

CULP INC
Form 10-Q
December 10, 2010

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 31, 2010
Commission File No. 1-12597

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

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

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

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

27265-1402
(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 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to the filing requirements for at least the past 90 days. x
YES NO o

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

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

Large accelerated filer o Accelerated filer o Non-accelerated filer x

Edgar Filing: CULP INC - Form 10-Q

Smaller Reporting Company

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

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

Common shares outstanding at October 31, 2010: 13,198,939
Par Value: \$0.05 per share

INDEX TO FORM 10-Q
For the period ended October 31, 2010

	Page
<u>Part I – Financial Statements</u>	
<u>Item 1.</u>	<u>Financial Statements:</u>
	<u>Consolidated Statements of Net Income -- Three and Six Months Ended October 31, 2010 and November 1, 2009</u> I-1
	<u>Consolidated Balance Sheets -- October 31, 2010, November 1, 2009 and May 2, 2010</u> I-2
	<u>Consolidated Statements of Cash Flows -- Six Months Ended October 31, 2010 and November 1, 2009</u> I-3
	<u>Consolidated Statements of Shareholders' Equity</u> I-4
	<u>Notes to Consolidated Financial Statements</u> I-5
	<u>Cautionary Statement Concerning Forward-Looking Information</u> I-24
<u>Item 2.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> I-25
<u>Item 3.</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u> I-39
<u>Item 4.</u>	<u>Controls and Procedures</u> I-40
<u>Part II – Other Information</u>	
<u>Item 1.</u>	<u>Legal Proceedings</u> II-1
<u>Item 1A.</u>	<u>Risk Factors</u> II-1
<u>Item 6.</u>	<u>Exhibits</u> II-1
<u>Signatures</u>	II-2

Item 1. Financial Statements

CULP, INC.

CONSOLIDATED STATEMENTS OF NET INCOME

FOR THE THREE MONTHS AND SIX MONTHS ENDED OCTOBER 31, 2010 AND NOVEMBER 1, 2009

(UNAUDITED)

(Amounts in Thousands, Except for Per Share Data)

THREE MONTHS ENDED

	Amounts			Percent of Sales				
	October 31, 2010	November 1, 2009	% Over (Under)	October 31, 2010	November 1, 2009			
Net sales	\$48,879	49,716	(1.7)%	100.0	%	100.0	%	
Cost of sales	41,270	40,582	1.7 %	84.4	%	81.6	%	
Gross profit	7,609	9,134	(16.7)%	15.6	%	18.4	%	
Selling, general and administrative expenses	4,202	5,385	(22.0)%	8.6	%	10.8	%	
Restructuring credit	-	(184)	N.M.	0.0	%	(0.4)%	
Income from operations	3,407	3,933	(13.4)%	7.0	%	7.9	%	
Interest expense	225	342	(34.2)%	0.5	%	0.7	%	
Interest income	(49)	(16)	206.3 %	(0.1)%	(0.0)%	
Other expense	30	103	(70.9)%	0.1	%	0.2	%	
Income before income taxes	3,201	3,504	(8.6)%	6.5	%	7.0	%	
Income taxes *	(801)	625	N.M.	(25.0)%	17.8	%	
Net income	\$4,002	2,879	39.0 %	8.2	%	5.8	%	
Net income per share, basic	\$0.31	0.23	34.8 %					
Net income per share, diluted	\$0.30	0.22	36.4 %					
Average shares outstanding, basic	12,932	12,671	2.1 %					
Average shares outstanding, diluted	13,167	12,852	2.5 %					

SIX MONTHS ENDED

	Amounts			Percent of Sales				
	October 31, 2010	November 1, 2009	% Over (Under)	October 31, 2010	November 1, 2009			
Net sales	\$ 104,791	95,193	10.1 %	100.0	%	100.0	%	
Cost of sales	87,473	78,473	11.5 %	83.5	%	82.4	%	

Edgar Filing: CULP INC - Form 10-Q

Gross profit	17,318	16,720	3.6 %	16.5 %	17.6 %
Selling, general and administrative expenses	9,416	10,280	(8.4)%	9.0 %	10.8 %
Restructuring credit	(8)	(343)	N.M.	(0.0)%	(0.4)%
Income from operations	7,910	6,783	16.6 %	7.5 %	7.1 %
Interest expense	435	699	(37.8)%	0.4 %	0.7 %
Interest income	(87)	(28)	210.7 %	(0.1)%	(0.0)%
Other expense	83	617	(86.5)%	0.1 %	0.6 %
Income before income taxes	7,479	5,495	36.1 %	7.1 %	5.8 %
Income taxes *	(270)	740	N.M.	(3.6)%	13.5 %
Net income	\$ 7,749	4,755	63.0 %	7.4 %	5.0 %
Net income per share, basic	\$ 0.60	0.38	57.9 %		
Net income per share, diluted	\$ 0.59	0.37	59.5 %		
Average shares outstanding, basic	12,901	12,662	1.9 %		
Average shares outstanding, diluted	13,186	12,804	3.0 %		

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

See accompanying notes to consolidated financial statements.

CULP, INC.
CONSOLIDATED BALANCE SHEETS
OCTOBER 31, 2010, NOVEMBER 1, 2009 AND MAY 2, 2010
(UNAUDITED)
(Amounts in Thousands)

	Amounts		Increase		* May 2, 2010
	October 31, 2010	November 1, 2009	(Decrease) Dollars	Percent	
Current assets:					
Cash and cash equivalents	\$ 15,262	19,575	(4,313)	(22.0) %	18,295
Short-term investments	4,035	-	4,035	100.0 %	3,023
Accounts receivable	14,810	16,771	(1,961)	(11.7) %	19,822
Inventories	29,435	21,834	7,601	34.8 %	26,002
Deferred income taxes	176	58	118	203.4 %	150
Assets held for sale	123	160	(37)	(23.1) %	123
Income taxes receivable	477	384	93	24.2 %	728
Other current assets	1,234	972	262	27.0 %	1,698
Total current assets	65,552	59,754	5,798	9.7 %	69,841
Property, plant and equipment, net	31,225	24,795	6,430	25.9 %	28,403
Goodwill	11,462	11,462	-	0.0 %	11,462
Deferred income taxes	1,391	-	1,391	100.0 %	324
Other assets	2,278	2,769	(491)	(17.7) %	2,568
Total assets	\$ 111,908	98,780	13,128	13.3 %	112,598
Current liabilities:					
Current maturities of long-term debt	\$ 2,396	4,863	(2,467)	(50.7) %	196
Current portion of obligation under a capital lease	-	280	(280)	(100.0) %	-
Accounts payable-trade	17,992	16,416	1,576	9.6 %	22,278
Accounts payable - capital expenditures	253	377	(124)	(32.9) %	567
Accrued expenses	5,665	6,455	(790)	(12.2) %	9,613
Accrued restructuring costs	287	345	(58)	(16.8) %	324
Income taxes payable - current	90	329	(239)	(72.6) %	224
Total current liabilities	26,683	29,065	(2,382)	(8.2) %	33,202
Accounts payable - capital expenditures	-	188	(188)	(100.0) %	-
Income taxes payable - long-term	3,890	3,603	287	8.0 %	3,876
Deferred income taxes	622	1,078	(456)	(42.3) %	982
Long-term debt, less current maturities	9,209	11,568	(2,359)	(20.4) %	11,491
Total liabilities	40,404	45,502	(5,098)	(11.2) %	49,551

Commitments and Contingencies (Note 18)

Shareholders' equity	71,504	53,278	18,226	34.2	%	63,047
Total liabilities and shareholders' equity	\$ 111,908	98,780	13,128	13.3	%	112,598
Shares outstanding	13,199	12,888	311	2.4	%	13,052

* Derived from audited financial statements.

See accompanying notes to consolidated financial statements.

CULP, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE SIX MONTHS ENDED OCTOBER 31, 2010 AND NOVEMBER 1, 2009
(UNAUDITED)
(Amounts in Thousands)

	SIX MONTHS ENDED	
	Amounts	
	October 31, 2010	November 1, 2009
Cash flows from operating activities:		
Net income	\$7,749	4,755
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	2,097	2,052
Amortization of other assets	258	286
Stock-based compensation	204	440
Deferred income taxes	(1,183)	8
Restructuring expenses, net of gain on sale of related assets	-	(113)
Loss on impairment of equipment	4	60
Excess tax benefits related to stock-based compensation	(270)	-
Foreign currency exchange losses	60	554
Changes in assets and liabilities:		
Accounts receivable	5,110	1,356
Inventories	(3,363)	2,147
Other current assets	477	286
Other assets	(45)	(31)
Accounts payable	(4,493)	(671)
Accrued expenses	(4,112)	(126)
Accrued restructuring	(37)	(508)
Income taxes	121	181
Net cash provided by operating activities	2,577	10,676
Cash flows from investing activities:		
Capital expenditures	(5,076)	(1,976)
Purchase of short-term investments	(1,012)	-
Proceeds from the sale of equipment	27	285
Net cash used in investing activities	(6,061)	(1,691)
Cash flows from financing activities:		
Payments on vendor-financed capital expenditures	(188)	(797)
Payments on capital lease obligation	-	(346)
Payments on long-term debt	(80)	-
Debt issuance costs	(27)	(15)
Excess tax benefits related to stock-based compensation	270	-

Edgar Filing: CULP INC - Form 10-Q

Proceeds from common stock issued	511	45
Net cash provided by (used in) financing activities	486	(1,113)
Effect of exchange rate changes on cash and cash equivalents	(35)	(94)
(Decrease) increase in cash and cash equivalents	(3,033)	7,778
Cash and cash equivalents at beginning of period	18,295	11,797
Cash and cash equivalents at end of period	\$15,262	19,575

See accompanying notes to consolidated financial statements.

I-3

CULP, INC.
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
UNAUDITED
(Dollars in thousands, except share data)

	Common Stock		Capital Contributed in Excess of Par Value	Accumulated (Deficit) Earnings	Accumulated Other Comprehensive Income	Total Shareholders' Equity
	Shares	Amount				
Balance, May 3, 2009	12,767,527	\$638	47,728	(355)	20	\$ 48,031
Net income	-	-	-	13,188	-	13,188
Stock-based compensation	-	-	834	-	-	834
Gain on cash flow hedge, net of taxes	-	-	-	-	83	83
Restricted common stock award	80,000	4	(4)	-	-	-
Common stock issued in connection with performance based units	80,000	4	(4)	-	-	-
Common stock surrendered for withholding taxes payable	(20,658)	(1)	(190)	-	-	(191)
Excess tax benefit related to stock based compensation	-	-	429	-	-	429
Common stock issued in connection with stock option exercises	144,916	7	666	-	-	673
Balance, May 2, 2010	13,051,785	652	49,459	12,833	103	63,047
Net income	-	-	-	7,749	-	7,749
Stock-based compensation	-	-	204	-	-	204
Loss on cash flow hedge, net of taxes	-	-	-	-	(103)	(103)
Excess tax benefit related to stock based compensation	-	-	270	-	-	270
Common stock issued in connection with performance based units	40,000	2	(2)	-	-	-
Common stock issued in connection with stock option exercises	137,875	7	659	-	-	666
Fully vested common stock award	3,114	-	-	-	-	-
Common stock surrendered for withholding taxes payable and cost of option exercises	(33,835)	(2)	(327)	-	-	(329)
Balance, October 31, 2010	13,198,939	\$659	50,263	20,582	-	\$ 71,504

See accompanying notes to consolidated financial statements.

I-4

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 16. 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 15, 2010 for the fiscal year ended May 2, 2010.

The company’s six months ended October 31, 2010, and November 1, 2009, represent 26 week periods, respectively.

2. Significant Accounting Policies

As of October 31, 2010, there were no changes in the nature of our significant accounting policies or the application of those policies from those reported in our annual report on Form 10-K for the year then ended May 2, 2010.

Recently Adopted Accounting Pronouncements

ASC Topic 860

In June 2009, the FASB amended certain provisions of ASC Topic 860, Transfers and Servicing (previously reported as SFAS No. 166, “Accounting for Transfers of Financial Assets, an amendment to SFAS No. 140”). The amended provisions of ASC Topic 860 eliminate the concept of a “qualifying special-purpose entity,” changes the requirements for derecognizing financial assets, and requires additional disclosures in order to enhance information reported to users of financial statements by providing greater transparency about transfers of financial assets, including securitization transactions, and an entity’s continuing involvement in and exposure to the risks related to transferred financial assets. The amended provisions of ASC Topic 860 are effective for the first annual reporting period beginning after November 15, 2009 and for interim periods within that first annual reporting period. We adopted the provisions of ASC Topic 860 in the first quarter of fiscal 2011. The adoption of this standard did not have a material impact on our consolidated results of operations or financial condition.

ASC Topic 810

In June 2009, the FASB amended certain provisions of ASC Topic 810, Consolidation (previously reported as SFAS No. 167, “Amendments to FASB Interpretation No. 46(R)”) which revised the consolidation guidance for variable-interest entities. The amendments include: (1) the elimination of the exemption for qualifying special purpose entities, (2) a new approach for determining who should consolidate a variable-interest entity, and (3) changes to when it is necessary to reassess who should consolidate a variable-interest entity. The amended provisions of ASC Topic 810 are effective for the first annual reporting period beginning after November 15, 2009 and for interim periods within that first annual reporting period. We adopted the provisions of ASC Topic 860 in the first quarter of fiscal 2011. The adoption of this standard did not have a material impact on our consolidated results of operations or financial condition.

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

Recently Issued Accounting Pronouncements

ASC Topic 605

In October 2009, the FASB issued ASU 2009-13, which amends ASC Topic 605, "Revenue Recognition", to revise accounting guidance related to revenue arrangements with multiple deliverables. The guidance relates to the determination of when the individual deliverables included in a multiple-element arrangement may be treated as separate units of accounting and modifies the manner in which the transaction consideration is allocated across the individual deliverables. Also, the guidance expands the disclosure requirements for revenue arrangements with multiple deliverables. The guidance will be effective for our fiscal 2012. Because the Company historically does not have revenue arrangements with multiple deliverables, the adoption of this standard is not expected to have a material impact on its consolidated results of operations or financial condition.

3. Stock-Based Compensation

Common Stock Awards

On October 1, 2010, we granted a total of 3,114 shares of common stock to our board of directors. These shares of common stock vested immediately and were measured at \$10.02 per share, which represents the closing price of the company's common stock at the date of grant.

We recorded \$31,000 of compensation expense within selling, general, and administrative expense for these common stock awards for the six-month period ended October 31, 2010. There were not any common stock awards for the six-month period ended November 1, 2009 and, therefore no compensation expense was recorded on fully vested common stock awards.

Incentive Stock Option Awards

We did not grant any incentive stock option awards through the second quarter of fiscal 2011.

At October 31, 2010, options to purchase 360,974 shares of common stock were outst