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CULP INC  
Form 10-Q  
December 08, 2006

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

FORM 10-Q

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

For the quarterly period ended October 29, 2006

Commission File No. 0-12781

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

NORTH CAROLINA  
(State or other jurisdiction of  
incorporation or other organization)

56-1001967  
(I.R.S. Employer Identification No.)

1823 Eastchester Drive  
High Point, North Carolina  
(Address of principal executive offices)

27265-1402  
(zip code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 of the Securities Exchange Act of 1934 during the preceding 12 months and (2) has been subject to the filing requirements for at least the past 90 days.  YES  NO

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

Large accelerated filer  Accelerated filer  Non-accelerated filer

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

Indicate the number of shares outstanding of each issuer's classes of common stock, as of the latest practical date:

Common shares outstanding at October 29, 2006: 11,686,959  
Par Value: \$0.05

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For the period ended October 29, 2006

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Item 1. Financial Statements

CULP, INC.  
CONSOLIDATED STATEMENTS OF NET INCOME (LOSS)  
FOR THE THREE MONTHS AND SIX MONTHS ENDED OCTOBER 29, 2006 AND OCTOBER 30, 2005  
(UNAUDITED)  
(Amounts in Thousands, Except for Per Share Data)

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THREE MONTHS ENDED

	Amounts			% Over (Under)
	October 29, 2006	October 30, 2005		
Net sales	\$ 59,040	67,006	(11.9) %	
Cost of sales	51,049	61,455	(16.9) %	
Gross profit	7,991	5,551	44.0 %	
Selling, general and administrative expenses	6,273	6,526	(3.9) %	
Restructuring (credit) expense	(264)	4,412	(106.0) %	
Income (loss) from operations	1,982	(5,387)	136.8 %	
Interest expense	938	942	(0.4) %	
Interest income	(51)	(19)	168.4 %	
Other expense	338	214	(57.9) %	
Income (loss) before income taxes	757	(6,524)	111.6 %	
Income taxes *	(55)	(2,372)	(97.7) %	
Net income (loss)	\$ 812	(4,152)	119.6 %	
Net income (loss) per share, basic	\$ 0.07	(0.36)	119.4 %	
Net income (loss) per share, diluted	\$ 0.07	(0.36)	119.4 %	
Average shares outstanding, basic	11,686	11,559	1.1 %	
Average shares outstanding, diluted	11,689	11,559	1.1 %	

SIX MONTHS ENDED

	Amounts			% Over (Under)
	October 29, 2006	October 30, 2005		
Net sales	\$ 121,625	129,348	(6.0) %	
Cost of sales	105,574	117,240	(10.0) %	
Gross profit	16,051	12,108	32.6 %	
Selling, general and administrative expenses	12,846	16,382	(21.6) %	
Restructuring expense	466	6,238	(92.5) %	
Income (loss) from operations	2,739	(10,512)	126.1 %	
Interest expense	1,888	1,892	(0.2) %	
Interest income	(97)	(35)	177.1 %	

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Other expense	60	347	82.7 %
	-----	-----	-----
Income (loss) before income taxes	888	(12,716)	107.0 %
Income taxes *	(58)	(4,623)	(98.7)%
	-----	-----	-----
Net income (loss)	\$ 946	(8,093)	111.7 %
	=====	=====	=====
Net income (loss) per share, basic	\$ 0.08	(0.70)	111.4 %
Net income (loss) per share, diluted	\$ 0.08	(0.70)	111.4 %
Average shares outstanding, basic	11,679	11,555	1.1 %
Average shares outstanding, diluted	11,682	11,555	1.1 %

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

See accompanying notes to consolidated financial statements.

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CULP, INC.  
CONSOLIDATED BALANCE SHEETS  
OCTOBER 29, 2006, OCTOBER 30, 2005 AND APRIL 30, 2006  
(UNAUDITED)  
(Amounts in Thousands)

	Amounts		Increase (Decrease)
	October 29, 2006	October 30, 2005	Dollars
	-----	-----	-----
Current assets:			
Cash and cash equivalents	\$ 9,706	12,883	(3,177)
Accounts receivable, net	23,286	26,919	(3,633)
Inventories	44,430	43,449	981
Deferred income taxes	7,120	7,054	66
Assets held for sale	1,571	-	1,571
Other current assets	1,506	1,846	(340)
	-----	-----	-----
Total current assets	87,619	92,151	(4,532)
Property, plant and equipment, net	42,487	54,212	(11,725)
Goodwill	4,114	4,114	-
Deferred income taxes	22,023	14,541	7,482
Other assets	1,354	1,521	(167)
	-----	-----	-----
Total assets	\$ 157,597	166,539	(8,942)
	=====	=====	=====

Current liabilities:

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Current maturities of long-term debt	\$ 7,742	8,346	(604)
Accounts payable	18,540	16,613	1,927
Accrued expenses	9,001	10,669	(1,668)
Accrued restructuring costs	3,017	5,486	(2,469)
Income taxes payable	3,880	1,023	2,857
	-----	-----	-----
Total current liabilities	42,180	42,137	43
Long-term debt, less current maturities	39,554	46,584	(7,030)
	-----	-----	-----
Total liabilities	81,734	88,721	(6,987)
Shareholders' equity	75,863	77,818	(1,955)
	-----	-----	-----
Total liabilities and shareholders' equity	\$ 157,597	166,539	(8,942)
	=====	=====	=====
Shares outstanding	11,687	11,559	128
	=====	=====	=====

\* Derived from audited financial statements.

See accompanying notes to consolidated financial statements.

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CULP, INC.  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE SIX MONTHS ENDED OCTOBER 29, 2006 AND OCTOBER 30, 2005  
(UNAUDITED)  
(Amounts in Thousands)

	SIX MONTHS ENDED	
	-----	
	Amounts	
	October 29, 2006	October 30, 2005
	-----	-----
Cash flows from operating activities:		
Net income (loss)	\$ 946	(8,093)
Adjustments to reconcile net income (loss) to net cash (used in) provided by operating activities:		
Depreciation	3,364	9,836
Amortization of other assets	41	51
Stock-based compensation	287	104
Deferred income taxes	(1,847)	(4,455)
Restructuring (credit) expense	(364)	3,092
Changes in assets and liabilities:		
Accounts receivable	5,763	1,905
Inventories	(7,737)	7,050

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Other current assets	(219)	845
Other assets	148	149
Accounts payable	(1,965)	(5,623)
Accrued expenses	1,156	1,113
Accrued restructuring	(1,037)	(364)
Income taxes payable	1,392	(521)
	-----	-----
Net cash (used in) provided by operating activities	(72)	5,089
	-----	-----
Cash flows from investing activities:		
Capital expenditures	(1,705)	(4,875)
Proceeds from the sale of buildings and equipment	2,738	3,950
	-----	-----
Net cash provided by (used in) investing activities	1,033	(925)
	-----	-----
Cash flows from financing activities:		
Payments on vendor-financed capital expenditures	(670)	(799)
Payments on long-term debt	(426)	-
Proceeds from issuance of long-term debt	-	4,380
Proceeds from common stock issued	127	31
	-----	-----
Net cash (used in) provided by financing activities	(969)	3,612
	-----	-----
(Decrease) increase in cash and cash equivalents	(8)	7,776
Cash and cash equivalents at beginning of period	9,714	5,107
	-----	-----
Cash and cash equivalents at end of period	\$ 9,706	12,883
	=====	=====

See accompanying notes to consolidated financial statements.

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

(Dollars in thousands, except share data)

	Common Stock		Capital Contributed	Unearned	Retained	
	Shares	Amount	in Excess of Par Value	Compensation	Earnings	Co In
Balance, May 1, 2005	11,550,759	\$ 579	39,964	(139)	45,367	
Net loss	-	-	-	-	(11,796)	
Gain on cash flow hedge, net of income taxes	-	-	-	-	-	

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Stock-based compensation	-	-	-	139	-
Common stock issued in connection with stock option plans	104,200	5	386	-	-
<hr/>					
Balance, April 30, 2006	11,654,959	\$ 584	40,350	-	33,571
<hr/>					
Net income	-	-	-	-	946
Loss on cash flow hedge, net of income taxes	-	-	-	-	-
Stock-based compensation	-	-	287	-	-
Common stock issued in connection with stock option plans	32,000	2	125	-	-
<hr/>					
Balance, October 29, 2006	11,686,959	\$ 586	40,762	-	34,517
<hr/>					

See accompanying notes to consolidated financial statements.

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

#### 1. Basis of Presentation

The accompanying unaudited consolidated financial statements of Culp, Inc. and subsidiaries (the "company") include all adjustments, which are, in the opinion of management, necessary for fair presentation of the results of operations and financial position. All of these adjustments are of a normal recurring nature except as disclosed in note 10 to the consolidated financial statements. Results of operations for interim periods may not be indicative of future results. The unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements, which are included in the company's annual report on Form 10-K filed with the Securities and Exchange Commission on July 20, 2006 for the fiscal year ended April 30, 2006.

The company's six months ended October 29, 2006 and October 30, 2005 represent 26 week periods.

#### 2. Stock-Based Compensation

Effective May 1, 2006, the company began recording compensation expense associated with its stock option plans in accordance with SFAS No. 123R, "Share-Based Payment" which requires the measurement of the cost of employee services received in exchange for an award of an equity instrument based on the grant date fair value of the award. The company adopted the modified prospective transition method provided for under SFAS No. 123R, and consequently has not retroactively adjusted results from prior periods. Under this transition method, compensation expense associated with stock options recognized in the first quarter of fiscal 2007 now includes amortization related to the remaining unvested portion of all stock option awards granted prior to May 1, 2006 based on their grant date fair value estimated in accordance with the original provisions of SFAS No. 123, "Accounting for Stock-Based Compensation."

Prior to May 1, 2006, the company recognized compensation costs related to employee stock option plans utilizing the intrinsic value-based method

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prescribed by APB Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations. The company had also adopted the disclosure requirements of SFAS No. 123, "Accounting for Stock-Based Compensation," as amended by SFAS No. 148, "Accounting for Stock-Based Compensation Transition and Disclosure." SFAS No. 123 required disclosure of pro-forma net income, earnings per share, and other information as if the fair value method of accounting for stock options and other equity instruments described in SFAS No. 123 had been adopted.

As a result of adopting SFAS No. 123R, the company recorded \$155,000 and \$287,000 of compensation expense for stock options within selling, general, and administrative expense for the three-month and six-month periods ended October 29, 2006. In the prior year, the company recorded \$51,000 and \$104,000 of compensation expense for stock options that were required to be accounted for under the provisions of APB Opinion No. 25 for the three-month and six-month periods ended October 30, 2005.

Prior to the adoption of SFAS No. 123R, the benefit of tax deductions in excess of recognized compensation costs were reported as an operating cash flow. SFAS No. 123R requires such benefits be recorded as financing cash flow rather than as a reduction of taxes paid within operating cash flow. For the six-month period ended October 29, 2006, no tax benefits in excess of recognized

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

compensation costs were realized from option exercises.

The remaining unrecognized compensation costs related to unvested awards at October 29, 2006 is \$1.2 million which is expected to be recognized over a weighted average period of 2.9 years.

The following table illustrates the effect on net loss and net loss per share if the company had applied the fair value recognition provisions of SFAS No. 123 to options granted under the company's stock option plan for three-month and six-month period ended October 30, 2005:

(dollars in thousands, except per share data)	(Unaudited) Six Months Ended October 30, 2005	(Unaudited) Three Months Ended October 30, 2005
Net loss, as reported	\$ (8,093)	\$ (4,152)
Add: Total stock-based employee compensation expense included in net loss, net of taxes	66	33
Deduct: Total stock-based employee compensation expense determined under fair value-based method for all awards, net of taxes	(243)	(136)
Pro forma net loss	\$ (8,270)	\$ (4,255)
Net loss per share:		
Basic - as reported	\$ (0.70)	\$ (0.36)



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Basic - pro forma	(0.72)	(0.37)
Diluted - as reported	(0.70)	(0.36)
Diluted - pro forma	(0.72)	(0.37)

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Under the company's stock option plans, employees and directors may be granted options to purchase shares of common stock at the fair market value on the date of grant. Options granted under these plans generally vest over four years and expire five to ten years after the date of grant. The fair value of each option award was estimated on the date of grant using a Black-Scholes option-pricing model. The fair value of stock options granted to directors during the six-month period ended October 29, 2006 was \$3.68 per share using the following assumptions:

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Risk-free interest rate	4.57%
Dividend yield	0.00%
Expected volatility	68.36%
Expected term (in years)	6.8

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The fair value of stock options granted to employees during the six-month period ended October 29, 2006 was \$2.43 per share using the following assumptions:

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Risk-free interest rate	5.03%
Dividend yield	0.00%
Expected volatility	67.03%
Expected term (in years)	1.6

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

The assumptions utilized in the model are evaluated and revised, as necessary, to reflect market conditions and actual historical experience. The risk-free interest rate for periods within the contractual life of the option was based on the U.S. Treasury yield curve in effect at the time of grant. The dividend yield was calculated based on the company's annual dividend as of the option grant date. The expected volatility was derived using a term structure based on historical volatility and the volatility implied by exchange-traded options on the company's common stock. The expected term of the options is the contractual term of the stock options and expected employee exercise and post-vesting employment termination trends.

The following table summarizes the stock options (vested and unvested) as of October 29, 2006 and option activity during the six-month period then ended:

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	Shares	Weighted-Average Exercise Price	Weighted-Average Contractual Term	Aggregate Intrinsic Value
Outstanding, April 30, 2006	993,875	\$ 7.11		
Granted	228,000	4.56		
Expired	(174,125)	6.27		
Exercised	(32,000)	3.91		\$ 17,440
Outstanding, October 29, 2006	1,015,750	6.78	3.2 Years	\$ 770,035

At October 29, 2006, there were 274,750 shares available for future grants under the company's incentive stock option plans and options to purchase 553,375 shares were exercisable which had a weighted average exercise price of \$8.34 per share, an aggregate intrinsic value of \$403,893 and a weighted average contractual term of 0.20 years.

3. Accounts Receivable

A summary of accounts receivable follows:

(dollars in thousands)	October 29, 2006	April 30, 2006
Customers	\$ 25,534	\$ 30,924
Allowance for doubtful accounts	(1,092)	(1,049)
Reserve for returns and allowances and discounts	(1,156)	(826)
	\$ 23,286	\$ 29,049

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

A summary of the activity in the allowance for doubtful accounts follows:

(dollars in thousands)	October 29, 2006	Six months ended October 30, 2005
Beginning balance	\$ (1,049)	\$ (1,142)
Provision for uncollectible accounts	(115)	12
Net write-offs	72	6

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Ending balance	\$	(1,092)	\$	(1,124)
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A summary of the activity in the allowance for returns and allowances and discounts accounts follows:

(dollars in thousands)	Six months ended			
	October 29, 2006	October 30, 2005		
Beginning balance	\$	(826)	\$	(837)
Provision for returns and allowances and discounts		(1,235)		(808)
Discounts taken		905		962
Ending balance	\$	(1,156)	\$	(683)

4. Inventories

Inventories are carried at the lower of cost or market. Cost is determined using the FIFO (first-in, first-out) method.

A summary of inventories follows:

(dollars in thousands)	October 29, 2006	April 30, 2006		
Raw materials	\$	12,676	\$	13,561
Work-in-process		1,917		2,020
Finished goods		29,837		21,112
	\$	44,430	\$	36,693

5. Accounts Payable

A summary of accounts payable follows:

(dollars in thousands)	October 29, 2006	April 30, 2006		
Accounts payable-trade	\$	16,421	\$	18,386
Accounts payable-capital expenditures		2,119		2,449

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\$ 18,540                      \$ 20,835

6. Accrued Expenses

A summary of accrued expenses follows:

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

(dollars in thousands)	October 29, 2006	April 30, 2006
Compensation, commissions and related benefits	\$ 4,643	\$ 4,757
Interest	403	433
Accrued rebates	1,309	705
Other	2,646	1,950
	\$ 9,001	\$ 7,845

7. Long-Term Debt

A summary of long-term debt follows:

(dollars in thousands)	October 29, 2006	April 30, 2006
Unsecured senior term notes	\$ 42,440	\$ 42,440
Real estate loan	4,142	4,242
Canadian government loans	714	1,040
	47,296	47,722
Less current maturities	(7,742)	(8,060)
	\$ 39,554	\$ 39,662

Unsecured Term Notes

The company's unsecured term notes (the "Notes") are payable over an average remaining term of three years beginning March 2007 through March 2010. The principal payments are required to be paid in periodic installments over the next four years as follows: Year 1 - \$7.5 million; Year 2 - \$19.9 million; Year 3 - \$7.5 million; and Year 4 - \$7.5 million.

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On December 6, 2006, the company entered into a Second Amendment to Note Purchase Agreements (the "Amendment"). The Amendment changes the financial covenants applicable to the company to provide additional flexibility to account for recent changes and potential additional changes that the company has made or could make to its business and the accounting consequences of those changes, including markdowns of its inventory and write-downs of its property, plant, and equipment for closed facilities and a valuation allowance against the Company's net deferred tax assets from U.S. operations. The Amendment also allows for the reduction of the company's outstanding debt, without the payment of a prepayment penalty, and raises the interest rate payable on the remaining outstanding Notes. A summary of the terms of the Amendment follows:

- Upon execution of this amendment, the Company will prepay \$3.0 million in principal amount and interest on the Notes, without prepayment penalty or "make whole" premium. Another principal payment of \$4.5 million will be due in March of 2007.
- An increase in the interest rate on the Notes from 7.76% to 8.80%, effective December 1, 2006.

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

- A change in the calculation of consolidated net worth and tangible net worth for purposes of financial covenant compliance, such that restructuring expenses and related costs associated with previously announced restructuring initiatives and any future restructuring initiatives involving the remaining U.S. upholstery facilities will not be counted against the Company's net worth.
- A similar change in the calculation of net worth such that a valuation allowance under U.S. generally accepted accounting principles against the Company's net deferred tax assets from U.S. operations would not be counted as a reduction of the Company's net worth for purposes of financial covenant compliance.
- A provision providing for prepayments of the Notes (at the option of the noteholders and without prepayment penalty) to the extent that the Company's cash balances exceed \$8.0 million at the end of each fiscal quarter.
- Covenants regarding the use of net proceeds from sales of assets.
- An increase in the amount of other debt allowed to be incurred by the Company, including a provision that would allow for debt of up to \$5.0 million in the Company's China subsidiary.
- Other changes to financial covenants, including limits on capital expenditures and restrictions on the payment of dividends or stock repurchases.
- Additional negative covenants to restrict certain changes in the Company's business or methods of operation and certain business transactions.
- A decrease in the cross-default provision to cover any debt in an amount of \$1.0 million or more.

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### Real Estate Loan

The company's real estate loan is secured by a lien on the company's corporate headquarters office located in High Point, NC. This term loan bears interest at the one-month London Interbank Offered Rate plus an adjustable margin based on the company's debt/EBITDA ratio, as defined in the agreement and is payable in varying monthly installments through September 2010, with a final payment of \$3.3 million in October 2010.

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

### Revolving Credit Agreement

On July 20, 2006, the company entered into a Ninth Amendment to this credit agreement. This credit agreement provides for a revolving loan commitment of \$8.0 million, including letters of credit up to \$5.5 million. Borrowings under the credit facility bear interest at the one-month London Interbank Offered Rate plus an adjustable margin based on the company's debt/EBITDA ratio, as defined in the agreement. This agreement limits annual capital expenditures to \$2.5 million for fiscal 2007, requires the company to maintain collected deposit balances of at least \$2.0 million, and maintain certain other financial covenants as defined in the agreement. As of October 29, 2006, there were \$2.9 million in outstanding letters of credit and no borrowings outstanding under the agreement. This agreement expires on August 31, 2007.

### Canadian Government Loans

In November 2005, the company entered into an agreement with the Canadian government to provide for a term loan in the amount of \$680,000. The proceeds are to partially finance capital expenditures at the company's Rayonese facility located in Quebec, Canada. This loan is non-interest bearing and is payable in 48 equal monthly installments commencing December 1, 2009. In addition to the term loan entered into in November 2005, the company had an existing non-interest bearing term loan with the Canadian government which was paid in May 2006.

### Overall

The company's loan agreements require that the company maintain compliance with certain financial ratios. At October 29, 2006, the company was in compliance with these financial covenants.

The principal payment requirements of long-term debt during the next five years are: Year 1 - \$7.7 million; Year 2 - \$20.1 million; Year 3 - \$7.8 million; Year 4 - \$11.1 million; Year 5 - \$178,000; and thereafter - \$373,000.

### 8. Interest Rate Hedging

In connection with the company's real estate loan with its bank, the company was required to have an agreement to hedge the interest rate risk exposure on the real estate loan. The company entered into a \$2,170,000 notional principal interest rate swap, which represents 50% of the principal amount of the real estate loan, that effectively converted the floating rate LIBOR based payments to fixed payments at 4.99% plus the spread calculated under the real estate loan

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agreement. This agreement expires October 2010.

The company accounts for the interest rate swap as a cash flow hedge whereby the fair value of this contract is reflected in other assets in the accompanying consolidated balance sheets with the offset recorded as accumulated other comprehensive income (loss). The fair value of the interest rate swap at October 29, 2006 was \$3,000 in the bank's favor and was determined by quoted market prices.

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### 9. Cash Flow Information

Payments for interest and income taxes follow:

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

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(dollars in thousands)	Six months ended	
	October 29, 2006	October 30, 2005
Interest	\$ 1,928	\$ 1,954
Income taxes	443	515

The company did not finance any of its capital expenditures for the six-months ended October 29, 2006. The non-cash portion of capital expenditures representing vendor financing totaled \$1,699,000 for the six months ended October 30, 2005.

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### 10. Restructuring and Related Charges

A summary of accrued restructuring costs follows:

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(dollars in thousands)	October 29, 2006	April 30, 2006
September 2005 Upholstery Fabrics	\$ 404	\$ 439
August 2005 Upholstery Fabrics	94	134
April 2005 Upholstery Fabrics	574	1,000
October 2004 Upholstery Fabrics	10	64
Fiscal 2003 Culp Decorative Fabrics	1,935	2,412
Fiscal 2001 Culp Decorative Fabrics	-	5
	\$ 3,017	\$ 4,054

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September 2005 Upholstery Fabrics

During the second quarter of fiscal 2007, total restructuring and related charges incurred were \$223,000 of which \$250,000 related to lease termination and other exit costs, \$110,000 related to operating costs associated with the closing of a plant facility, \$40,000 related to asset movement costs, a credit of \$40,000 related to a write-down of a building, and a credit of \$137,000 related to a employee termination benefits. Of the total charge, a credit of \$122,000 was recorded in restructuring expense, a charge of \$110,000 was recorded in cost of sales, and a charge of \$235,000 was recorded in other expense in the 2007 Consolidated Statement of Net Income.

During the six month period of fiscal 2007, total restructuring and related charges incurred were \$532,000 of which \$450,000 related to operating costs associated with the closing of a plant facility, \$259,000 related to lease termination and other exit costs, \$209,000 related to asset movement costs, a credit of \$40,000 related to a write-down of a building, a credit of \$111,000 related to employee termination benefits, and a credit of \$235,000 for sales proceeds received on equipment with no carrying value. Of the total charge, \$82,000 was recorded in restructuring expense and a charge of \$450,000 was recorded in cost of sales in the 2007 Consolidated Statement of Net Income.

The following summarizes the fiscal 2007 activity in the restructuring accrual (dollars in thousands):

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

	Employee Termination Benefits	Lease Termination and Other Exit Costs	Total
Balance, April 30, 2006	\$ 439	-	439
Adjustments in fiscal 2007	(111)	2	(109)
Additions in fiscal 2007	-	257	257
Paid in fiscal 2007	(174)	(9)	(183)
Balance, October 29, 2006	\$ 154	250	404

As of October 29, 2006, there were no assets classified as held for sale. At April 30, 2006, assets classified as held for sale consisted of a building with a carrying value of \$641,000.

August 2005 Upholstery Fabrics

During the second quarter of fiscal 2007, a total restructuring and related credit of \$58,000 was recorded, of which, \$35,000 related to write-downs of equipment, \$22,000 related to operating costs associated with the closing of a plant facility, \$1,000 related to asset movement costs, a credit of \$11,000 for sales proceeds received on equipment with no carrying value, and a credit of



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\$105,000 for employee termination benefits. Of the total credit, a credit of \$125,000 was recorded in restructuring expense, a charge of \$22,000 was recorded in cost of sales, and a charge of \$45,000 was recorded in other expense in the 2007 Consolidated Statement of Net Income.

During the six month period of fiscal 2007, total restructuring and related charges incurred were \$99,000 of which \$49,000 related to operating costs associated with the closing of a plant facility, \$48,000 related to asset movement costs, \$35,000 related to write-downs of equipment, \$23,000 related to employee termination benefits, and a credit of \$56,000 for sales proceeds received on equipment with no carrying value. Of the total charge, \$50,000 was recorded in restructuring expense and a charge of \$49,000 was recorded in cost of sales in the 2007 Consolidated Statement of Net Income.

The following summarizes the fiscal 2007 activity in the restructuring accrual (dollars in thousands):

	Employee Termination Benefits	Lease Termination and Other Exit Costs	Total
Balance, April 30, 2006	\$ 127	7	134
Adjustments in fiscal 2007	23	-	23
Paid in fiscal 2007	(61)	(2)	(63)
Balance, October 29, 2006	\$ 89	5	94

As of October 29, 2006 and April 30, 2006, assets classified as held for sale consisted of equipment with a carrying value of \$700,000. As of April 30, 2006, assets classified as held for sale also included a building with a carrying value of \$475,000, which was sold in May 2006.

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

April 2005 Upholstery Fabrics

During the second quarter of fiscal 2007, total restructuring and related charges incurred were \$217,000 of which approximately \$313,000 related to asset movement costs, \$183,000 related to operating costs associated with closing a plant facility, \$83,000 related to lease termination costs, a credit of \$49,000 for write-downs of equipment, a credit of \$117,000 for sales proceeds received on equipment with no carrying value, and a credit of \$196,000 for employee termination benefits. Of the total charge, \$7,000 was recorded in restructuring expense, \$183,000 was recorded in cost of sales, and a charge of \$27,000 was recorded in other expense in the 2007 Consolidated Statement of Net Income.

During the first six months of fiscal 2007, the total restructuring and related charges incurred were \$918,000 of which approximately \$484,000 related to asset movement costs, \$285,000 related to operating costs associated with the closing of a plant facility, \$238,000 related to inventory markdowns, \$90,000 related to

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lease termination costs, \$67,000 related to write-downs of equipment, a credit of \$102,000 related to employee termination benefits, and a credit of \$144,000 for sales proceeds received on equipment with no carrying value. Of the total charge, \$395,000 was recorded in restructuring expense; \$493,000 was recorded in cost of sales; and \$30,000 was recorded in selling, general, and administrative expenses in the 2007 Consolidated Statements of Net Income.

The following summarizes the fiscal 2007 activity in the restructuring accrual (dollars in thousands):

	Employee Termination Benefits	Lease Termination and Other Exit Costs	Total
Balance, April 30, 2006	\$ 799	201	1,000
Adjustments in fiscal 2007	(102)	10	(92)
Additions in fiscal 2007	-	80	80
Paid in fiscal 2007	(234)	(180)	(414)
Balance, October 29, 2006	\$ 463	111	574

As of October 29, 2006 and April 30, 2006, assets classified as held for sale consisted of equipment with a carrying value of approximately \$871,000 and \$1.3 million, respectively.

October 2004 Upholstery Fabrics

During the second quarter of fiscal 2007, as a result of management's continual evaluation of the restructuring accrual, the reserve was decreased by \$22,000 to reflect current estimates of future health care claims. This \$22,000 decrease in the reserve was recorded in restructuring expense in the 2007 Consolidated Statement of Net Income.

During the first six months of fiscal 2007, as a result of management's continual evaluation of the restructuring accrual, the reserve was decreased by \$30,000 to reflect current estimates of future health care claims. This \$30,000 decrease in the reserve was recorded in restructuring expense in the 2007 Consolidated Statement of Net Income.

The following summarizes the fiscal 2007 activity in the restructuring accrual (dollars in thousands):

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Culp, Inc.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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	Employee Termination Benefits	Lease Termination and Other Exit Costs	Total
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Balance, April 30, 2006	\$	64	-	64
Adjustments in fiscal 2007		(30)	-	(30)
Paid in fiscal 2007		(24)	-	(24)
Balance, October 29, 2006	\$	10	-	10

As of October 29, 2006 and April 30, 2006, there were no assets classified as held for sale.

Fiscal 2003 Culp Decorative Fabrics Restructuring

During the second quarter of fiscal 2007, the company recorded a restructuring related charge of \$4,000 for operating costs associated with a closed plant facility. This \$4,000 restructuring related charge was recorded in cost of sales in the 2007 Consolidated Statement of Net Income. During the first six months of fiscal 2007, as a result of management's continual evaluation of the restructuring accrual, the reserve was decreased by approximately \$22,000 to reflect current estimates of sub-lease income and other exit costs. This \$22,000 decrease in the reserve was recorded in restructuring expense in the 2007 Consolidated Statement of Net Income. Additionally, the company recorded a restructuring related charge of \$16,000 for operating costs associated with a closed plant facility. This \$16,000 restructuring related charge was recorded in cost of sales in the 2007 Consolidated Statement of Net Income.

The following summarizes the fiscal 2007 activity in the restructuring accrual (dollars in thousands):

	Employee Termination Benefits	Lease Termination and Other Exit Costs	Total
Balance, April 30, 2006	\$ 88	2,324	2,412
Adjustments in fiscal 2007	-	(22)	(22)
Paid in fiscal 2007	(22)	(433)	(455)
Balance, October 29, 2006	\$ 66	1,869	1,935

As of October 29, 2006 and April 30, 2006, there were no assets classified as held for sale.

Fiscal 2001 Culp Decorative Fabrics Restructuring

During the first quarter and first six months of fiscal 2007, as a result of management's continual evaluation of the restructuring accrual, the reserve was decreased by approximately \$5,000 to reflect current estimates of future health care claims. This \$5,000 decrease in the reserve was recorded in restructuring expense in the 2007 Consolidated Statement of Net Income. Additionally, the company recorded a restructuring related charge of \$26,000 for other operating costs associated with a closed plant facility. This \$26,000 restructuring related charge was recorded in cost of sales in the 2007 Consolidated Statement of Net Income.

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The following summarizes the fiscal 2007 activity in the restructuring accrual (dollars in thousands):

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Culp, Inc.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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	Employee Termination Benefits	Lease Termination and Other Exit Costs	Total
Balance, April 30, 2006	\$ 5	-	5
Adjustments in fiscal 2007	(5)	-	(5)
Paid in fiscal 2007	-	-	-
Balance, October 29, 2006	\$ -	-	-

As of October 29, 2006 and April 30, 2006, there were no assets classified as held for sale.

### 11. Net Income (Loss) Per Share

Basic net income (loss) per share is computed using the weighted-average number of shares outstanding during the period. Diluted net income (loss) per share uses the weighted-average number of shares outstanding during the period plus the dilutive effect of stock options calculated using the treasury stock method. Weighted average shares used in the computation of basic and diluted net income (loss) per share follows:

(amounts in thousands)	October 29, 2006	Three months ended October 30, 2005
Weighted average common shares outstanding, basic	11,686	11,559
Effect of dilutive stock options	3	0
Weighted average common shares outstanding, diluted	11,689	11,559

Options to purchase 464,750 and 506,125 shares of common stock were not included in the computation of diluted net income (loss) per share for the three months ended October 29, 2006 and October 30, 2005, respectively, because the exercise price of the options was greater than the average market price of the common shares.

Options to purchase 48,209 shares of common stock were not included in the

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computation of diluted net loss per share for the three months ended October 30, 2005, because the company incurred a net loss for the period.

(amounts in thousands)	Six months ended	
	October 29, 2006	October 30, 2005
Weighted average common shares outstanding, basic	11,679	11,555
Effect of dilutive stock options	3	0
Weighted average common shares outstanding, diluted	11,682	11,555

Options to purchase 449,813 and 510,750 shares of common stock were not included in the computation of diluted net income (loss) per share for the six months ended October 29, 2006 and October 30, 2005, respectively, because the exercise price of the options was greater than the average market price of the common shares.

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

Options to purchase 42,171 shares of common stock were not included in the computation of diluted net loss per share for the six months ended October 30, 2005, because the company incurred a net loss for the period.

12. Segment Information

The company's operations are classified into two segments: mattress fabrics and upholstery fabrics. The mattress fabrics segment principally manufactures, sources, and sells fabrics to bedding manufacturers. The upholstery fabrics segment principally manufactures, sources, and sells fabrics primarily to residential and commercial (contract) furniture manufacturers.

Financial information for the company's operating segments follow:

(dollars in thousands)	Three months ended	
	October 29, 2006	October 30, 2005
Net sales:		
Mattress Fabrics	\$ 23,494	\$ 23,990
Upholstery Fabrics	35,546	43,016
	\$ 59,040	\$ 67,006
Gross profit:		
Mattress Fabrics	\$ 4,144	\$ 3,302

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Upholstery Fabrics		4,138		4,000
-----				
Total segment gross profit		8,282		7,302
Restructuring related charges		(291) (1)		(1,751) (3)
-----				
		\$ 7,991	\$	5,551
-----				
Selling, general, and administrative expenses:				
Mattress Fabrics	\$	1,674	\$	1,636
Upholstery Fabrics		3,745		4,069
-----				
Total segment selling, general, and administrative expenses		5,419		5,705
Unallocated corporate expenses		824		821
Restructuring related charges		30 (1)		-
-----				
		\$ 6,273	\$	6,526
-----				
Operating income (loss):				
Mattress Fabrics	\$	2,470	\$	1,666
Upholstery Fabrics		393		(69)
-----				
Total segment operating income		2,863		1,597
Unallocated corporate expenses		(824)		(821)
Restructuring credit (expense)		264 (2)		(4,412) (4)
Restructuring related charges		(321) (1)		(1,751) (3)
-----				
		\$ 1,982	\$	(5,387)
-----				

- (1) The \$291,000 and the \$30,000 represent restructuring related charges for operating costs associated with the closing of plant facilities. These charges relate to the Upholstery Fabrics segment.

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Culp, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(unaudited)

- (2) The \$264,000 restructuring credit represents \$354,000 for asset movement costs, \$333,000 for lease termination and other exit costs, a credit of \$53,000 for write-downs of a building and equipment, a credit of \$437,000 for sales proceeds received on equipment with no carrying value, and a credit of \$461,000 associated with employee termination benefits. These charges relate to the Upholstery Fabrics segment.
- (3) The \$1.8 million represents restructuring related charges of \$1.4 million for accelerated depreciation, \$331,000 for inventory markdowns, and \$65,000 for operating costs associated with the closing of plant facilities. These charges relate to the Upholstery Fabrics segment.
- (4) The \$4.4 million represents restructuring charges of \$2.1 million for write-downs of buildings and equipment, \$1.6 million for employee termination benefits, \$395,000 for asset movement costs, and \$328,000 for lease termination costs. These charges relate to the Upholstery Fabrics segment.

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(dollars in thousands)	Six months ended	
	October 29, 2006	October 30, 2005
Net sales:		
Mattress Fabrics	\$ 45,339	\$ 46,905
Upholstery Fabrics	76,286	82,443
	\$ 121,625	\$ 129,348
Gross profit:		
Mattress Fabrics	\$ 7,665	\$ 6,397
Upholstery Fabrics	9,423	7,957
Total segment gross profit	17,088	14,354
Restructuring related charges	(1,037) (5)	(2,246) (7)
	\$ 16,051	\$ 12,108
Selling, general, and administrative expenses:		
Mattress Fabrics	\$ 3,337	\$ 3,373
Upholstery Fabrics	7,453	8,405
Total segment selling, general, and administrative expenses	10,790	11,778
Unallocated corporate expenses	2,026	1,582
Restructuring related charges	30 (5)	3,022 (8)
	\$ 12,846	\$ 16,382
Operating income (loss):		
Mattress Fabrics	\$ 4,328	\$ 3,024
Upholstery Fabrics	1,970	(448)
Total segment operating income	6,298	2,576
Unallocated corporate expenses	(2,026)	(1,582)
Restructuring expense	(466) (6)	(6,238) (9)
Restructuring related charges	(1,067) (5)	(5,268) (10)
	\$ 2,302	\$ (10,512)

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

(5) The \$1.1 million represents restructuring related charges of \$798,000 for operating costs associated with the closing of plant facilities and \$239,000 for inventory markdowns. The \$30,000 represents restructuring related charges for operating costs associated with the closing of plant facilities. These charges relate to the Upholstery Fabrics segment.

(6) The \$466,000 represents restructuring charges of \$740,000 for asset

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movement costs, \$327,000 for lease termination and other exit costs, \$62,000 for net write-downs of buildings and equipment, a credit of \$226,000 for employee termination benefits, and a credit of \$437,000 for sales proceeds received on equipment with no carrying value associated with the closing of plant facilities. These charges relate to the Upholstery Fabrics segment.

- (7) The \$2.3 million represents restructuring related charges of \$1.9 million for accelerated depreciation, \$331,000 for inventory markdowns, and \$65,000 for operating costs associated with the closing of plant facilities. These charges primarily relate to the Upholstery Fabrics segment.
- (8) The \$3.0 million represents accelerated depreciation. These charges primarily relate to the Upholstery Fabrics segment.
- (9) The \$6.2 million represents restructuring charges of \$2.9 million for write-downs of buildings and equipment, \$1.6 million for asset movement costs, \$1.4 million for employee termination benefits, and \$378,000 for lease termination costs. These charges primarily relate to the Upholstery Fabrics segment.
- (10) The \$5.3 million represents restructuring related charges of \$4.9 million for accelerated depreciation, \$331,000 for inventory markdowns, and \$65,000 for other operating costs associated with the closing of plant facilities. These charges primarily relate to the Upholstery Fabrics segment.

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

Balance sheet information for the company's operating segments follow:

(dollars in thousands)	October 29, 2006	April 30, 2006
Segment assets:		
Mattress Fabrics		
Current assets (13)	\$ 22,660	\$ 21,179
Property, plant and equipment (11)	23,441	25,357
Total mattress fabrics assets	46,101	46,536
Upholstery Fabrics		
Current assets (13)	45,056	44,563
Assets held for sale	1,571	3,111
Property, plant and equipment (12)	19,000	19,229
Total upholstery fabrics assets	65,627	66,903
Total segment assets	111,728	113,439
Non-segment assets:		
Cash and cash equivalents	9,706	9,714
Deferred income taxes	29,143	27,296
Other current assets	1,506	1,287
Property, plant & equipment	46	53



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Goodwill		4,114	4,114
Other assets		1,354	1,564
<hr/>			
Total assets	\$	157,597	\$ 157,467
<hr/>			
		Three months ended	
(dollars in thousands)		October 29, 2006	October 30, 2005
<hr/>			
Capital expenditures:			
Mattress Fabrics	\$	28	\$ 546
Upholstery Fabrics		1,337	833
	\$	1,365	\$ 1,379
<hr/>			
Depreciation expense:			
Mattress Fabrics	\$	918	\$ 893
Upholstery Fabrics		744	1,417
Total segment depreciation expense		1,662	2,310
Accelerated depreciation		-	1,355
	\$	1,662	\$ 3,665
<hr/>			
		Six months ended	
(dollars in thousands)		October 29, 2006	October 30, 2005
<hr/>			
Capital expenditures:			
Mattress Fabrics	\$	54	\$ 3,416
Upholstery Fabrics		1,991	2,007
	\$	2,045	\$ 5,423
<hr/>			
Depreciation expense:			
Mattress Fabrics	\$	1,860	\$ 1,749
Upholstery Fabrics		1,504	3,216
Total segment depreciation expense		3,364	4,965
Accelerated depreciation		-	4,871
	\$	3,364	\$ 9,836
<hr/>			

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

- (11) Included in property, plant, and equipment are assets located in the U.S. totaling \$12.3 million and \$12.9 million at October 29, 2006 and April 30, 2006, respectively.
- (12) Included in property, plant, and equipment are assets located in the U.S. totaling \$11.8 million and \$13.8 million at October 29, 2006 and April 30,

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2006, respectively. Included in this U.S. property, plant, and equipment are various other corporate allocations totaling \$4.0 million and \$4.1 million at October 29, 2006 and April 30, 2006, respectively.

- (13) Current assets represent accounts receivable and inventory for the respective segment.

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### 13. Recent Accounting Pronouncements

In June 2006, the Financial Accounting Standards Board ("FASB") issued Interpretation No.48, "Accounting for Uncertainty in Income Taxes" ("FIN No. 48") which clarifies the criteria for the recognition of tax benefits under SFAS No. 109, "Accounting for Income Taxes." This Interpretation prescribes a comprehensive model for financial statement recognition, measurement, presentation and disclosure of uncertain tax positions taken, or expected to be taken, in income tax returns. FIN No.48 is effective for fiscal years beginning after December 15, 2006 and requires that the cumulative effect of applying its provisions be disclosed as a one-time, non-cash charge or credit against the opening balance of retained earnings in the year of adoption. This Interpretation will be adopted by the company in the first quarter of fiscal 2008. The company is currently evaluating the potential impact of FIN No. 48 and any impact on its financial position cannot be readily determined at this time.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements," which provides enhanced guidance for using fair value to measure assets and liabilities. SFAS No. 157 establishes a common definition of fair value, provides a framework for measuring fair value under accounting principles generally accepted in the United States and expands disclosure requirements about fair value measurements. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007 and is effective for the company in the first quarter of fiscal 2009. The company is currently evaluating the impact, if any, the adoption of SFAS No. 157 will have on its consolidated financial statements.

In September 2006, the SEC staff issued Staff Accounting Bulletin (SAB) No. 108, "Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements." SAB No. 108 was issued in order to eliminate the diversity of practice surrounding how public companies quantify financial statement misstatements. This SAB establishes a "dual approach" methodology that requires quantification of financial statement misstatements based on the effects of the misstatements on each of the company's financial statements (both the statement of operations and statement of financial position). The SEC has stated SAB No. 108 should be applied no later than the annual financial statements for the first fiscal year ending after November 15, 2006. SAB No. 108 permits a company to elect either a retrospective or prospective application. Prospective application requires recording a cumulative effect adjustment in the period of adoption, as well as detailed disclosure of the nature and amount of each individual error being corrected through the cumulative adjustment and how and when it arose. The company is currently evaluating the impact, if any, the application of SAB No 108 will have on the consolidated financial statements.

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#### CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING INFORMATION

This report and the exhibits attached hereto contain statements that may be

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deemed "forward-looking statements" within the meaning of the federal securities laws, including the Private Securities Litigation Reform Act of 1995 (Section 27A of the Securities Act of 1933 and Section 27A of the Securities and Exchange Act of 1934). Such statements are inherently subject to risks and uncertainties. Further, forward looking statements are intended to speak only as of the date on which they are made. Forward-looking statements are statements that include projections, expectations or beliefs about future events or results or otherwise are not statements of historical fact. Such statements are often but not always characterized by qualifying words such as "expect," "believe," "estimate," "plan" and "project" and their derivatives, and include but are not limited to statements about expectations for the company's future operations or success, sales, gross profit margins, operating income, SG&A or other expenses, and earnings, as well as any statements regarding future economic or industry trends or future developments. Factors that could influence the matters discussed in such statements include the level of housing starts and sales of existing homes, consumer confidence, trends in disposable income, and general economic conditions. Decreases in these economic indicators could have a negative effect on the company's business and prospects. Likewise, increases in interest rates, particularly home mortgage rates, and increases in consumer debt or the general rate of inflation, could affect the company adversely. In addition, changes in consumer preferences for various categories of furniture coverings, as well as changes in costs to produce such products (including import duties and quotas or other import costs) can have significant effect on demand for the company's products. Also, changes in the value of the U.S. dollar versus other currencies can affect the company's financial results because a significant portion of the company's operations are located outside the United States. Further, economic and political instability in international areas could affect the company's operations or sources of goods in those areas, as well as demand for the company's products in international markets. Finally, unanticipated delays or costs in executing restructuring actions could cause the cumulative effect of restructuring actions to fail to meet the objectives set forth by management. Further information about these factors, as well as other factors that could affect the company's future operations or financial results and the matters discussed in forward-looking statements are included in Item 1A "Risk Factors" section in the company's Form 10-K filed with the Securities and Exchange Commission on July 26, 2006 for the fiscal year ended April 30, 2006.

### Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

#### Results of Operations

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

#### Overview

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

#### Overview

Culp, Inc. (or the "company") has two operating segments - mattress fabrics and upholstery fabrics. The company manufactures, sources and markets fabrics that are used primarily in the production of bedding products and residential and commercial upholstered furniture, including mattresses, box springs, mattress sets, sofas, recliners, chairs, loveseats, sectionals, sofa-beds, and office seating. The company primarily markets fabrics that have broad appeal in the

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"good" and "better" priced categories of furniture and bedding. Management believes that Culp is the largest producer of mattress fabrics in North America, as measured by total sales, and one of the three largest marketers of upholstery fabrics for furniture in North America, again measured by total sales.

The company's executive offices are located in High Point, North Carolina. The company was organized as a North Carolina corporation in 1972 and made its initial public offering in 1983. Since 1997, the company has been listed on the New York Stock Exchange and traded under the symbol "CFI." The company's fiscal year is the 52 or 53 week period ending on the Sunday closest to April 30. The company's six months ended October 29, 2006, and October 30, 2005, represent 26 week periods.

The following tables set forth the company's net sales, gross profit, selling, general and administrative expenses and operating income (loss) by segment for the three and six months ended October 29, 2006 and October 30, 2005.

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CULP, INC.  
SALES, GROSS PROFIT AND OPERATING INCOME (LOSS) BY SEGMENT  
FOR THE THREE MONTHS ENDED OCTOBER 29, 2006 AND OCTOBER 30, 2005

(Amounts in thousands)

	THREE MONTHS ENDED (UN		
	Amounts		
Net Sales by Segment	October 29, 2006	October 30, 2005	% Over (Under)
Mattress Fabrics	\$ 23,494	23,990	(2.1)%
Upholstery Fabrics	35,546	43,016	(17.4)%
Net Sales	\$ 59,040	67,006	(11.9)%
<hr/>			
Gross Profit by Segment			
Mattress Fabrics	\$ 4,144	3,302	25.5 %
Upholstery Fabrics	4,138	4,000	3.5 %
Subtotal	8,282	7,302	13.4 %
Restructuring related charges	(291) (1)	(1,751) (3)	(83.4)%
Gross Profit	\$ 7,991	5,551	44.0 %

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	=====	=====	=====
Selling, General and Administrative expenses by Segment			
-----			
Mattress Fabrics	\$ 1,674	1,636	2.3 %
Upholstery Fabrics	3,745	4,069	(8.0) %
Unallocated Corporate expenses	824	821	0.4 %
	-----	-----	-----
	6,243	6,526	(4.3) %
Restructuring related charges	30 (1)	-	100.0 %
	-----	-----	-----
Selling, General and Administrative expenses	\$ 6,273	6,526	(3.9) %
	=====	=====	=====

	=====	=====	=====
Operating Income (loss) by Segment			
-----			
Mattress Fabrics	\$ 2,470	1,666	48.3 %
Upholstery Fabrics	393	(69)	669.6 %
Unallocated corporate expenses	(824)	(821)	0.4 %
	-----	-----	-----
Subtotal	2,039	776	162.8 %
Restructuring credit (expense)	264 (2)	(4,412) (4)	(106.0) %
Restructuring related charges	(321) (1)	(1,751) (3)	(81.7) %
	-----	-----	-----
Operating income (loss)	\$ 1,982	(5,387)	136.8 %
	=====	=====	=====

	=====	=====	=====
Depreciation by Segment			
-----			
Mattress Fabrics	\$ 918	893	2.8 %
Upholstery Fabrics	744	1,417	(47.5) %
	-----	-----	-----
Subtotal	1,662	2,310	(28.1) %
Accelerated Depreciation	-	1,355	(100.0) %
	-----	-----	-----
Total Depreciation	\$ 1,662	3,665	(54.7) %
	=====	=====	=====

Notes:

- (1) The \$291,000 and \$30,000 represents restructuring related charges for other operating costs of plant facilities.
- (2) The \$264,000 restructuring credit represents \$354,000 for asset movement costs, \$333,000 for exit costs, a credit of \$53,000 for write-downs of a building and equipment, a credit of \$437,000 received on equipment with no carrying value associated with the closing of plant facilities, associated with employee termination benefits.
- (3) The \$1.8 million represents restructuring related charges of \$1.4 million for accelerated depreciation inventory markdowns, and \$65,000 for other operating costs associated with the closing of plant facilities.
- (4) The \$4.4 million represents restructuring charges of \$2.1 million for write-downs of building and equipment, \$1.8 million for employee termination benefits, \$395,000 for asset movement costs and \$328,000 for other operating costs.

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CULP, INC.  
 SALES, GROSS PROFIT AND OPERATING INCOME (LOSS) BY SEGMENT  
 FOR THE SIX MONTHS ENDED OCTOBER 29, 2006 AND OCTOBER 30, 2005

(Amounts in thousands)

	SIX MONTHS ENDED (UNAUDITED)		
	Amounts		
Net Sales by Segment	October 29, 2006	October 30, 2005	% Over (Under)
Mattress Fabrics	\$ 45,339	46,905	(3.3) %
Upholstery Fabrics	76,286	82,443	(7.5) %
Net Sales	\$ 121,625	129,348	(6.0) %
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Gross Profit by Segment			
Mattress Fabrics	\$ 7,665	6,397	19.8 %
Upholstery Fabrics	9,423	7,957	18.4 %
Subtotal	17,088	14,354	19.0 %
Restructuring related charges	(1,037) (1)	(2,246) (3)	(53.8) %
Gross Profit	\$ 16,051	12,108	32.6 %
<hr/>			
Selling, General and Administrative expenses by Segment			
Mattress Fabrics	\$ 3,337	3,373	(1.1) %
Upholstery Fabrics	7,453	8,405	(11.3) %
Unallocated Corporate expenses	2,026	1,582	28.1 %
Subtotal	12,816	13,360	(4.1) %
Restructuring related charges	30 (1)	3,022 (4)	(99.0) %
Selling, General and Administrative expenses	\$ 12,846	16,382	(21.6) %

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Operating Income (loss) by Segment

Mattress Fabrics	\$ 4,328	3,024	43.1 %
Upholstery Fabrics	1,970	(448)	539.7 %
Unallocated corporate expenses	(2,026)	(1,582)	28.1 %
Subtotal	4,272	994	329.8 %
Restructuring expense	(466) (2)	(6,238) (5)	(92.5) %
Restructuring related charges	(1,067) (1)	(5,268) (6)	(79.7) %
Operating income (loss)	\$ 2,739	(10,512)	126.1 %

Depreciation by Segment

Mattress Fabrics	\$ 1,860	1,749	6.3 %
Upholstery Fabrics	1,504	3,216	(53.2) %
Subtotal	3,364	4,965	(32.2) %
Accelerated Depreciation	-	4,871	(100.0) %
Total Depreciation	\$ 3,364	9,836	(65.8) %

Notes:

- (1) The \$1.1 million represents restructuring related charges of \$798,000 for other operating costs closing of plant facilities and \$239,000 for inventory markdowns. The \$30,000 represents rest for other operating costs associated with the closing of plant facilities.
- (2) The \$466,000 represents restructuring charges of \$740,000 for asset movement costs, \$327,000 and other exit costs, \$62,000 for net write-downs of buildings and equipment, a credit of \$22 termination benefits, and a credit of \$437,000 for sales proceeds received on equipment with associated with the closing of plant facilities.
- (3) The \$2.3 million represents restructuring related charges of \$1.9 million of accelerated depr inventory markdowns, and \$65,000 for other operating costs associated with the closing of pla
- (4) The \$3.0 million represents accelerated depreciation.
- (5) The \$6.2 million represents restructuring charges of \$2.9 million for write-downs of building million for asset movement costs, \$1.4 million for employee termination benefits, and \$378,000 costs.
- (6) The \$5.3 million represents restructuring related charges of \$4.9 million for accelerated dep inventory markdowns, and \$65,000 for other operating costs associated with the closing of pla

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Three and Six Months ended October 29, 2006 compared with Three and Six Months ended October 30, 2005

For the second quarter of fiscal 2007, net sales were \$59.0 million compared to \$67.0 million for the second quarter of fiscal 2006. The company reported a net income of \$812,000, or \$0.07 per share diluted, in the second quarter of fiscal 2007, which included restructuring and related pre-tax charges of \$365,000. The company reported a net loss of \$4.2 million, or \$0.36 per share diluted, in the second quarter of fiscal 2006, which included restructuring and related pre-tax charges of \$6.2 million.

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For the first six months of fiscal 2007, net sales were \$121.6 million compared to \$129.3 million for the first six months of fiscal 2006. The company reported a net income of \$946,000 or \$0.08 per share diluted, for the first six months of fiscal 2007, which included restructuring and related pre-tax charges of \$1.5 million. The company reported a net loss of \$8.1 million, or \$0.70 per share diluted, for the first six months of fiscal 2006, which included restructuring and related pre-tax charges of \$11.5 million.

### Restructuring and Related Charges

During the second quarter of fiscal 2007, total restructuring and related charges incurred were \$365,000, of which \$354,000 related to asset movement costs, \$333,000 for lease termination and other exit costs, \$321,000 for operating costs associated with the closing of plant facilities, a credit of \$53,000 for write-downs of a building and equipment, a credit of \$129,000 for sales proceeds received on equipment with no carrying value associated with closed plant facilities, and a credit of \$461,000 associated with employee termination benefits. Of the total charge, \$291,000 was recorded in cost of sales, \$30,000 was recorded in selling, general, and administrative expenses, a credit of \$264,000 was recorded in restructuring expense, and a charge of \$308,000 was recorded in other expense in the 2007 Consolidated Statement of Net Income. These charges relate to the Upholstery Fabrics segment.

During the first six months of fiscal 2007, total restructuring and related charges incurred were \$1.5 million of which \$828,000 represents operating costs associated with the closing of plant facilities, \$740,000 for asset movement costs, \$327,000 for lease termination and other exit costs, \$239,000 for inventory markdowns, \$62,000 for net write-downs of buildings and equipment, a credit of \$226,000 for employee termination benefits, and a credit of \$437,000 for sales proceeds received on equipment with no carrying value associated with closed plant facilities. Of the total charge, \$1.0 million was recorded in cost of sales, \$30,000 was recorded in selling, general, and administrative expenses, and \$466,000 was recorded in restructuring expense in the 2007 Consolidated Statement of Net Income. These charges relate to the Upholstery Fabrics segment.

### Mattress Fabrics Segment

Net Sales -- Mattress fabric (known as mattress ticking) sales for the second quarter of fiscal 2007 decreased 2.1% to \$23.5 million compared to \$24.0 million for the second quarter of fiscal 2006. Mattress ticking yards sold during the second quarter of fiscal 2007 were 10.2 million compared to 11.1 million yards in the second quarter of fiscal 2006, a decline of 7.9%. This trend reflects a decline in demand for printed ticking, a less popular category. However, sales of knitted ticking continued to increase, reflecting changing customer preferences. The average selling price was \$2.28 per yard for the second quarter of fiscal 2007, compared to \$2.16 per yard in the second quarter of fiscal 2006, an increase of 5.5%. This increase is due to the shift in product mix to increased sales of substantially higher priced knitted ticking. For the first six months of fiscal 2007, net sales decreased 3.3% to \$45.3 million compared to \$46.9 million for the first six months of fiscal 2006. Mattress ticking yards sold during the first six months of fiscal 2007 were 19.7 million compared to 21.2 million for the first six months of fiscal 2006. For the first six months

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of fiscal 2007, the average selling price for mattress fabrics was \$2.29 per yard compared to \$2.22 per yard for the first six months of fiscal 2006, an increase of 3.3%. The trends (and the factors causing those trends) for the first six months of fiscal 2007 compared with the first six months of fiscal 2006 parallel those for the second quarter of fiscal 2007 compared with the second quarter of fiscal 2006.



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Operating Income -- For the second quarter of fiscal 2007, the mattress fabrics segment reported operating income of \$2.5 million, or 10.5% of net sales, compared to \$1.7 million, or 6.9% of net sales, for the second quarter of fiscal 2006. Operating margins improved for the second quarter of fiscal 2007 compared to the second quarter of fiscal 2006 due to productivity gains from the \$10.0 million capital project implemented over the past 2 years. We also continue to see higher sales and gross margins compared to prior periods in knitted ticking, and we expect this product line to represent a higher percentage of our mattress ticking business in fiscal 2007. We are experiencing a growing trend with our customers to use more knits on the top of the mattress and woven jacquards on the sides. For the first six months of fiscal 2007, operating income was \$4.3 million, or 9.5% of net sales, compared to \$3.0 million, or 6.4% of net sales, for the first six months of fiscal 2006. The trends (and the factors causing those trends) for the first six months of fiscal 2007 compared with the first six months of fiscal 2006 parallel those for the second quarter of fiscal 2007 compared with the second quarter of fiscal 2006.

Segment Assets -- Segment assets consist of accounts receivable, inventory, and property, plant, and equipment. As of October 29, 2006, accounts receivable and inventory totaled \$22.7 million compared to \$21.2 million at April 30, 2006. Also as of October 29, 2006, property, plant and equipment totaled \$23.4 million compared to \$25.4 million at April 30, 2006. Included in property, plant, and equipment are assets located in the U.S. totaling \$12.3 million and \$12.9 million at October 29, 2006, and April 30, 2006, respectively.

### Upholstery Fabrics Segment

Net Sales -- Upholstery fabric sales for the second quarter of fiscal 2007 decreased 17.4% to \$35.5 million compared with \$43.0 million in the second quarter of fiscal 2006. Upholstery fabric yards sold during the second quarter of fiscal 2007 were 8.4 million compared to 10.3 million in the second quarter of fiscal 2006, a decline of 18.1%. The average selling price was \$4.16 per yard for the second quarter of fiscal 2007, compared to \$4.19 per yard in the second quarter of fiscal 2006, a decrease of less than 1%. Sales of upholstery fabrics reflect higher sales of non-U.S. produced fabrics, and continued very weak demand industry wide for U.S. produced fabrics, driven by consumer preference for leather and suede furniture and other imported fabrics, including an increasing amount of cut and sewn kits. Sales of non-U.S. produced fabrics were \$20.6 million in the second quarter of fiscal 2007 compared with \$12.5 million in the second quarter of fiscal 2006, an increase of 65%. The company expects continued growth in the sales of fabrics produced outside the U.S., however, the year-over-year growth rate is expected to decline. Sales of U.S. produced fabrics decreased 51% to \$14.9 million in the second quarter of fiscal 2007 compared to \$30.5 million in the second quarter of fiscal 2006.

For the first six months of fiscal 2007, net sales decreased 7.5% to \$76.3 million compared to \$82.4 million for the first six months of fiscal 2006. Upholstery fabric yards sold during the first six months of fiscal 2007 were 18.0 million compared to 19.3 million for the first six months of fiscal 2006, a decline of 6.7%. The average selling price for the first six months of fiscal 2007 was \$4.19 compared to \$4.28 for the first six months of fiscal 2006, a decrease of 2.2%. Sales of non-U.S. produced fabrics were \$44.1 million for the first six months of fiscal 2007 compared with \$24.1 million for the first six months of fiscal 2006, and increase of 83% over the same period last year. Sales of U.S. produced fabrics decreased 45% to \$32.1 million for the first six months of fiscal 2007 compared with \$58.3 million for the first six months of fiscal

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2006. The trends (and the factors causing those trends) for the first six months of fiscal 2007 compared with the first six months of fiscal 2006 parallel those for the second quarter of fiscal 2007 compared with the second quarter of fiscal 2006.

Operating Income (Loss) - Operating income for the second quarter of fiscal 2007 was \$393,000 compared with an operating loss of \$69,000 for the second quarter of fiscal 2006. These results reflect significantly higher gross profit on non-U.S. produced fabrics and substantially lower gross profit related to U.S. produced fabrics. Operating income for the first six months of fiscal 2007 was \$2.0 million compared with an operating loss of \$448,000 for the first six months of fiscal 2006. The trends (and the factors causing those trends) for the first six months of fiscal 2007 compared with the first six months of fiscal 2006 parallel those for the second quarter of fiscal 2007 compared with the second quarter of fiscal 2006.

Non-U.S. Produced Sales - Net sales of upholstery fabrics produced outside the company's U.S. manufacturing operations accounted for approximately 58% of total upholstery fabric sales in the second quarter of 2007, compared to 29% for the second quarter of fiscal 2006. Net sales of upholstery fabrics produced outside the company's U.S. manufacturing operations accounted for approximately 58% of total upholstery fabric sales for the first six months of fiscal 2007, compared to 29% for the first six months of fiscal 2006. The company has established an industry-leading operation near Shanghai, China, designed to accommodate the growing customer demand for products sourced outside the U.S. This wholly-owned platform is the key driver of the company's future growth in upholstery fabrics. The company is aggressively expanding its capabilities in China with a strong focus on product innovation, quality, and global logistics. The company now employs 450 people in China and has five buildings approximating a total of 300,000 square feet.

U.S. Produced Sales - Management has continued to take aggressive actions over the past year to reduce manufacturing complexities and improve the cost structure of its U.S. upholstery fabric operations. The lower sales volume for the first six months of fiscal 2007 has had a significant impact on the company's operating results, and employment levels were reduced during the first six months of fiscal 2007 across the remaining three U.S. manufacturing facilities to more appropriately support current demand.

As a result of the continuing sharp declines in demand for U.S. produced fabrics, management will continue to evaluate its domestic strategy and production requirements. Management remains committed to take whatever additional steps are necessary to achieve profitable U.S. upholstery fabric operations, and the company could take additional restructuring actions in the near future. The company could experience additional markdowns of its inventory and write-downs of its property, plant, and equipment from any new restructuring initiatives.

Segment Assets -- Segment assets consist of accounts receivable, inventory, and property, plant, and equipment. As of October 29, 2006, accounts receivable and inventory totaled \$45.1 million compared to \$44.6 million at April 30, 2006. As of October 29, 2006, assets held for sale totaled \$1.6 million compared to \$3.1 million at April 30, 2006. The company received sales proceeds of \$2.3 million on assets held for sale during the six month period ended October 29, 2006. The company expects the majority of assets held for sale as of October