

Risk Factors Comparison 2024-07-12 to 2023-07-14 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 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 current inflationary pressures affecting consumer spending, declines in overall consumer confidence, recession and fears of recession, ~~the negative economic impact of potential additional surges of the coronavirus,~~ and other geopolitical events, such as the ongoing Russia / Ukraine war **and the armed conflict in the Middle East** . Because purchases of furniture and bedding products may be considered discretionary purchases for most individuals and businesses, demand for these products ~~are~~ ~~may be more easily~~ **heavily** influenced by economic trends ~~than demand for other products~~ . Economic downturns, increases in unemployment rates , **persistent inflation** , 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 , **declines in office occupancy rates** , 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~~ **factors** 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 **and 2024** . Inflationary pressures also began to affect consumer spending during the second half of fiscal 2022 and ~~continuing~~ **continued** throughout fiscal 2023 **and 2024** . **In addition, declines in the U. S. housing and commercial real estate markets in fiscal 2024 negatively impacted demand for furniture and bedding, reducing demand for our upholstery and mattress fabric products** . We are unable to predict how long these trends will last, or to what extent ~~macroeconomic~~ **additional surges of the coronavirus** or other geopolitical events may affect the ~~economic and~~ purchasing cycle for home furnishing products ~~(~~ . **Demand for our products — and therefore our results of operations — may be materially and adversely affect affected by macroeconomic trends that are beyond our control. Partly in response to certain of these trends, in May 2024, we announced the implementation of a restructuring of our business pursuant to which we intend to consolidate our North American mattress fabrics operations and our sewn cover operation in Haiti in an effort to align capacity and cost structure with demand** . **However, we can offer no assurance that these efforts will achieve their intended effect for— or that the cost savings and other benefits we anticipate will be realized on the expected timeframe our— or at all products) over the short and long term** . Loss of market share due to competition ~~would~~ **may** 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 **in** our future sales and earnings . **In particular, in recent years the U. S. bedding industry — on which the mattress fabrics segment relies — has seen significant increases in competition from low- cost foreign producers, which has adversely affected demand for our products** . 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~~ **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 in countries in which we operate, natural or man- made disasters, acts of war, and terrorism. As an example, we maintain an active production facility in Ouanaminthe, Haiti. Severe political instability in Haiti, along with recent natural disasters, has created a crisis in the country, subjecting our operations there to heightened risk. While operations at our production facility have not been directly affected, ongoing**

political and civil unrest in Haiti could cause manufacturing disruptions at our Haiti facility. In addition, public health concerns and pandemics have in the past, and may again disrupt our business. For example, during the 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 negatively affected the bedding and home furnishings industries, our customers and suppliers, and our business. Many countries, including the countries in which we temporarily operate, as well as state and local governmental authorities, took 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 these restrictions have now been lifted as conditions have improved, the restrictions adversely affected 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 certain of 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. Moreover, 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. 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 global health emergency, future surges in the number of COVID-19 cases and preventative or protective actions that governmental authorities or we may take in response to such surges may 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 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 disrupt our business operations. The potential for future surges in the number of COVID-19 cases and the impact of such surges on our business depends on factors beyond our knowledge or control, including the duration and severity of such surges; actions taken to contain 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 impact of such potential future COVID-19 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 additional surges in COVID-19 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 public health concerns, natural disasters, acts of war, terrorism or other adverse events countries where we operate, could cause disruption at our manufacturing or distribution facilities, or at the facilities of our suppliers and distribution channels. The materialization of any of these risks could result

in additional expense to us, limit our supply of necessary goods and raw materials, and otherwise affect our ability to meet the needs of our customers, and our results of operations may be materially adversely affected as a result. Our future success depends in part on our ability to successfully implement our strategic plan, including the Fiscal 2025 restructuring, and achieve our business strategies. We continue to focus on strategic initiatives designed improve our business and our results of operations. On May 1, 2024, we announced a significant restructuring plan designed to reduce costs, improve asset utilization, and drive performance and profitable growth. This plan, which is being implemented primarily in the company's mattress fabrics segment and, to a lesser extent, in its upholstery fabrics segment, includes consolidating operations, restructuring operations, and reducing expenses. See "Item 1. Business — Fiscal 2025 Restructuring." There can be no assurance that these or other future strategic initiatives will be successful to the extent we expect, or at all. Additionally, we are investing resources in these initiatives and the costs of the initiatives may outweigh their benefits. If we miscalculate the resources we need to complete these strategic initiatives or fail to implement them effectively, our business and operating results could be adversely affected 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. If or, if we are unable to do so pass along these additional costs, result in lowering our gross margins on products sold may be adversely affected. 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 by foreign producers 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. In response 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 out of China to other countries in an effort to circumvent, which affected demand for our products. As a result, the U. S. duties, the U. S. Department of Commerce has imposed anti-dumping duties on mattress imports from seven of these countries during fiscal 2021 other than China. We While we believe the domestic mattress industry and, in turn, our business, began to realize some benefits from these duties starting in during the second half of fiscal 2021 and, low-priced imports continuing continue to adversely affect our sales. We can offer no assurance that such trends will abate, nor can we offer assurance that the U. S. Department of Commerce can effectively limit the dumping of low-priced imports into fiscal 2022 and fiscal 2023. However, despite the imposition of these the duties, U. S. market. If supply chains could are move moved out of China the affected countries to other countries without anti-dumping duties and producers continue to supplying supply low-priced imports in violation of U. S. trade laws, and if or there may be a potential risk of illegal transshipments of mattress products from are not monitored and enforcement is not effective to limit them, these shipments countries to avoid paying the higher duties, which could negatively have a material adverse affect effect our on the company's business, financial condition, results of operations or cash flows. 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 subjecting us 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 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 Recently, a confluence of factors has caused disruptions to international shipping, increasing costs and delaying shipments. Attacks on ships entering the Red Sea en route to the Suez Canal, an important waterway for vessels moving between Asia and the United States, by Houthi rebels in Yemen has forced ships to take longer routes. In addition, labor disputes at major ports and railways throughout the world, along with weather- related disruptions, such as droughts in Panama reducing capacity in the Panama Canal, have further impacted the global supply chain. These factors began to affect the availability of containers and space for shipments from our China operations beginning in the second half of fiscal 2024, and shipping costs have been rising since that time. Additionally, the change in global routes due to the Suez and Panama Canal disruptions has caused transit times to be extended by approximately two weeks. If any of these or other factors were to worsen, we may be unable to timely ship our products or receive the materials we need to produce our products, or our shipping costs may further increase. We may be unable to pass along such costs to our customers, or may have difficulty meeting our customers' demands, each of which may materially and adversely affect our results of operations. In addition,** 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~~ **those** 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~~ **recently enacted laws** items from XUAR; and **regulations** the Uyghur Forced Labor Prevention Act ("UFLPA"), which went into effect in June 2022 and imposes ~~impose~~ a presumptive ban on the import of goods to the U. S. that are made, wholly or in part, in ~~the XUAR~~ **certain defined areas** or by **certain restricted** persons ~~or 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~~ **These UFLPA laws and regulations** specifically ~~targets~~ **target** cotton and the apparel and textile industries as high- priority sectors for enforcement. None of our Chinese suppliers are located in the ~~XUAR~~ **region targeted or are identified as restricted entities under these laws and regulations**, and we prohibit our suppliers from doing business with or sourcing inputs from any company or entity that is **in the region targeted or that** restricted under U. S. or other applicable law. However, as a result of ~~the these UFLPA laws and WROs regulations~~, products we import into the U. S. could be held for inspection by ~~CBP~~ **U. S. customs and border patrol** 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 noncompliance participating in forced labor, pending our providing satisfactory evidence to the contrary.~~ During fiscal 2023 ~~and early in fiscal 2024~~, 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 goods~~ by CBP. These detentions ~~have did~~ not resulted in any material impact on our business, supply chain, customer relationships, or reputation, **and we did not have any further detentions in fiscal 2024**. 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~~ **deliver** 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. We also operate ~~four two upholstery manufacturing facilities and two warehouse~~ **four two** upholstery manufacturing facilities and 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. Our ability to operate in China has also been adversely affected by the COVID- 19 pandemic, and may in the future be negatively affected by additional surges in the coronavirus or other diseases. For example, during the COVID- 19 pandemic, China from time to time enforced broad ~~lockdowns,~~ **lock- downs** which affected our ability to timely produce and 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. **Because a significant portion of our operations are located outside the U. S., we may be adversely affected by changes in the value of the U. S. dollar. 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. We manage various operating activities at the local level and net sales, costs, assets and liabilities are denominated in both the local currency and the U. S. dollar. Our results of operations and assets and liabilities are reported in U. S. dollars and thus will fluctuate with changes in applicable exchange rates, affecting our reported results and the comparability of our results of operations and cash flows between periods. Further, 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. 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 assets, primarily consisting of property, plant and equipment, right of use assets, inventory, and 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 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. In accordance with ASC Topic 330, management continuously examines inventory to determine if 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 or other intangible assets will not occur if business conditions were to deteriorate. As a result of inventory impairment assessments conducted during fiscal 2023, we incurred non-cash inventory charges **during fiscal years 2024, 2023, and 2022** totaling \$ **40,000**, \$ **5.8 million**, which **and \$ 1.9 million, respectively. The \$ 40,000 charge incurred during fiscal 2024 is related to markdowns of inventory in the upholstery fabrics segment associated with the discontinuation of production of cut and sewn upholstery kits at the company's facility in Ouanaminthe, Haiti. The \$ 5.8 million charge incurred in fiscal 2023** represents a \$ 2.9 million impairment charge associated with our mattress fabrics segment; a total of \$ 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. **The We incurred non-cash inventory charges of \$ 1.9 million charge in** and \$ **882,000 during fiscal 2022 and 2021, respectively, which represent represents inventory** markdowns of inventory in both segments that were based on our policy of aged inventory. See Notes **5-4**, **7-6**, and **9-8** of the consolidated financial statements for further details of our assessments of impairment, conclusions reached, and the performance of our quantitative tests. **As part of the Fiscal 2025 restructuring, we expect to incur a non-cash charge of approximately \$ 2.1 million associated with write-downs and other inventory related adjustments; a non-cash charge of approximately \$ 650,000 associated with accelerated rent amortization for a leased building in Haiti; and a non-cash charge of approximately \$ 2.3 million associated with accelerated depreciation and losses on the sale of equipment. Actual write-downs and non-cash charges may exceed these amounts.** 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, 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 Rising** oil prices, a higher demand environment, and labor shortages. **These pressures continued during fiscal 2022 caused**, with further increases in raw material costs **prices to increase**, particularly during the second half of the year, **due to the continued rise in oil prices and a higher demand environment**. During fiscal 2023 **and fiscal 2024**, the cost of raw materials **began to decline declined** 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 **in both year years**. **Raw While the cost of raw material materials and labor** costs were relatively stable during the second half of fiscal 2023 **2024**. However, **the factors listed above, among the other factors,** pressures that affect raw material costs may drive additional **future** increases in raw material prices **in the future, which may harm our results of operation**. 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 for approximately 13 more than 10% of our consolidated net sales in fiscal 2023-2024, in many recent years we have had one or more customers who did.~~ **with Serta Simmons Holdings, LLC and its subcontractors accounting for approximately 13 more than 10% of our consolidated net sales in fiscal 2023-2024, in many recent years we have had one or more customers who did.** In the upholstery fabrics segment, La- Z- Boy Incorporated accounted for approximately 15 ~~12~~ **12** % of consolidated net sales during fiscal ~~2023-2024~~ **2023-2024**, 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 in recent years, 2022, a two of our major customer customers 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, and on January 23, 2023, another major customer and its affiliates associated with our mattress fabrics segment filed pre-planned voluntary petitions for reorganization under Chapter 11 of the U. S. Bankruptcy Code.~~ **on June 25 in recent years, 2022, a two of our major customer customers 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, and on January 23, 2023, another major customer and its affiliates associated with our mattress fabrics segment filed pre-planned voluntary petitions for 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 accounts receivable with respect to each of these customers, a business failure or loss of either such customer and its affiliates, or a business failure or loss of one or more other major customers, could cause a decrease in our sales and an adverse effect on our earnings. ~~Additionally Unforeseen events may adversely affect our customers, as a result causing them to delay, or cease, payments to us. For example, during the onset 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.~~ **Additionally Unforeseen events may adversely affect our customers, as a result causing them to delay, or cease, payments to us. For example, during the onset 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 **artificial intelligence and machine learning**, 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 **. Moreover, we may face increased exposure to these threats as a result of allowing certain of our employees to work remotely from time- to- time**. 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~~ **obtain insurance coverage for potential** 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~~ **Losses in excess of our insurance coverage or outside the scope of our coverage** could have a material adverse effect on our operations and financial results **. In addition to the extent direct financial losses, cybersecurity incidents may be uninsured or exceed insurance recoveries and to the extent that such disruptions adversely impact our relationships with our customers or our business reputation, which may cause long term damage to our**

business. 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, **we can provide no assurance that cybersecurity attacks or other cybersecurity related incidents will not have a material adverse impact on our business in the future.** **Actions of activist shareholders could be disruptive and potentially costly and the possibility that activist shareholders may seek changes that conflict with our strategic direction could cause uncertainty about the strategic direction of our business.** In July 2024, we entered into an agreement with an activist investor, 22NW, LP, and various of its affiliates (collectively, “22NW”) that had filed a Schedule 13D with the SEC with respect to us, where we agreed to appoint a representative of 22NW to our board of directors and nominate that representative for election at our 2024 annual meeting in return for certain customary confidentiality and standstill provisions. 22NW remains a greater than 5% owner of Culp stock. **Activist investors may attempt to effect changes in our strategic direction and how we are governed, or to acquire control over us. Some investors seek to increase short-term shareholder value by advocating corporate actions, such as financial restructuring, increased borrowing, special dividends, stock repurchases, or even sales of assets or the entire company. While we welcome varying opinions from all shareholders, activist campaigns that contest or conflict with our strategic direction could have an adverse effect on our results of operations and financial condition, as responding to proxy contests and the other future actions by activist shareholders can disrupt our operations, be costly and time-consuming, and divert the attention of our board of directors and senior management from the pursuit of business strategies.** In addition, **perceived uncertainties as we 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 future direction as a result of changes to the composition of our board may lead to the perception of a change in the direction of the business, instability operations remain functional and to ensure uninterrupted service to our or customers lack of continuity, which our systems and our operations remain vulnerable to cyberattacks and other disruptions due to the fact that employees may be working remotely exploited by our competitors, may cause concern to our current or potential customers, may result in the loss of potential business opportunities and we cannot be may make it more difficult to attract and certain retain qualified personnel and business partners. These types of actions could cause significant fluctuations in our stock price based on temporary or speculative market perceptions or other factors that do not necessarily reflect the underlying fundamentals and prospects of our business 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.~~ 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 April 30, 2023, we had approximately \$ 32.6 million in combined total borrowing availability under our domestic credit facility and our China credit facility. In January of 2023, we entered into a Second Amended and Restated Credit Agreement with respect to our domestic credit facility, which provides for a revolving credit facility up to a maximum principal amount of \$ 35.0 million, secured by a lien on the company's assets. The amount available under this facility is limited by a borrowing base 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.