7.0	%
SG&A expenses		11,206			9,962	12.5	%
Income from operations		21,671			17,515	23.7	%
Operating margin		12.1	%		10.9 %	11.0	%

Net Sales

The increase in mattress fabric net sales reflects our ability to capitalize on the growing consumer demand for better designed bedding products. In response to this demand trend, design and innovation have been our top strategic priorities, allowing us to keep pace with latest fashion trends and meet customer style preferences. We have continued to expand our design team and have invested in the latest technical software and website development to support and strengthen our brand. Our product mix of mattress fabrics and sewn covers across all price points and style trends has allowed us to deliver a full design package from fabric to finished covers. Additionally, we have a scalable manufacturing platform and reactive capacity that supports our ability to deliver a diverse product mix in line with customer demand.

Also contributing to this increase in net sales as compared to the prior year was the fact that fiscal 2015 included 53 weeks compared to 52 weeks in fiscal 2014.

Gross Profit and Operating Income

The increase in gross profit and operating income for the mattress fabric segment reflected the increase in net sales noted above, as well as the improvement in operating efficiencies as compared to the prior year.

The year over year operational improvement resulted largely from the benefits of our $9.5 million capital expansion project that increased our production capacity, added finishing capabilities, and improved our overall efficiency and throughput. As a result of this expansion plan, we have made steady progress in our operating performance since the third quarter of fiscal 2014. Our operating margin was 14.7% in the fourth quarter of fiscal 2015 compared to 8.6% in the third quarter of fiscal 2014. We also benefited from lower input costs, primarily in the second half of fiscal 2015.

Another factor contributing to the increased operating profit in our mattress fabric segment, especially in the last half of fiscal 2015, was the significant operational improvement in the mattress cover business. The significant labor inefficiencies and unfavorable product mix, along with severe weather conditions, that pressured performance in the last half of fiscal 2014 did net impact the last half of fiscal 2015.

Partially offsetting this gross profit improvement was an increase in SG&A expenses in fiscal 2015 compared to fiscal 2014.The increase is primarily due to the increase in net sales noted above and higher incentive compensation expense reflecting stronger financial results in relation to pre-established performance targets in fiscal 2015 compared to fiscal 2014.

Segment Assets

Segment assets consist of accounts receivable, inventory, property, plant and equipment, goodwill, a non-compete agreement and customer relationships associated with an acquisition.

(dollars in thousands)	May 3, 2015	April 27, 2014	% Change	
Accounts receivable and inventory	$41,328	$36,229	14.1	%
Property, plant & equipment	33,773	29,040	16.3	%
Goodwill	11,462	11,462	0.0	%
Non-compete agreement	979	1,041	(6.0	)%
Customer Relationships	766	817	(6.2	)%

Accounts Receivable & Inventory

Accounts receivable and inventory increased due to the increased business volume in the fourth quarter of fiscal 2015 compared to the same period a year ago. Net sales for the mattress fabric segment increased 10.4% in the fourth quarter of fiscal 2015 compared to the fourth quarter of fiscal 2014.

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Property, Plant & Equipment

The $33.8 million at May 3, 2015, represents property, plant and equipment of $23.8 million and $10.0 million located in the U.S. and Canada, respectively. The $29.0 million at April 27, 2014, represents property, plant, and equipment of $20.6 million and $8.4 million located in the U.S. and Canada, respectively.

The increase in property, plant, and equipment for this segment is due to the capital expansion project noted above, offset by depreciation expense.

Non-Compete Agreement and Customer Relationships

The decreases in carrying values of our non-compete agreement and customer relationships at May 3, 2015, are primarily due to amortization expense in fiscal 2015.

Upholstery Fabrics Segment

Net Sales

	Twelve Months Ended										
(dollars in thousands)	May 3, 2015				April 27, 2014				% Change	
Non U.S. Produced	$	119,177	92	%	$	115,991	92	%	2.7	%
U.S Produced		11,250	8	%		10,466	8	%	7.5	%
Total	$	130,427	100	%	$	126,457	100	%	3.1	%

The increase in net sales for our upholstery fabrics segment reflect our strategic focus on design and product innovation. Our 100% owned China platform provides significant manufacturing flexibility to produce a diverse product mix of fabric styles and price points, which has allowed us to meet changing customer demand in line with current furniture style trends. As a result, we have been able to diversify our customer base, including the hospitality market and the lifestyle retail category. Additionally, we experienced higher demand for cut and sewn kits in fiscal 2015, which further supported our net sales for this year.

Also contributing to this increase in net sales as compared to the prior year was the fact that fiscal 2015 included 53 weeks compared to 52 weeks in fiscal 2014.

Gross Profit and Operating Income

(dollars in thousands)	Twelve Months Ended May 3, 2015	April 27, 2014	% Change
Gross profit	$22,690	$21,429	5.9 %
Gross profit margin	17.4 %	16.9 %	3.0 %
SG&A expenses	14,562	13,393	8.7 %
Income from operations	8,128	8,036	1.1 %
Operating margin	6.2 %	6.4 %	(3.1)%

Our upholstery segment’s gross profit and gross profit margin have increased compared to the same period a year ago due primarily to the increase in net sales noted above and higher profit margins achieved on certain product introductions. We also benefited from lower input costs, especially in the second half of fiscal 2015. These lower input costs partially offset higher operational costs associated with our operations in China.

This business segment's operating income slightly increased and operating margins slightly decreased in fiscal 2015 compared to fiscal 2014. These trends are due to the increase in gross profit noted above and the increase in SG&A expenses in fiscal 2015 compared to fiscal 2014.The increase in SG&A expenses in fiscal 2015 is primarily due to the increase in net sales.

As previously announced, at the end of the third quarter of fiscal 2015 we closed our finished goods warehouse and distribution facility located in Poznan, Poland, primarily as a result of ongoing economic weakness in Europe. As a result, we incurred a charge of approximately $200,000 for closing related costs during fiscal 2015. Currently, we remain very interested in developing business in Europe, and we are assessing the best strategy for selling upholstery fabric into this market as business conditions improve.

Segment Assets

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

(dollars in thousands)	May 3, 2015	April 27, 2014	% Change
Accounts receivable and inventory	$ 29,905	$ 31,854	(6.1)%
Property, plant & equipment	1,467	1,573	(6.7)%

Accounts Receivable & Inventory

At May 3, 2015, accounts receivable for this segment was $11.9 million compared with $12.8 million as of April 27, 2014. This decrease is due to increased sales with customers with discounted payment terms in fiscal 2015 compared with fiscal 2014, which resulted in customers paying off receivables more quickly.

At May 3, 2015, inventory for this segment was $18.0 million compared with $19.0 million as of April 27, 2014. This decrease is primarily due to improved inventory management and the reduction of inventory associated with the closure of our Culp Europe operation located in Poland.

Property, Plant & Equipment

The $1.5 million at May 3, 2015, represents property, plant, and equipment located in the U.S. of $848,000 and located in China of $619,000. The $1.6 million at April 27, 2014, represents property, plant, and equipment located in the U.S. of $957,000, located in China of $572,000, and located in Poland of $44,000.

Other Income Statement Categories

Selling, General and Administrative Expenses

SG&A expenses for the company as a whole were $32.8 million for fiscal 2015 compared with $28.7 million for fiscal 2014. SG&A as a percent of net sales was 10.6% and 10.0% in fiscal 2015 and 2014, respectively. The increase is SG&A expenses is primarily due to the increase in net sales noted above and higher incentive compensation expense reflecting stronger financial results in relation to pre-established performance targets in fiscal 2015 compared to fiscal 2014.

Interest Expense

Interest expense was $64,000 for fiscal 2015 compared with $427,000 for fiscal 2014. This trend reflects lower outstanding balances of long-term debt in fiscal 2015 compared with fiscal 2014. Also, interest expense was reduced by $171,000 for interest costs associated with the mattress fabric segment capital expansion project that were capitalized during fiscal 2015. These interest costs will be depreciated over the related assets' useful lives. No interest costs were capitalized in fiscal 2014.

Interest Income

Interest income was $622,000 in fiscal 2015 compared with $482,000 for fiscal 2014. This trend reflects higher cash and cash equivalent and short-term investment balances held with foreign subsidiaries during fiscal 2015 compared to fiscal 2014. Cash and cash equivalents and short-term investment balances held by our foreign subsidiaries earn higher interest rates as compared to funds held in the United States.

Other Expense

Other expense was $391,000 million for fiscal 2015 compared with $1.3 million for fiscal 2014. This decrease was primarily due to more favorable foreign currency exchange rates associated with operations located in China for fiscal 2015 compared with the same period a year ago. We recorded a foreign currency exchange gain of $241,000 in fiscal 2015 compared to a foreign currency exchange loss of $571,000 in fiscal 2014 regarding our operations located in China.

We have been able to mitigate the effects of foreign exchange rate fluctuations associated with our subsidiaries domiciled in Canada and Poland through the maintenance of a natural hedge by keeping a balance of assets and liabilities denominated in foreign currencies other than the U.S. dollar. Although we will continue to try and maintain this natural hedge, there is no assurance that we will be able to continue to do so in the future reporting periods.

Also, a non-recurring charge of $206,000 was recorded in the first quarter of fiscal 2014 for the settlement of litigation relating to the environmental claims associated with a closed facility, and there was no comparable charge recorded in fiscal 2015.

Income Taxes

Significant judgment is required in determining the provision for income taxes. During the ordinary course of business, there are many transactions and calculations for which the ultimate tax determination is uncertain. We account for income taxes using the asset and liability approach as prescribed by ASC Topic 740, "Income Taxes." This approach requires recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the consolidated financial statements or income tax returns. Using the enacted tax rates in effect for the fiscal year in which differences are expected to reverse, deferred tax assets and liabilities are determined based on the differences between financial reporting and tax basis of an asset or liability. If a change in the effective tax rate to be applied to a timing difference is determined to be appropriate, it will affect the provision for income taxes during the period that the determination is made.

Effective Income Tax Rate

We recorded income tax expense of $7.9 million, or 34.3% of income before income tax expense, in fiscal 2015 compared with income tax expense of $1.6 million, or 8.4% of income before income tax expense, in fiscal 2014. The following schedule summarizes the principal differences between income tax expense at the federal income tax rate and the effective income tax rate reflected in the consolidated financial statements:

	2015		2014	
federal income tax rate	34.0	%	34.0	%
foreign tax rate differential	(6.7	)	(7.2	)
increase in liability for uncertain tax positions	3.7		4.3	
undistributed earnings from foreign subsidiaries	3.0		(26.3	)
change in valuation allowance	(0.2	)	0.1	
other	0.5		3.5	
	34.3	%	8.4	%

Deferred Income Taxes – Valuation Allowance

Summary

In accordance with ASC Topic 740, we evaluate our deferred income taxes to determine if a valuation allowance is required. ASC Topic 740 requires that companies 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, taking into account the effects of local tax law. Based on our assessment at May 3, 2015, we recorded a partial valuation allowance of $922,000, of which $561,000 pertained to certain U.S. state net operating loss carryforwards and credits and $361,000 pertained to loss carryforwards associated with our Culp Europe operation located in Poland. Based on our assessment at April 27, 2014, we recorded a partial valuation allowance of $977,000, of which $666,000 pertained to certain U.S. state net operating loss carryforwards and credits and $311,000 pertained to loss carryforwards associated with our Culp Europe operation located in Poland.

No valuation allowance was recorded against our net deferred tax assets associated with our operations located in China and Canada at May 3, 2015 and April 27, 2014, respectively.

United States

Our net deferred tax asset regarding our U.S. operations includes U.S. loss carryforwards totaling $32.2 million, $45.7 million, and $50.7 million at May 3, 2015, April 27, 2014, and April 28, 2013, respectively.

Fiscal 2013

Due to the favorable results of our multi-year restructuring process in our upholstery fabric operations and key acquisitions and capital investments made in our mattress fabric operations, our U.S operations' financial results started to improve in fiscal 2011 and this improvement continued through the second quarter of fiscal 2013. Our U.S. operations earned a pre-tax income on a cumulative three-year basis as of April 29, 2012 (the end of our fiscal 2012) of $11.9 million and an additional $3.4 million through the second quarter of fiscal 2013.

This continued earnings improvement from our U.S. operations was primarily due to the operating performance of our mattress fabric operations. Through the second quarter of fiscal 2013, our mattress fabric operations had net sales that totaled $77.7 million, an increase of 15% compared with $67.4 million through the second quarter of fiscal 2012. In addition, our mattress fabric operations reported operating income of $10.3 million through the second quarter of fiscal 2013, an increase of 49% compared with $7.0 million through the second quarter of fiscal 2012. These improved results through the second quarter of fiscal 2013, which were better than expected, were attributed to the evolution of the bedding industry into a more decorative business with growing consumer demand for better bedding and a higher quality mattress fabric, and the stabilization of raw material prices.

Based on the positive evidence at the end of our second quarter of fiscal 2013, as supported by our cumulative earnings history, current and expected earnings improvement driven by our U.S. mattress fabric operations, and the significant source of U.S. taxable income from the undistributed earnings of our foreign subsidiaries (see separate section below), we recorded an income tax benefit of $12.2 million to reverse substantially all of the valuation allowance against our U.S. net deferred tax assets. In the third quarter of fiscal 2013, we recorded an income tax charge of $103,000, due to a change in our second quarter estimate of the recoverability of our U.S. state net loss operating carryforwards.

After this valuation allowance reversal of $12.1 million, we had a remaining valuation allowance against our U.S. net deferred tax assets totaling $722,000 as of April 28, 2013. This valuation allowance pertained to certain U.S. state net operating loss carryforwards and credits in which it is “more likely than not” that these U.S. state net operating loss carryforwards and credits would not be realized prior to their respective expiration dates.

Fiscal 2014

At April 27, 2014, we had a remaining valuation allowance against our U.S net deferred tax assets totaling $666,000. This valuation allowance pertained to U.S. state net operating loss carryforwards and credits in which it is “more likely than not” that these U.S. state net operating loss carryforwards and credits would not be realized prior to their respective expiration dates. In fiscal 2014, we recorded an income tax benefit of $56,000 that reduced our valuation allowance against our U.S. net deferred tax assets. This income tax benefit pertained to a change in estimate of the recoverability of our U.S. state net loss operating carryforwards at the end of fiscal 2014.

Fiscal 2015

At May 3, 2015, we had a remaining valuation allowance against our U.S net deferred tax assets totaling $561,000. This valuation allowance pertained to U.S. state net operating loss carryforwards and credits in which it is “more likely than not” that these U.S. state net operating loss carryforwards and credits would not be realized prior to their respective expiration dates. In fiscal 2015, we recorded an income tax benefit of $105,000 that reduced our valuation allowance against our U.S. net deferred tax assets that we concluded were more likely than not to be realized. This income tax benefit pertained to a change in estimate of the recoverability of our U.S. state net loss operating carryforwards at the end of fiscal 2015.

Poland

During the third quarter of fiscal 2011, we established Culp Europe, a wholly-owned subsidiary located in Poland. Due to the initial start up costs of setting up this operation and the current state of the European economy, this operation had a history of cumulative pre-tax losses.

Based on the negative evidence, as supported by our cumulative pre-tax loss history and the short carryforward period of 5 years imposed by the Polish government, we recorded a full valuation allowance against Culp Europe's net deferred tax assets commencing in the second quarter of fiscal 2013. As of May 3, 2015, we recorded a full valuation allowance against Culp Europe's net deferred tax assets totaling $361,000.

Change in Valuation Allowance

In fiscal 2015, we recorded an income tax benefit of $55,000 for a reduction of our valuation allowance. This $55,000 reduction represents an income tax benefit of $105,000 for a change in estimate of the recoverability of our U.S. state net loss operating carryforwards, partially offset by an income tax charge of $50,000 for an increase in the full valuation allowance against our net deferred tax assets associated with our Culp Europe operations located in Poland.

In fiscal 2014, we recorded an income tax charge of $14,000 for an increase of our valuation allowance. The $14,000 increase represents an income tax charge of $70,000 for an increase in the full valuation allowance against our net deferred tax assets associated with our Culp Europe operations located in Poland, partially offset by an income tax benefit of $56,000 for a change in estimate of the recoverability of our U.S. state net loss operating carryforwards at the end of fiscal 2014.

In fiscal 2013, we recorded an income tax benefit of $11.8 million for the reduction of our valuation allowance. This $11.8 million decrease represents a $12.1 million income tax benefit pertaining to a change in judgment about the future realization of our U.S. net deferred tax assets, partially offset by an income tax charge of $241,000 for the establishment of a full valuation allowance against our net deferred tax assets associated with our Culp Europe operations located in Poland.

Deferred Income Taxes – Undistributed Earnings from Foreign Subsidiaries

In accordance with ASC Topic 740, we assess whether the undistributed earnings from our foreign subsidiaries will be reinvested indefinitely or eventually distributed to our U.S. parent company. ASC Topic 740 requires that a deferred tax liability should be recorded for undistributed earnings from foreign subsidiaries that will not be reinvested indefinitely. Also, we assess the recognition of U.S. foreign income tax credits associated with foreign withholding and income tax payments and whether it is more-likely-than-not that our foreign income tax credits will not be realized. If it is determined that any foreign income tax credits need to be recognized or it is more-likely-than-not our foreign income tax credits will not be realized, an adjustment to our provision for income taxes will be recognized at that time.

Fiscal 2013

Prior to the second quarter of fiscal 2013, it was management's intention to indefinitely reinvest all of our undistributed foreign earnings. Accordingly, no deferred tax liability had been recorded in connection with the future repatriation of these earnings.

During the second quarter of fiscal 2013, we assessed the financial requirements of our U.S. parent company and foreign subsidiaries and determined that our undistributed earnings from our foreign subsidiaries totaling $55.6 million would not be reinvested indefinitely and would be eventually distributed to our U.S. parent company. The financial requirements of the U.S. parent company changed due to a decision to return cash to its shareholders through dividend payments and common stock repurchases. Also, in order to keep up with the recent growth in consumer demand for better bedding and a higher quality mattress fabric, it was our intention to continue our investment in our domestic mattress fabric operations. As a result of this assessment, we recorded a deferred tax liability and corresponding income tax charge of $6.6 million during the second quarter of fiscal 2013 and an additional $400,000 in the last half of fiscal 2013.

At April 28, 2013, we had accumulated earnings and profits from our foreign subsidiaries totaling $56.7 million. At the same date, the deferred tax liability associated with our undistributed earnings from our foreign subsidiaries totaled $7.0 million, which included U.S. income and foreign withholding taxes totaling $22.0 million, offset by U.S. foreign income tax credits of $15.0 million.

Fiscal 2014

During the third quarter of fiscal 2014, our operations in China achieved positive accumulated earnings and profits for both U.S. income tax and financial reporting purposes for the first time since we determined our undistributed earnings from foreign subsidiaries would not be reinvested indefinitely in the second quarter of fiscal 2013. As a result, we recorded an income tax benefit of $5.4 million to recognize U.S. foreign income tax credits of $9.9 million offset by the U.S. income tax effects of the undistributed earnings from our China operations and foreign withholding taxes totaling $4.5 million. This $5.4 million income tax benefit was treated as a discrete event in which the full income tax benefits of this adjustment were recorded in the third quarter and full fiscal year 2014, as it pertained to a change in judgment on prior periods' accumulated earnings and profits associated with our subsidiaries located in China.

In addition, an income tax charge of $352,000 was recorded during fiscal 2014 for the U.S. income tax effects of the undistributed earnings and foreign withholding taxes incurred in fiscal 2014 from our Canadian operations and the fourth quarter of fiscal 2014 from our China operations.

At April 27, 2014, we had accumulated earnings and profits from our foreign subsidiaries totaling $72.8 million. At the same date, the deferred tax liability associated with our undistributed earnings from our foreign subsidiaries totaled $2.0 million, which included U.S. income and foreign withholding taxes totaling $28.1 million, offset by U.S. foreign income tax credits of $26.1 million.

Fiscal 2015

An income tax charge of $695,000 was recorded during fiscal 2015 for the U.S. income tax effects of the undistributed earnings and foreign withholding taxes incurred in fiscal 2015 from our Canadian and China operations.

At May 3, 2015, we had accumulated earnings and profits from our foreign subsidiaries totaling $85.2 million. At the same date, the deferred tax liability associated with our undistributed earnings from our foreign subsidiaries totaled $1.7 million, which included U.S. income and foreign withholding taxes totaling $32.4 million, offset by U.S. foreign income tax credits of $30.7 million.

Income Taxes Paid

We reported income tax expense of $7.9 million and $1.6 million in fiscal 2015 and 2014, respectively. Currently, we are not paying income taxes in the United States due to our loss carryforwards that totaled $32.2 million at May 3, 2015. However, we did have income tax payments of $4.8 million in fiscal 2015, $3.0 million in 2014, and $2.8 million in 2013. Our income tax payments are associated with our subsidiaries located in China and Canada.

2014 compared with 2013

Segment Analysis

Mattress Fabrics Segment

(dollars in thousands)	Twelve Months Ended April 27, 2014		Twelve Months Ended April 28, 2013		% Change	
Net sales	$160,705		$154,014		4.3	%
Gross profit	27,477		29,546		(7.0	)%
Gross profit margin	17.1	%	19.2	%	(11.0	)%
SG&A expenses	9,962		9,646		3.3	%
Income from operations	17,515		19,900		(12.0	)%
Operating margin	10.9	%	12.9	%	(15.5	)%

Net Sales

The increase in net sales was due to our ability to capitalize on the growing consumer demand for better designed bedding products. The mattress industry evolved into a much more decorative business, with customers being more selective in their fabric choices. In response to this demand trend, we increased our design staff, expanded our design capabilities and technical expertise to develop a wide range of fabric choices across all price points. Additionally, our scalable manufacturing platform and reactive capacity supported our ability to deliver a diverse product mix in line with demand trends.

Sales and Marketing Initiatives

Joint Product, Sales and Marketing Agreement

In order to expand our product offerings and keep pace with the changing customer demand trends within the bedding industry, we entered into a joint product development, sales and marketing agreement with A. Lava & Son Co. (Lava) on May 21, 2012. This agreement formed a new business named Culp-Lava Applied Sewn Solutions (CLASS) and has provided us an opportunity to enter the business of designing, producing, and marketing sewn mattress covers. As a result, we are able to leverage our design capabilities and expand our product offerings from mattress fabrics to finished covers. In connection with this agreement, Lava is providing us with technical assistance and know-how for this business and is working with us on the design, sales and marketing of sewn mattress covers.

Pursuant to the agreement, the new business was fully funded and 100% owned by us. We have established a manufacturing facility located in Stokesdale, North Carolina, that is adjacent to our mattress fabric headquarters. We have responsibility for all operating control of the new business, including capital expenditures and production and operating costs.

Bodet & Horst

On May 8, 2013, we entered into an asset purchase and consulting agreement with Bodet & Horst GMBH & Co. KG and certain affiliates ("Bodet & Horst") that provided for, among other things, the purchase of equipment and certain other assets from Bodet & Horst and the restructuring of prior consulting and non-compete agreements pursuant to an earlier asset purchase and consulting agreement with Bodet & Horst dated August 11, 2008. This agreement was accounted for as a business combination in accordance with ASC Topic 805, Business Combinations. We agreed with Bodet & Horst to replace the prior non-compete agreement that prevented us from selling certain mattress fabrics and products to a leading manufacturer, which now allows us to make such sales. In addition, the prior consulting and non-compete agreement, under which Bodet & Horst agreed not to sell most mattress fabrics in North America, was replaced, expanded and extended pursuant to the new asset purchase and consulting agreement.

The purchase price for the equipment and the certain other assets noted below was $2.6 million in cash.

Direct acquisition costs related to this business combination totaled $83,000.

The following table presents the allocation of the acquisition cost to the assets acquired based on their fair values:

(dollars in thousands)	Fair Value	
Equipment	$	890
Non-compete agreement		882
Customer relationships		868
	$	2,640

The company recorded its non-compete at its fair value based on a discounted cash flow valuation model. The company recorded its customer relationships at its fair value based on a multi-period excess earnings valuation model. This non-compete agreement is being amortized on a straight line basis over the fifteen year life of the agreement. The customer relationships are being amortized on a straight line basis over their useful life of seventeen years. The equipment are being amortized on a straight line basis over its useful life of seven years.

The following unaudited pro forma consolidated results of operations for the years ending April 27, 2014 and April 28, 2013 have been prepared as if the acquisition of Bodet & Horst had occurred on April 30, 2012:

	Years ended	
		(Unaudited)
(dollars in thousands)	April 27, 2014	April 28, 2013
Net Sales	$287,162	$278,681
Income from operations	20,249	21,048
Net income	17,447	18,208
Net income per share, basic	1.43	1.49
Net income per share, diluted	1.41	1.46

Gross Profit and Operating Income

Although our net sales increased over the prior fiscal year as noted above, our profitability declined in fiscal 2014 compared with fiscal 2013. This decline was due to several factors, most of which occurred in the second half of fiscal 2014. Our operating results for the third quarter were affected by higher than expected transition costs in CLASS, as well as higher than expected sampling and development costs in support of new customer roll-outs in calendar 2014. Additionally, severe weather conditions experienced in many parts of our country during the fourth quarter of fiscal 2014 affected our mattress fabric locations with at least a week of lost production. We also experienced production throughput and operating efficiency challenges during the fourth quarter of fiscal 2014 as we absorbed new mattress cover placements and experienced higher than expected demand for premium decorative knitted mattress fabrics.

These operational inefficiencies were resolved in fiscal 2015 as a result of the $9.5 million capital expansion project noted above.

Segment Assets

Segment assets consist of accounts receivable, inventory, a non-compete agreement and customer relationships associated with an acquisition, goodwill, and property, plant and equipment.

(dollars in thousands)	April 27, 2014	April 28, 2013	% Change
Accounts receivable and inventory	$ 36,229	$ 33,323	8.7 %
Property, plant & equipment	29,040	28,578	1.6 %
Goodwill	11,462	11,462	0.0 %
Non-compete agreement	1,041	185	462.7 %
Customer Relationships	817	-	100 %

Accounts Receivable & Inventory

Accounts receivable increased due to the increase in net sales of 6.9% and fewer customers taking advantage of discounts in the fourth quarter of fiscal 2014 compared to the fourth quarter of fiscal 2013.

Inventory increased due to current and expected demand trends as of the end of the fourth quarter of fiscal 2014 compared with the fourth quarter of fiscal 2013, as well as the increased sales contribution from CLASS.

Property, Plant & Equipment

The $29.0 million at April 27, 2014, represented property, plant and equipment of $20.6 million and $8.4 million located in the U.S. and Canada, respectively. The $28.6 million at April 28, 2013, represented property, plant, and equipment of $20.4 million and $8.2 million located in the U.S. and Canada, respectively.

The change in this segment's property, plant, and equipment was due to capital spending of $4.4 million, and $890,000 in equipment acquired in the asset purchase transaction with Bodet & Horst, partially offset by depreciation expense of $4.7 million.

Non-Compete Agreement and Customer Relationships

The increases in carrying values of our non-compete agreement and customer relationships at April 27, 2014, were primarily due to the asset purchase transaction with Bodet & Horst effective May 8, 2013.

Upholstery Fabrics Segment

Net Sales

(dollars in thousands)	Twelve Months Ended April 27, 2014			April 28, 2013			% Change
Non U.S. Produced	$	115,991	92 %	$	102,060	89 %	13.6 %
U.S Produced		10,466	8 %		12,740	11 %	(17.8)%
Total	$	126,457	100 %	$	114,800	100 %	10.2 %

The increase in net sales reflected our strategic focus on product innovation and creativity. This focus has allowed us to develop a diverse product mix of fabric styles and price points. Our 100% owned China platform provided us significant manufacturing flexibility to meet changing customer demand in line with current furniture style trends.

Although net sales declined for our one remaining U.S. upholstery fabric manufacturing facility, this operation remained profitable. This continued profitability reflected our ability to manage our production costs and align them with current and expected demand trends.

Gross Profit and Operating Income

(dollars in thousands)	Twelve Months Ended April 27, 2014		April 28, 2013		% Change
Gross profit	$	21,429	$	19,984	7.2 %
Gross profit margin		16.9 %		17.4 %	(2.9)%
SG&A expenses		13,393		13,031	2.8 %

Income from operations	8,036	6,953	15.6 %
Operating margin	6.4 %	6.1 %	4.9 %

Our upholstery fabric segment's operating margin increased primarily due to the increase in net sales noted above, combined with stable SG&A expenses compared to the prior year. Although our operating margin increased for fiscal 2014, our gross profit margin was affected by the adverse weather conditions experienced in the United States during the fourth quarter of fiscal 2014.

Segment Assets

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

(dollars in thousands)	April 27, 2014	April 28, 2013	% Change
Accounts receivable and inventory	$31,854	$28,487	11.8 %
Property, plant & equipment	1,573	1,230	27.9 %

Accounts Receivable & Inventory

Our increase in accounts receivable and inventory reflected this segment's increased business volume in fiscal 2014 compared with fiscal 2013.

Property, Plant & Equipment

The $1.6 million at April 27, 2014, represented property, plant, and equipment located in the U.S. of $957,000, located in China of $572,000, and located in Poland of $44,000. The $1.2 million at April 28, 2013, represented property, plant, and equipment located in the U.S. of $908,000, located in China of $265,000, and located in Poland of $57,000.

The change in this segment’s property, plant, and equipment balance was primarily due to capital expenditures of $827,000 offset by depreciation expense of $618,000.

Other Income Statement Categories

Selling, General and Administrative Expenses

SG&A expenses for the company as a whole were $28.7 million for fiscal 2014 compared with $28.4 million for fiscal 2013. SG&A as a percent of net sales was 10.0% and 10.6% in fiscal 2014 and 2013, respectively.

Interest Expense

Interest expense was $427,000 for fiscal 2014 compared with $632,000 for fiscal 2013. This trend reflected lower outstanding balances on our long-term debt in fiscal 2014 compared to fiscal 2013.

Interest Income

Interest income was $482,000 in fiscal 2014 compared with $419,000 for fiscal 2013. This trend reflected higher cash and cash equivalents and short-term investment balances held by our foreign subsidiaries during fiscal 2014 compared with fiscal 2013. Our cash and cash equivalents and short-term investment balances held by our foreign subsidiaries had higher interest rates as compared to our funds held in the United States.

Other Expense

Other expense was $1.3 million for fiscal 2014 compared with $583,000 for fiscal 2013. This increase reflected unfavorable foreign currency exchange rates associated with operations located in China for fiscal 2014 compared with the same period a year ago. We recorded a foreign currency exchange loss of $571,000 in fiscal 2014 compared to a foreign currency exchange loss of $158,000 in fiscal 2013 regarding our operations located in China.

Also, a non-recurring charge of $206,000 was recorded in the first quarter of fiscal 2014 for the settlement of litigation relating to the environmental claims associated with a closed facility, and there was no comparable charge recorded in fiscal 2013.

Income Taxes

We recorded income tax expense of $1.6 million, or 8.4% of income before income tax expense, in fiscal 2014 compared with income tax expense of $2.0 million, or 9.7% of income before income tax expense, in fiscal 2013. The following schedule summarizes the principal differences between income tax expense at the federal income tax rate and the effective income tax rate reflected in the consolidated financial statements:

	2014		2013	
federal income tax rate	34.0	%	34.0	%
foreign tax rate differential	(7.2	)	(6.7	)
increase in liability for uncertain tax positions	4.3		4.0	
undistributed earnings from foreign subsidiaries	(26.3	)	34.6	
change in valuation allowance	0.1		(58.3	)
other	3.5		2.1	
	8.4	%	9.7	%

Liquidity and Capital Resources

Liquidity

Currently, our sources of liquidity include cash and cash equivalents, short-term investments, cash flow from operations, and amounts available under our unsecured revolving credit lines. These sources have been adequate for day-to-day operations, capital expenditures, debt payments, common stock repurchases, and dividend payments. We believe our present cash and cash equivalents and short-term investment balance of $39.7 million at May 3, 2015, cash flow from operations, and current availability under our unsecured revolving credit lines will be sufficient to fund our business needs and our contractual obligations (see commitments table below).

At May 3, 2015, our cash and cash equivalents and short-term investments totaled $39.7 million and exceeded our total debt (all of which is classified in current maturities of long-term debt) of $2.2 million. We currently have one remaining annual $2.2 million principal payment due on our long-term debt in August 2015.

We currently hold cash and cash equivalents and short-term investments in foreign jurisdictions to support the operational requirements of our foreign operations located in Canada and China and for U.S. and foreign income tax planning purposes.

A summary of our cash and cash equivalents and short-term investments by geographic area follows:

(dollars in thousands)	May 3, 2015	April 27, 2014
China	$ 14,630	15,258
Canada	12,511	14,386
Cayman Islands	8,591	-
United States	3,977	5,772
Poland	20	181
	$ 39,729	35,597

At the end of fiscal 2015, our cash and cash equivalents and short-term investments increased to $39.7 million from $35.6 million at April 27, 2014, despite spending in fiscal 2015, of $10.5 million on capital expenditures, $8.3 million on dividend payments and common stock repurchases, $2.7 million on payments on our long-term debt and lines of credit, and $1.7 million on long-term investment purchases associated with our Rabbi Trust that is partially funding our deferred compensation plan.

Our net cash provided by operating activities of $26.1 million increased 29% in fiscal 2015 compared with $20.2 million for fiscal 2014. This increase is primarily due to the increase in cash flow from earnings and improved working capital management in both our business segments.

We are currently planning for capital expenditures of approximately $7.5 million to $9.0 million in fiscal 2016, which primarily pertain to our mattress fabrics segment. This amount remains subject to change and could be adjusted during the year as business conditions and the needs of our businesses continue to evolve.

Our cash and cash equivalents and short-term investments may be adversely affected by factors beyond our control, such as weakening industry demand and delays in receipt of payments on accounts receivable.

Dividend Program

During fiscal 2015, dividend payments totaled $7.6 million, of which $4.9 million represented a special cash dividend payment in the first quarter of $0.40 per share, and $2.7 million represented our regularly quarterly cash dividend payments ranging from $0.05 to $0.06 per share.

During fiscal 2014, we paid quarterly dividends totaling $2.2 million that ranged from $0.04 to $0.05 per share.

On June 18, 2015, we announced that our board of directors approved the payment of special cash dividend of $0.40 per share and a regular cash dividend payment of $0.06 per share on July 15, 2015, to shareholders of record as of July 1, 2015.

Future dividend payments are subject to board approval and may be adjusted at the Board’s discretion as business needs or market conditions change.

Common Stock Repurchases

On February 25, 2014, we announced that our board of directors approved an increase to $5.0 million in the authorization for us to acquire 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 amount of shares purchased and the timing of such purchases will be based on working capital requirements, market and general business conditions, and other factors including alternative investment opportunities.

During fiscal 2015, we purchased 43,014 shares of our common stock at a cost of $745,000, all of which were purchased in the first and second quarters. At May 3, 2015, we had $4.3 million available for additional repurchases of our common stock.

During fiscal 2014, there were no repurchases of our common stock.

Since June 2011, and including the special and regular dividends to be paid in July, we have returned approximately $35 million to shareholders in the form of regular quarterly and special dividends and share repurchases.

Working Capital

Accounts receivable at May 3, 2015, were $28.7 million, an increase of 5% compared with $27.4 million at April 27, 2014. This increase is primarily due to an increase in net sales in the fourth quarter of fiscal 2015 compared with the fourth quarter of fiscal 2014. Net sales in the fourth quarter of fiscal 2015 and 2014 were $78.8 million and $74.0 million, respectively. Days’ sales in receivables were 33 days and 34 days during the fourth quarters of fiscal 2015 and 2014, respectively.

Inventories at May 3, 2015 were $42.5 million, an increase of 5% compared with $40.7 million at April 27, 2014. This increase primarily reflects increased business volume in the fourth quarter of fiscal 2015 compared to the same period of fiscal 2014 and expected demand trends in the first quarter of fiscal 2016. Inventory turns were 6.4 and 6.1 during the fourth quarters of fiscal 2015 and 2014, respectively.

Accounts payable-trade as of May 3, 2015, was $28.4 million, an increase of 7% compared with $26.7 million at April 27, 2014. This increase primarily reflects increased inventory purchases, as a result of the increased business volume in fiscal 2015 compared with fiscal 2014.

Operating working capital (comprised of accounts receivable and inventories, less accounts payable –trade and capital expenditures) was $41.8 million at May 3, 2015, compared with $41.1 million at April 27, 2014. Operating working capital turnover was 7.7 in fiscal 2015 compared to 7.0 in fiscal 2014.

Financing Arrangements

Unsecured Term Notes

We entered into a note agreement dated August 11, 2008 that provided for the issuance of $11.0 million of unsecured term notes with a fixed interest rate of 8.01% and a term of seven years. Principal payments of $2.2 million per year are due on the notes beginning August 11, 2011. The remaining principal payments are payable over an average term of 0.3 years through August 11, 2015. Any principal prepayments would be assessed a penalty as defined in the agreement. The agreement contains customary financial and other covenants as defined in the agreement.

As of May 3, 2015, we have one remaining annual payment of $2.2 million due on August 1, 2015.

Revolving Credit Agreement –United States

As of May 3, 2015, we had unsecured credit agreement with Wells Fargo Bank, N.A. ("Wells Fargo') that provided for an unsecured revolving loan commitment of $10.0 million to be used to finance working capital and general corporate purposes. The amount of borrowings that were outstanding under the credit agreement with Culp Europe at April 27, 2014, noted below decreased the $10.0 million available. Interest was charged at a rate (applicable interest rate of 1.78% and 1.75% at May 3, 2015 and April 27, 2014, respectively) equal to the one-month LIBOR rate plus a spread based on the ratio of debt to EBITDA as defined in the agreement. The credit agreement contained customary financial and other covenants as defined in the agreement and was set to expire August 31, 2015.

Our credit agreement with Wells Fargo contained a financial covenant that limited our capital expenditures to $10 million in any fiscal year. Effective March 3, 2015, Wells Fargo increased our capital expenditure limit from $10 million to $12 million for fiscal 2015, as a result of the capital expansion plan associated with our mattress fabrics segment. Our capital expenditures were $10.5 million for fiscal 2015, and as a result, we are not in violation of this financial covenant.

Effective July 10, 2015, we amended the Credit Agreement to extend the expiration date to August 31, 2017 and maintain the annual capital expenditure limit of $12 million noted above.

At May 3, 2015, and April 27, 2014, there were $250,000 and $195,000 in outstanding letters of credit (all of which related to workers compensation) provided by the Credit Agreement. There were no borrowings outstanding under the agreement associated with our U.S. operations at May 3, 2015, and April 27, 2014.

Revolving Credit Agreement - China

We have an unsecured credit agreement associated with our operations in China that provides for a line of credit up to 40 million RMB (approximately $6.4 million USD at May 3, 2015), expiring on February 9, 2016. This agreement has an interest rate determined by the Chinese government. There were no borrowings under this agreement as of May 3, 2015 and April 27, 2014.

Revolving Credit Agreement – Culp Europe

At April 27, 2014, we had an unsecured credit agreement with Wells Fargo that incurred interest at WIBOR (Warsaw Interbank Offered Rate) plus 2% (applicable interest rate of 4.38% at April 27, 2014). There were $586,000 (1.8 million Polish Zloty) in borrowings outstanding under the agreement at April 27, 2014.

Effective May 2, 2014, we converted our 1.8 million Polish Zloty ($586,000 USD) denominated borrowings under this agreement to EURO denominated borrowings totaling €424,000 ($588,000 USD). In addition, our applicable interest rate was converted to EURO LIBOR plus 2%.

At May 3, 2015, no borrowings were outstanding this agreement, as the outstanding balance was paid in full during the second quarter of fiscal 2015.

Overall

Our loan agreements require, among other things, that we maintain compliance with certain financial covenants. At May 3, 2015, the company was in compliance with these financial covenants.

Commitments

The following table summarizes our contractual payment obligations and commitments for each of the next five fiscal years (in thousands):

		2016	2017	2018	2019	2020	Thereafter	Total
Capital expenditures	$	2,270	-	-	-	-	-	2,270
Accounts payable – capital expenditures		990	-	-	-	-	-	990
Operating leases		2,553	1,458	645	76	23	-	4,755

Interest expense		86	-	-	-	-	-	86
Line of credit		-	-	-	-	-	-	-
Long-term debt – principal		2,200	-	-	-	-	-	2,200
Total (1)	$	8,099	1,458	645	76	23	-	10,301

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Note: Payment Obligations by End of Each Fiscal Year

(1) At May 3, 2015, we had $14.1 million of total gross unrecognized tax benefits, of which $10.3 million and $3.8 million were classified as net non-current deferred income taxes and income taxes payable – long-term, respectively. The final outcome of these tax uncertainties is dependent upon various matters including tax examinations, legal proceedings, competent authority proceedings, changes in regulatory tax laws, or interpretations of those tax laws, or expiration of statutes of limitation. As a result of these inherent uncertainties, the company cannot reasonably estimate the timing of payment of these amounts. Of the $14.1 million in total gross unrecognized tax benefits, $10.3 million would not be subject to cash payments due to the company's U.S. federal and state net operating loss carryforwards.

Capital Expenditures

Capital expenditures on a cash basis were $10.5 million and $5.3 million for fiscal 2015 and 2014, respectively. These capital expenditures primarily pertained to our mattress fabrics segment. Depreciation expense was $5.8 million and $5.3 million for fiscal 2015 and 2014, respectively, and primarily pertained to our mattress fabrics segment.

For fiscal 2016, we are projecting capital expenditures for the company as a whole to be $7.5 million to $9.0 million. Depreciation expense for the company as a whole is projected to be $7.0 million in fiscal 2016. The estimated capital expenditures and depreciation expense primarily relate to the mattress fabrics segment. These are management's current expectations only, and changes in our business needs could cause changes in plans for capital expenditures and expectations for related depreciation expense.

Accounts Payable – Capital Expenditures

At May 3, 2015, we had total amounts due regarding capital expenditures totaling $990,000, which pertain to outstanding vendor invoices, none of which are financed. This amount due of $990,000 is required to be paid in full during fiscal 2016.

Handling Costs

We record warehousing costs in SG&A expenses. These costs were $3.8 million, $3.5 million, and $3.2 million, in fiscal 2015, 2014, and 2013 respectively. Warehousing costs include the operating expenses of our various finished goods distribution centers, such as personnel costs, utilities, building rent and material handling equipment, and lease expense. Had these costs been included in cost of sales, gross profit would have been $51.8 million or 16.7% of net sales, in fiscal 2015, $45.4 million or 15.8% of net sales, in fiscal 2014, and $46.3 million, or 17.2% of net sales, in fiscal 2013.

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 increases on to customers.

Critical Accounting Policies

U.S. generally accepted accounting principles require us to make estimates and assumptions that affect our reported amounts in the consolidated financial statements and accompanying notes. Some of these estimates require difficult, subjective and/or complex judgments about matters that are inherently uncertain, and as a result actual results could differ significantly from those estimates. Due to the estimation processes involved, management considers the following summarized accounting policies and their application to be critical to understanding the company's business operations, financial condition and results of operations.

Accounts Receivable - Allowance for Doubtful Accounts. Substantially all of our accounts receivable are due from residential furniture and bedding manufacturers. As of May 3, 2015, accounts receivable from furniture manufacturers totaled approximately $11.9 million, and accounts receivable from bedding manufacturers totaled approximately $16.8 million. Additionally, as of May 3, 2015, the aggregate accounts receivable balance of our ten largest customers was $15.0 million, or 52% of trade accounts receivable. No customers within the upholstery fabrics segment accounted for 10% or more of consolidated accounts receivable as of May 3, 2015. One customer within the mattress fabrics segment represented 10% of consolidated accounts receivable at May 3, 2015.

We continuously perform credit evaluations of our customers, considering numerous inputs including customers' financial position, past payment history, cash flows and management capability; historical loss experience; and economic conditions and prospects. Once evaluated, each customer is assigned a credit grade. Credit grades are adjusted as warranted. Significant management judgment and estimates must be used in connection with establishing the reserve for allowance for doubtful accounts. While management believes that adequate allowances for doubtful accounts have been provided in the consolidated financial statements, it is possible that we could experience additional unexpected credit losses.

The reserve balance for doubtful accounts was $851,000 and $573,000 at May 3, 2015, and April 27, 2014, respectively.

Inventory Valuation. We operate as a "make-to-order" and "make-to-stock" business. Although management closely monitors demand in each product area to decide which patterns and styles to hold in inventory, the increasing availability of low cost imports and the gradual shifts in consumer preferences expose the company to markdowns of inventory.

Management continually examines inventory to determine if there are indicators that the carrying value exceeds its net realizable value. Experience has shown that the most significant indicator of the need for inventory markdowns is the age of the inventory and the planned discontinuance of certain patterns. As a result, the company provides inventory valuation markdowns based upon set percentages for inventory aging categories, generally using six, nine, twelve and fifteen month categories. We also provide inventory valuation write-downs based on the planned discontinuance of certain products based on the current market values at that time as compared to their current carrying values. While management believes that adequate markdowns for excess and obsolete inventory have been made in the consolidated financial statements, significant unanticipated changes in demand or changes in consumer tastes and preferences could result in additional excess and obsolete inventory in the future.

The reserve for inventory markdowns was $2.6 million and $2.2 million at May 3, 2015, and April 27, 2014, respectively.

Goodwill. Management assesses goodwill for impairment at the end of each fiscal year or between annual tests if an event that occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying values. In accordance with ASU No. 2011-08, Intangibles – Goodwill and Other, we performed our annual impairment test on a qualitative basis. Based on our qualitative assessment, we determined that our goodwill is not impaired using a more likely than not standard.

The company's goodwill of $11.5 million at May 3, 2015, relates to the mattress fabrics segment.

Although we believe we have based the impairment testing on reasonable estimates and assumptions, the use of different estimates and assumptions could result in materially different results.

Income Taxes. Income taxes are accounted for under the asset and liability method. Deferred income taxes are recognized for temporary differences between the financial statement carrying amounts and the tax bases of the company's assets and liabilities and operating loss and tax credit carryforwards at income tax rates expected to be in effect when such amounts are realized or settled. The effect on deferred income taxes of a change in tax rates is recognized in income (loss) in the period that includes the enactment date.

In accordance with ASC Topic 740, we evaluate our deferred income taxes to determine if a valuation allowance is required. ASC Topic 740 requires that companies 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, taking into account the effects of local tax law. Based on this assessment, we recorded a partial valuation allowance of $922,000 and $977,000 million against our net deferred tax assets at May 3, 2015 and April 27, 2014, respectively. Our valuation allowance of $922,000 at May 3, 2015, represents a $561,000 valuation allowance against certain U.S. state net operating loss carryforwards and credits and a valuation allowance of $361,000 against our loss carryforwards associated with our Culp Europe operation located in Poland. Our valuation allowance of $977,000 at April 27, 2014, represents a $666,000 valuation allowance against certain U.S. state net operating loss carryforwards and credits and a valuation allowance of $311,000 against our loss carryforwards associated with our Culp Europe operation located in Poland.

Refer to Note 9 located in the notes to the consolidated statements for disclosures regarding our assessment of our recorded valuation allowance as of May 3, 2015 and April 27, 2014, respectively.

In accordance with ASC Topic 740, we assess whether the undistributed earnings from our foreign subsidiaries will be reinvested indefinitely or eventually distributed to our U.S. parent company. ASC Topic 740 requires that a deferred tax liability should be recorded for undistributed earnings from foreign subsidiaries that will not be reinvested indefinitely. Also, we assess the recognition of U.S. foreign income tax credits associated with foreign withholding and income tax payments and whether it is more-likely-than-not that our foreign income tax credits will not be realized. If it is determined that any foreign income tax credits need to be recognized or it is more-likely-than-not our foreign income tax credits will not be realized, an adjustment to our provision for income taxes will be recognized at that time.

At May 3, 2015, we had accumulated earnings and profits from our foreign subsidiaries totaling $85.2 million. At the same date, the deferred tax liability associated with our undistributed earnings from our foreign subsidiaries totaled $1.7 million, which included U.S. income and foreign withholding taxes totaling $32.4 million, offset by U.S. foreign income tax credits of $30.7 million.

In accordance with ASC Topic 740, we must recognize the tax impact from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax impact recognized in the financial statements from such a position is measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate resolution. Penalties and interest related to uncertain tax positions are recorded as income tax expense. Significant judgment is required in the identification of uncertain tax positions and in the estimation of penalties and interest on uncertain tax positions.

At May 3, 2015, we had $14.1 million of total gross unrecognized tax benefits, of which $10.3 million and $3.8 million were classified as net non-current deferred income taxes and income taxes payable – long-term, respectively, in the accompanying consolidated balance sheets.

Stock-Based Compensation. ASC Topic 718, "Compensation-Stock Compensation", requires that all stock-based compensation be recognized as compensation expense in the financial statements and that such cost be measured at the grant date for awards issued to employees and our board of directors. Equity awards issued to non-employees are measured at the earlier date of when the performance criteria are met or at the end of each reporting period.

Compensation expense for unvested incentive stock options and time vested stock awards are amortized on a straight-line basis over the remaining vesting periods. At May 3, 2015, there were no unvested incentive stock options or time vested restricted stock awards. Therefore, there was no unrecognized compensation cost related to these types of equity based awards at May 3, 2015. Our common stock awards issued to our board of directors vest immediately, and therefore, compensation cost was measured at the closing price of our common stock on the date of grant and recognized in full at that time. Compensation expense for performance based restricted stock units are recorded based on an assessment each reporting period of the probability if certain performance goals will be met during the contingent vesting period. If performance goals are not probable of occurrence, no compensation expense will be recognized. Performance goals that were previously deemed probable and were not or expected to be met, previously recognized compensation cost will be reversed. At May 3, 2015, the remaining compensation cost related to the performance based restricted stock units was $1.2 million.

We recorded $786,000, $710,000, and $562,000 of compensation expense within selling, general, and administrative expense for our equity based awards in fiscal 2015, 2014, and 2013, respectively.

Excess income tax benefits related to our equity incentive plans are reflected as financing cash inflows on the Statement of Cash Flows. We have elected to record the additional excess tax benefits associated with our equity incentive awards as a reduction in current income tax payable prior to utilizing any net operating loss carryforward.

Our equity incentive plans are described more fully in Note 12 in the notes to the consolidated financial statements.

Adoption of New Accounting Pronouncements

Refer to Note 1 located in the notes to the consolidated statements for recently adopted accounting pronouncements for fiscal 2015.

Recently Issued Accounting Standards

Refer to Note 1 located in the notes to the consolidated statements for recently issued accounting pronouncements for fiscal 2016 and beyond.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to market risk from changes in interest rates on our revolving credit lines.

At May 3, 2015, our U.S. revolving credit agreement had an interest rate equal to the one-month LIBOR rate plus a spread based on our ratio of debt to EBITDA as defined in the agreement. Our revolving credit line associated with our China subsidiaries bears interest at a rate determined by the Chinese government. Our revolving credit line associated with our operation located in Poland bears interest at the EURO LIBOR plus 2%. At May 3, 2015, there were no borrowings outstanding under any of our revolving credit lines.

We are not exposed to market risk from changes in interest rates on our long-term debt. Our unsecured term notes have a fixed interest rate of 8.01%.

We are exposed to market risk from changes in the value of foreign currencies for our subsidiaries domiciled in China, Canada, and Poland. 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 Poland, although there is no assurance that we will be able to continually maintain this natural hedge. Our foreign subsidiaries use the U.S. dollar as their functional currency. A substantial portion of the company’s imports purchased outside the U.S. are denominated in U.S. dollars. A 10% change in the above exchange rates at May 3, 2015, would not have had a significant impact on our results of operations or financial position.

ITEM 8. CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Shareholders
Culp, Inc.:––

We have audited the accompanying consolidated balance sheets of Culp, Inc. (a North Carolina Corporation) and Subsidiaries (the "Company") as of May 3, 2015 and April 27, 2014, and the related consolidated statements of net income, comprehensive income, shareholders' equity, and cash flows for each of the three years in the period ended May 3, 2015. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Culp, Inc. and Subsidiaries as of May 3, 2015 and April 27, 2014 and the results of their operations and their cash flows for each of the three years in the period ended May 3, 2015 in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of May 3, 2015, based on criteria established in the 2013 Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated July 17, 2015 expressed an unqualified opinion.

/s/ GRANT THORNTON LLP

Raleigh, North Carolina
July 17, 2015

CONSOLIDATED BALANCE SHEETS

(dollars in thousands, except per share data and preferred and common stock shares)

May 3, 2015 and April 27, 2014	2015	2014
ASSETS		
current assets:		
cash and cash equivalents	$29,725	$29,303
short-term investments	10,004	6,294
accounts receivable, net	28,749	27,409
inventories	42,484	40,674
deferred income taxes	4,790	6,230
income taxes receivable	229	121
other current assets		