Risk Factors Comparison 2023-07-14 to 2022-07-15 Form: 10-K

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Our business is subject to a variety of 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, financial condition, or future prospects. The risks described below should be carefully considered, together with other information provided in this report, including Management' s Discussion and Analysis of Financial Condition and Results of Operations and our financial statements, including the related notes. The risks discussed below are not the only risks we face. Additional risks and uncertainties not presently known to us or not presently deemed material by us also may materially adversely affect our business, financial condition, or results of operations in future periods. Macroeconomic, Market, and Strategic Risks The global COVID- 19 pandemic has...... currently posed by COVID- 19. Continued economic and industry uncertainty could negatively affect our sales and earnings. Overall demand for our products depends upon consumer demand for furniture and bedding products, which is subject to cyclical variations in the general economy, including ~~the~~ current **inflationary pressures affecting consumer spending, declines in overall consumer confidence, recession** and ~~evolving~~ **fears of recession, the** negative economic impact of ~~rising fuel prices~~ **potential additional surges of the coronavirus** , **and** ~~inflation, the~~ **other geopolitical events, such as the ongoing** Russia ~~-~~ **/** Ukraine war ~~, and the COVID- 19 pandemic~~ . Because purchases of furniture and bedding products may be considered discretionary purchases for most individuals and businesses, demand for these products may be more easily influenced by economic trends than demand for other products. Economic downturns, increases in unemployment rates, and uncertainty about future health and economic prospects can affect consumer spending habits and demand for discretionary items, including home furnishings, which reduces the demand for our products and therefore can cause a decline in our sales and earnings. In addition, the level of housing starts, sales of existing homes, trends in disposable income, changes in interest rates (particularly home mortgage rates), and availability of consumer credit, can also affect our business. While we saw an adverse impact from some of these measures due to the COVID- 19 pandemic at the end of fiscal 2020 and the beginning of fiscal 2021, we experienced increased demand in our mattress fabrics segment and in the residential side of our upholstery fabrics segment for most of fiscal 2021, driven by greater consumer focus on the home environment and more discretionary spending being allocated to home furnishings in the face of travel restrictions and other pandemic- related factors. However, this trend began to reverse during fiscal 2022, particularly during the second half of the year, as COVID- related travel and mask restrictions were lifted and consumers began to resume travel and leisure activities. **We believe the trend of increased consumer discretionary spending on travel, leisure, and entertainment, and away from home goods, continued throughout fiscal 2023.** Inflationary pressures also began to affect consumer spending during the second half of fiscal 2022 **and continuing throughout fiscal 2023** . We are unable to predict how long these trends will last, or to what extent **additional surges of the coronavirus or** ~~the~~ **other geopolitical events** ~~COVID- 19 pandemic~~ may affect the economic and purchasing cycle for home furnishing products (and therefore affect demand for our products) over the short and long term. 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 fragmented, and we face significant competition from many 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 in each of our segments means we are constantly subject to the risk of losing market share, which would likely result in a loss or decrease our future sales and earnings. 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, shipping, energy, foreign currency fluctuations, or labor in the form of price increases, which puts downward pressure on our profit margins. Also, the wide range of product offerings in our business can make it more difficult to differentiate our products through design, styling, finish, and other techniques. **The global COVID- 19 pandemic significantly and adversely affected,and may again adversely affect,our business,financial position,results of operations,and cash flows.The COVID- 19 pandemic negatively affected the global** and U.S.economy,severely disrupted global supply chains,and created significant volatility and disruption in financial markets,all of which ~~have~~ negatively affected ~~,and continue to negatively affect,~~ the bedding and home furnishings industries,our customers and suppliers,and our business.Many countries,including the countries in which we operate,as well as state and local governmental authorities, **took** ~~have taken~~ various actions to mitigate the spread of COVID- 19,including mandated closures of businesses,stay- at- home orders,quarantine and isolation requirements,travel restrictions,border closings,restrictions on public gatherings,social distancing measures,occupancy limits,and other safety measures.While ~~a number of~~ these restrictions have **now** been lifted as conditions have improved, ~~they~~ - **the** ~~have~~ **restrictions** adversely affected ~~,and could continue to adversely affect,~~ our business,results of operations,financial position,and cash flows.Due to government- mandated closure requirements near the end of March 2020,we shut down our facilities in Canada and Haiti for several weeks.At the same time,we experienced a rapid decline in demand as customers and retail stores began closing or substantially limiting their operations.We took a number of measures in response to the increasingly challenging market conditions,including,among other things,repurposing a portion of our available operations to produce face masks,bedding covers,and fabrics for healthcare operations and consumer health;reducing operating costs by implementing temporary salary reductions,making workforce adjustments to align with demand,suspending merit pay increases,and eliminating the cash compensation paid to our board of directors;aggressively reducing expenses,capital expenditures,and discretionary spending,and working with our vendors and landlords to negotiate temporary terms.We also took steps to safeguard the health of our employees,customers,and the communities we serve,including implementing detailed cleaning and disinfecting processes at our facilities,instituting temperature checks,adhering to social distancing and mask protocols,suspending non- essential travel,restricting visitors,providing remote work opportunities where possible,and offering on- site vaccination clinics to our employees,their families,and the general public.We have continued to monitor and update these procedures,in accordance with CDC recommendations and other local laws and regulatory authorities,throughout the pandemic.While the COVID- 19 pandemic continued to spread throughout the world during fiscal 2021,we did not experience additional closures of any of our operations,or any material closures of the operations of our suppliers,during the remainder of the fiscal year,following the initial shutdowns from the fourth quarter of fiscal 2020.However,during fiscal 2022,our upholstery fabrics business was materially affected by COVID- 19 related shutdowns of our sourcing partners and customers in Vietnam throughout most of the second quarter,and our operations in China were shut down during the last month of the fourth quarter of fiscal 2022 **and continuing to some extent during the first month of fiscal 2023** ,which prevented us from shipping goods in both our residential upholstery fabrics business and our sewn mattress cover business.In addition to these shutdowns,COVID- 19 disruption affected our business during fiscal 2022,as well as the business of our customers and suppliers,due to employee absenteeism and labor shortages,pandemic- related effects on the availability and pricing of freight and raw material costs,and pandemic- related constraints on our customers' capacity due to supply chain disruption for non- fabric components. ~~The ongoing~~ **We did not experience additional closures of any of our operations,or any material closures of the operations of our suppliers,during the remainder of fiscal 2023.While the World Health Organization has now declared an official end to the** COVID- 19 ~~pandemic~~ **global health emergency** , **future** ~~including additional~~ surges in the number of **COVID- 19** cases ~~,~~ and ~~any additional~~ preventative or protective actions that governmental authorities or we may take in response to **such surges** ~~the pandemic,~~ may ~~continue to~~ have an adverse effect on our business or the business of our customers,suppliers,or distribution channels,including additional business shutdowns,reduced operations,restrictions on shipping or installing products,reduced consumer demand,reduced availability and / or higher pricing of materials,or the ability of our customers to make payments.In addition,responding to ~~the ongoing pandemic~~ **future case surges or restrictions** could divert management' s attention from our key strategic priorities,increase costs as we prioritize the health and safety of our employees and customers,cause us to reduce,delay,alter,or abandon strategic initiatives that may otherwise increase our long- term value,and otherwise ~~continue to~~ disrupt our business operations. **The potential** ~~Also,while we believe the employee safety measures we have implemented or~~ **for** ~~others we may take in the~~ future **surges in** ~~are temporary,they~~ - **the number of COVID- 19 cases** ~~may continue until after the pandemic is contained~~ and ~~could amplify existing risks or introduce new risks that could adversely affect our business,including,but not limited to,risks related to internal controls and cybersecurity,and risks relating to employee willingness to work.Furthermore,these~~ -- **the** ~~safety measures may not be successful in preventing the spread of the virus among our employees,and we could face litigation or other claims related to unsafe working conditions,inadequate protection of our employees,or other similar or related claims.Any of these claims,even if without merit,could result in costly litigation or further divert management' s attention and resources.The~~ impact of **such surges on our business** ~~the COVID- 19 pandemic continues to evolve and~~ depends on factors beyond our knowledge or control,including the duration and severity of ~~the outbreak~~ **such surges** ;actions taken to contain ~~its~~ spread **of the virus** and mitigate the public health and economic effects;vaccine availability and effectiveness within the markets in which we operate;the impact on global supply chain conditions;employee absenteeism and labor shortages;and the short- and long- term disruption to the global economy,consumer confidence,demand for home furnishings products,unemployment,and the financial health of our customers,suppliers,and distribution channels.At this time,we cannot reasonably estimate the ~~ongoing~~ impact of ~~the~~ **such potential future** COVID- 19 ~~pandemic~~ **surges** on our business or on our future financial or operational results;however,the disruption could have a material adverse effect on our business,financial condition,results of operations,and cash flows over time.Furthermore,the impact of ~~the~~ **additional surges in** COVID- 19 ~~pandemic~~ may also exacerbate other risks discussed in this Item **1A – Risk Factors,any of which could have a material adverse effect on our operations.In addition,if in the future there is an outbreak of another highly infectious disease or other health concern or epidemic,we may be subject to similar risks as those faced during the COVID- 19 pandemic.** Our operations are subject to risks of unsettled political conditions, civil unrest or instability, public health concerns or pandemics, natural or man- made disasters, acts of war, terrorism, and the effects of climate change, any one of which could adversely affect our business and results of operations. Our domestic and foreign operations are subject to risks of unsettled political conditions, civil unrest or instability, public health concerns or pandemics, natural or man- made disasters, acts of war, and terrorism. In addition, the effects of climate change and actions taken to combat climate change could exacerbate these risks, including by increasing the likelihood and severity of extreme weather events. Any of these risks, including without limitation civil unrest **or instability** in Haiti **, China, or other countries where we operate** , could cause disruption at our manufacturing or distribution facilities, or at the facilities of our suppliers and distribution channels, which could make servicing our customers more difficult and could reduce our sales, earnings, or both in the future. Operational Risks Our business may be adversely affected by increased tariffs or other changes in U. S. **trade** policy related to imported products, as well as violations of existing trade policies. Many of our products are manufactured or sourced outside of the United States. The U. S. government has imposed certain tariffs on imports from various countries, including China, where a significant amount of our products is produced. In the future, the U. S. Government may consider imposing additional tariffs or extending the timeline for continuation of existing tariffs. Any tariffs that result in increased costs of imported products and materials could require us to increase prices to our domestic customers or, if we are unable to do so, result in lowering our gross margins on products sold. As a result, the tariffs could have a material adverse effect on our results of operations. In addition to tariffs, the U. S. government considers other proposals for substantial changes to its trade and tax policies, which could include import restrictions, increased import tariffs, changes to or withdrawal from existing trade agreements, and border- adjustment taxes, among other possible measures. Material changes in these policies could increase our tax obligations, require us to source materials from different regions, or increase prices to customers, which could adversely affect sales. Any significant change in U. S. **trade or tax** policy related to imported products could have a material adverse effect on our business and financial results. There are also a number of trade regulations and duties currently in place to protect the U. S. textile industry against competition from low- priced foreign producers, such as those in China and Vietnam, but violations of these trade regulations and duties has had, and may in the future have, a material adverse effect on our operations. In May of 2019, the U. S. Department of Commerce imposed punitive anti- dumping measures against China mattress imports to address violations of trade regulations. Despite the imposition of these duties, if China producers move their production out of China, which we believe has already occurred, they may continue to engage in unfair competition in violation of trade regulations between the U. S. and other countries, or there may be a potential risk of illegal transshipments of mattress products into the United States, which involves circumventing the imposed duties by falsely claiming that mattresses are products of a particular country of origin to avoid paying higher duties. Also, if supply chains are moved out of China to countries without anti- dumping duties and producers continue to supply low- priced imports in violation of U. S. trade laws, and if illegal transshipments are not monitored and enforcement is not effective to limit them, these shipments could have a material adverse effect on the company' s business, financial condition, results of operations or cash flows. During fiscal 2020, the U. S. mattress industry was affected by continued disruption relating to low- priced mattress imports that moved from China to other countries, which affected demand for our products. As a result, the U. S. Department of Commerce imposed anti- dumping duties on mattress imports from seven of these countries during fiscal 2021. We believe the domestic mattress industry and, in turn, our business, began to realize some benefits from these duties during the second half of fiscal 2021 and continuing into fiscal 2022 **and fiscal 2023** . However, despite the imposition of these duties, supply chains could move out of the affected countries to other countries without anti- dumping duties and continue supplying low- priced imports in violation of U. S. trade laws, or there may be a potential risk of illegal transshipments of mattress products from these countries to avoid paying the higher duties, which could negatively affect our business. 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, especially China. In addition **,** we have been purchasing a significant share of our products and raw materials from offshore sources, particularly Asia and Turkey. At the same time, our domestic manufacturing capacity for the upholstery fabrics segment continues to decline. These changes have caused us to rely on an extended 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, **import restrictions,** tariffs, shipping rates, potential political unrest and instability, **coronavirus or other** pandemic- related closure rules, or other threats that could disrupt or increase the costs of operating in foreign areas or sourcing products overseas. **Additionally,** ~~Changes~~ **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 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 could have a negative impact on our sales of products produced in those places. Any of the risks associated with foreign operations and sources could cause unanticipated increases in operating costs or disruptions in business, which could have a negative impact on **our ultimate financial results. Specifically with respect to sourcing products and raw materials from third- party suppliers in China, our ability to timely or successfully import such products or products made with such raw materials may be adversely affected by changes in U. S. laws. For example, the U. S. Government has taken several steps to address forced labor concerns in the Xinjiang Uyghur Autonomous Region of China (" XUAR"), including sanctions on specific entities and individuals; withhold release orders (" WROs") issued by U. S. Customs and Border Protection (" CBP") that prohibit the entry of imports of certain items from XUAR; and the Uyghur Forced Labor Prevention Act (" UFLPA"), which went into effect in June 2022 and imposes a presumptive ban on the import of goods to the U. S. that are made, wholly or in part, in the XUAR or by persons that participate in certain programs in the XUAR that entail the use of forced labor. CBP has published both a list of entities that are known to utilize forced labor and a list of commodities that are most at risk, such as cotton, tomatoes and silica- based products. The UFLPA specifically targets cotton and the apparel and textile industries as high- priority sectors for enforcement. None of our Chinese suppliers are located in the XUAR, and we prohibit our suppliers from doing business with or sourcing inputs from any company or entity that is restricted under U. S. or other applicable law. However, as a result of the UFLPA and WROs, products we import into the U. S. could be held for inspection by CBP based on a suspicion that such products or inputs used in such products originated from the XUAR or that they may have been produced by Chinese suppliers accused of participating in forced labor, pending our providing satisfactory evidence to the contrary. During fiscal 2023, we were subjected to a limited number of such CBP detentions and were successful in submitting satisfactory supply chain evidence to result in the release of all such detained good by CBP. These detentions have not resulted in any material impact on our business, supply chain, customer relationships, or reputation. However, future detentions could result in unexpected (i) delays or rejections of products scheduled for delivery to us, which could in turn affect the timing or our ability to delivery products to our customers; (ii) supply chain disruptions and increased operating costs; (iii) damage to our customer relationships; and / or (iv) negative publicity that harms our reputation, any of which could have a material impact on our business and negatively affect** our ultimate financial results. Our business faces several risks associated with doing business in China We source a variety of fabrics **, as well as cut and sewn upholstery kits and sewn mattress covers,** from a limited number of strategic suppliers in China ~~, and we~~ **. We also** operate two upholstery manufacturing facilities and ~~three~~ **two** warehouse facilities in Shanghai, China. The Chinese economy is characterized by extensive state ownership, control, and regulation **, and the political, legal, and economic**

climate in China is fluid and unpredictable . Therefore, our business is continually subject to the risk of changes in Chinese laws and regulations that could have an adverse effect on our suppliers and manufacturing operations. Any changes in policies governing tariffs, imports and exports, taxation, inflation, **economic sanctions and export controls,** environmental regulations, foreign currency exchange rates, the labor market, **property, network security, intellectual** property, and financial regulations could have an adverse effect on our business. Further, the Chinese legal system is continuing to develop and evolve, and the enforcement of rules and regulations is not always consistent or uniform. Moreover, any potential civil unrest, natural disasters, or other threats could disrupt or increase the costs of operating in China. The Chinese economy poses additional risks to our business, including fluctuating rates of inflation and currency exchange rates, a declining labor force participation rate, and rising employee wages. In addition, changes in the political climate or trade policy of the United States, such as increased duties, tariffs, or **U. S.** restrictions on Chinese imports, **such as the UFLPA,** may adversely affect our business ~~, and geo- political pressures associated with~~ **. Our ability to operate in China has also been adversely affected by** the COVID- 19 pandemic **, and** may ~~continue to introduce~~ **in the future be negatively affected by** additional ~~uncertainty~~ **surges in the coronavirus or other diseases. For example** , ~~including with respect~~ **during the COVID- 19 pandemic, China from time** to ~~tariffs~~ **time enforced broad lockdowns, which affected our ability to timely produce** and ~~freight~~ **ship products and affected the ability of our third- party suppliers and their supply chain to timely deliver products and materials** . Any of the risks associated with our Chinese operations and sources could cause unanticipated increases in operating costs or disruptions in business, which could negatively affect 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, **cut and sewn upholstery kits, sewn mattress covers,** 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, primarily consisting of property, plant and equipment, ~~goodwill~~ **right of use assets** , **inventory,** and ~~other~~ intangible assets **, that may be subject to write- offs or write- downs** . ASC Topic 360 establishes an impairment accounting model for long- lived assets **, including property, plant, and equipment, right of use assets, and finite- lived intangible assets** such as **customer relationships** ~~property, plant,~~ and ~~equipment and~~ **our non- compete agreement. It** requires the company to assess **these assets** for impairment whenever events or changes in circumstances indicate that the carrying value of the asset may not be recovered. ~~Goodwill and~~ **In accordance with ASC Topic 330, management continuously examines inventory to determine if** ~~other -~~ **there are indicators that the carrying value exceeds its net realizable value. Experience has shown that the most significant of such indicators are the age of the inventory and planned discontinuances of certain patterns. ASC Topic 350 establishes an impairment model for indefinite- lived** intangible assets **, such as our tradename, which** must 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. Identifying and assessing whether impairment indicators exist, or if events or changes in circumstances have occurred, including market conditions, operating results, competition, and general economic conditions, requires significant judgment. Any of such future actions could result in charges that could have an adverse effect on our financial condition and results of operations, and there is no assurance that future write- downs of fixed assets ~~, goodwill,~~ or other intangible assets will not occur if business conditions were to deteriorate. As a result of ~~our~~ **inventory** impairment ~~assessment~~ **assessments** conducted during ~~the third quarter of~~ fiscal ~~2020~~ **2023** ~~and our annual~~ **, we incurred non- cash inventory charges totaling $ 5. 8 million, which represents a $ 2. 9 million** impairment ~~assessment conducted during the fourth quarter of fiscal 2020, we recorded asset impairment charges~~ - **charge** associated with our ~~goodwill and tradenames~~ **mattress fabrics segment; a** ~~totaling~~ --- **total of** $ ~~33~~ **2. 8 million related to markdowns of inventory in both segments that were estimated based on our policy for aged inventory; and $ 98, 000 for the loss on disposal and markdowns of inventory related to the exit of our cut and sewn upholstery fabrics operation located in Shanghai, China. We incurred non- cash inventory charges of $ 1** . 9 million **and $ 882, 000** during ~~the~~ fiscal ~~2020~~ **2022** ~~year~~ **and 2021, respectively, which represent markdowns of inventory in both segments that were based on our policy of aged inventory** . ~~Of the total $ 33.~~ **See Notes 5, 7, and** 9 ~~million asset impairment charges, $ 27. 2 million and $ 6. 7 million pertained to goodwill and tradenames, respectively. Due to the asset impairment charge~~ of ~~$ 27. 2 million associated with our goodwill, no goodwill was reported on our Consolidated Balance Sheet as of the end of fiscal 2020, 2021, or 2022. See notes 8 and 9 of the notes to~~ the consolidated financial statements for further details of our assessments of impairment, conclusions reached, and the performance of our quantitative tests **. Write- offs and write- downs of our assets, including inventory, result in an immediate charge to our earnings, and can have a material adverse effect on our operating results and financial condition** . 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 **, and cut and sewn upholstery kits and mattress covers** , as well as for certain services such as finishing and weaving. Fluctuations in the price, availability, and quality of these goods and services have had, and could continue to have, a negative effect on our production costs and ability to meet the demands of our customers, which can 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 can significantly increase our costs and negatively affect our profit margins and earnings. During fiscal 2021, our raw material costs were mostly flat or slightly lower during the first three quarters of the year, but prices began to escalate during the fourth quarter primarily due to rising oil prices, a higher demand environment, and labor shortages. These pressures continued during fiscal 2022, with further increases in raw material costs, particularly during the second half of the year, due to the continued rise in oil prices and a higher demand environment. ~~These~~ **During fiscal 2023, the cost of raw materials began to decline during the first half of the year due to lower oil prices and slowing global demand, but the higher costs and lower availability of labor remained challenging throughout the year. Raw material costs were relatively stable during the second half of fiscal 2023. However, the** pressures **that affect raw material costs** may ~~continue to~~ drive additional increases in raw material prices in the future. Increases in energy costs 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. 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 **. Although no mattress fabrics customers accounted** ~~, with Serta Simmons Holdings, LLC accounting~~ for ~~approximately 11~~ **more than 10** % of **our** consolidated net sales in fiscal ~~2022~~ **2023** ~~. These include sales to~~ **, in many recent years we have had one or more** customers who **did** ~~are also subcontractors for Serta Simmons Holding, LLC~~ . In the upholstery fabrics segment, La- Z- Boy Incorporated accounted for approximately ~~13~~ **15** % of consolidated net sales during fiscal ~~2022~~ **2023** , 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. For example, on June 25, 2022, a major customer and its affiliates associated with our mattress fabrics segment announced that they filed voluntary petitions for reorganization under Chapter 11 of the U. S. Bankruptcy Code ~~. See Note 4 of the consolidated financial statements~~ **, and on January 23, 2023, another major customer and its affiliates associated with our mattress fabrics segment filed pre- planned voluntary petitions** for ~~further details~~ **reorganization under Chapter 11 of the U. S. Bankruptcy Code. Although we did not record any credit losses and have received payment in full** regarding **all outstanding** ~~this filing and its potential impact on our trade~~ accounts receivable **with** ~~. Based on the information available to us at this time, we expect~~ **respect** ~~that this~~ **to each of these customers, a business failure or loss of either such** customer and its affiliates ~~will continue to conduct normal business operations pending the reorganization~~ , ~~but~~ **or** a business failure or loss of ~~this~~ **one or more other major** ~~customer~~ **customers ,** ~~and its affiliates~~ could cause a decrease in our sales and an adverse effect on our earnings. Additionally, as a result of the COVID- 19 pandemic beginning in the fourth quarter of fiscal 2020, some customers experienced cash flow challenges and requested extended payment terms. During fiscal 2021, our customers returned to making payments based on normal credit terms, as opposed to the extended terms granted during the fourth quarter of fiscal 2020. However, if the negative economic impact of COVID- 19 reemerges, or if another pandemic, recession or other major unexpected economic event occurs, we may not be able to collect amounts owed to us or such payment may only occur after significant delay. While we perform credit evaluations of our customers, those evaluations may not prevent uncollectible trade accounts receivable. Credit evaluations involve significant management diligence and judgment, especially in the current environment. If more customers than we anticipate experience liquidity issues, if payments are not received on a timely basis, or if a customer declares bankruptcy, we may have difficulty collecting amounts owed to us by these customers, which could adversely affect our sales, earnings, financial condition, and liquidity. 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. Additionally, we rely on third- party service providers in connection with the maintenance thereof and the execution of certain business processes. Greater dependence on technology 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, including internet selling, 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, including phishing attempts, covertly introducing malware to our computers and networks (or the computers and networks of our third- party providers), and impersonating authorized users, among other types of cyber- attacks, that could compromise our internal technology system, infrastructure, or result in data leakage in- house or at our third- party providers and business partners. Attempts to gain unauthorized access to our information technology systems have become increasingly more sophisticated over time, and while we seek to detect and investigate all security incidents and to prevent their recurrence, in some cases we might be unaware of an incident or its magnitude and effect. Failures of technology or related systems, cybersecurity incidents, or improper release of confidential information, could damage our business or subject us to unexpected liabilities, expenditures, and recovery time. Additionally, the devotion of additional resources to the security of our information technology systems in the future could significantly increase our operating costs or otherwise adversely affect our financial results. We continue to balance the risk of an electronic security breach resulting in the unauthorized release of confidential information with the cost to protect us against such a breach, and we have taken steps to ensure that losses arising from a breach would be covered in part by insurance that we carry, although the costs, potential monetary damages, and operational consequences of responding to cyber incidents and implementing remediation measures may be in excess of our insurance coverage or not covered at all by our insurance, and could have a material adverse effect on our operations and financial results to the extent losses are uninsured or exceed insurance recoveries and to the extent that such disruptions adversely impact our relationships with our customers or our business reputation. We have been a target of cybersecurity attacks in the past, and while such attacks have not resulted in a material impact on our operations, business, customer relationships, or reputation, such attacks could in the future. In addition, ~~due to the COVID- 19 pandemic,~~ we ~~have permitted~~ --- **permit** certain employees to work from home from time to time. Although we continue to implement strong physical and cybersecurity measures to ensure that our business operations remain functional and to ensure uninterrupted service to our customers, our systems and our operations remain vulnerable to cyberattacks and other disruptions due to the fact that ~~more~~ employees may be working remotely, and we cannot be certain that our mitigation efforts will be effective. We may not be able to recruit and retain key employees and skilled workers in a competitive labor market. If we cannot successfully recruit and retain key employees and skilled workers or if we experience the unexpected loss of those employees, our operations may be negatively affected. A shortage of qualified personnel, along with cost inflation, may require us to enhance our compensation in order to compete effectively in the hiring and retention of qualified employees. In addition, we are and will continue to be dependent upon our senior management team and other key personnel. Losing the services of one or more key members of our management team or other key personnel could adversely affect our operations. COVID- 19 may also increase the risk that certain senior management executives or a member of the board of directors could become ill, causing them to be incapacitated or otherwise unable to perform their duties for an extended absence. Furthermore, because of the nature of the disease, multiple people working in proximity could also become ill simultaneously, which could result in the same department having extended absences. This could negatively affect the efficiency and effectiveness of processes and internal controls throughout the company ~~. Where possible, we have permitted work- from- home arrangements for certain employees in order to limit the number of people at our facilities due to the COVID- 19 pandemic. The effects of stay- at- home orders and our work- from- home policies may negatively affect productivity and disrupt our business, the magnitude of which will depend, in part, on the length and severity of the restrictions and other limitations on our ability to conduct our business in the ordinary course~~ . Our intellectual property rights may not prevent others from using our copyrights or trademarks in connection with the sale of competitive products. We may be subject to claims that our products or trademarks infringe intellectual property rights of others. We currently hold, or have registration applications pending for, numerous trademarks and copyrights for various product and trade names, logos, and fabric designs in the United States and certain foreign countries. We view such intellectual property, along with any unregistered copyrights, trademarks, service marks, trade names, domain names, trade dress, trade secrets, and proprietary technologies, as an important part of our business. These intellectual property rights may not provide adequate protection against infringement or piracy, may not prevent competitors from developing and marketing products that are similar or competitive with our fabric designs or other products, and may be costly and time- consuming to protect and enforce. In addition, the laws of some foreign countries may not protect our intellectual property rights and confidential information to the same extent as the laws of the United States. If we are unable to protect and enforce our intellectual property, we may be unable to prevent other companies from using our fabric designs or trademarks in connection with competitive products, which could adversely affect our sales, profitability, cash flows and financial condition. We may be subject to claims that our products, advertising, or trademarks infringe the intellectual property rights of others. The defense of these claims, even if we are ultimately successful, may result in costly litigation, and if we are not successful in our defense, we could be subject to injunctions and liability for damages or royalty obligations, and our sales, profitability, cash flows and financial condition could be adversely affected. We have made and expect to continue to make acquisitions, which could involve certain risks and uncertainties. Acquisitions have been and may continue to be an important element of our business strategy. Acquisitions involve numerous inherent challenges, such as properly evaluating acquisition opportunities, properly evaluating risks and other diligence matters, ensuring adequate capital availability, and balancing other resource constraints. There are risks and uncertainties related to acquisitions, including difficulties integrating acquired operations, technology, personnel, and financial and other systems; unrealized sales expectations from the acquired business; unrealized synergies and cost- savings; unknown or underestimated liabilities; diversion of management attention from running our existing businesses; and potential loss of key management employees of the acquired business. In addition, internal control over financial reporting of acquired companies may not be up to required standards. Our integration activities may place substantial demand on our management, operational resources, and financial and internal control systems. Customer dissatisfaction or performance problems with an acquired business, technology, service, or product could also have a material adverse effect on our reputation and business. Risks Related to Financing Our Operations We may require funding from external sources, which may not be available at the levels we require or may cost more than we expect. As a result, our expenses and operating results could be negatively affected. We regularly review and evaluate our liquidity and capital needs. Our available cash, cash equivalents, and cash flow from operations have been adequate to finance our operations and capital requirements in recent years. However, if we experience a sustained decline in revenue, there may be periods in which we may require additional external funding to support our operations. **Also, market interest rates have increased significantly since the beginning of fiscal 2023. If we have a need to incur debt under our credit facilities, the cost of borrowing could increase**

substantially over debt costs that we have previously incurred. As of ~~May 1~~ **April 30** , ~~2022~~ **2023** , we had approximately $ ~~38~~ **32. 6** million in combined total borrowing availability under our domestic credit facility and our China credit facility. In ~~June~~ **January** of ~~2022~~ **2023** , we entered into ~~an~~ **a Second** ~~amended~~ **Amended** and ~~restated~~ **Restated** ~~credit~~ **Credit** ~~agreement~~ **Agreement** with respect to our domestic credit facility, which provides for a revolving credit facility ~~of~~ up to **a maximum principal amount of** $ ~~40~~ **35. 0** million, secured by a lien on the company ~~’~~ **'** s assets ~~, where the~~ **. The amount available under this facility is limited by a** borrowing ~~availability is determined based~~ - **base** ~~on~~ **consisting of** certain eligible accounts receivable and inventory of the company. In the event we require additional liquidity from our lenders that exceeds the availability under our credit facilities at such time, such funds may not be available to us. In addition, in the event we draw on any of our credit facilities, outstanding amounts may become immediately due and payable upon certain events of default, including a failure to comply with the financial covenants or certain other affirmative and negative covenants in the credit agreements. If we are unable to access additional credit at the levels we require, or the cost of credit is greater than expected, it could adversely affect our operating results or financial condition. Legal and Regulatory Risks We are subject to litigation and environmental regulations that could adversely affect 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 operations have caused personal injury or property damage, including the related risk of damage to our brand and reputation in conjunction with such claims. 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 many 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, tariffs **, import restrictions (including, without limitation, the recent enactment of the UFLPA)** , quotas, banned substances, and other regulations, are continually changing. Environmental laws, labor laws, tax laws and regulations (including, without limitation, the Global Intangible Low Taxed Income (“ GILTI ”) tax provisions), data privacy laws, and other regulations continually affect our business. These rules and regulations can and do change from time to time, which can increase our costs and our taxes, or can 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 affect our sales and earnings.