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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 30, 2016: 12,311,756

Par Value: \$0.05 per share

INDEX TO FORM 10-Q
For the period ended October 30, 2016

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Item
1:
Financial
Statements

CULP, INC.
CONSOLIDATED
STATEMENTS
OF NET
INCOME
FOR THE THREE
AND SIX
MONTHS
ENDED
OCTOBER 30,
2016 AND
NOVEMBER 1,
2015
UNAUDITED
(Amounts in
Thousands, Except
for Per Share
Data)

THREE MONTHS ENDED

	October 30, 2016	November 1, 2015
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Net sales	\$ 75,343	76,956
Cost of sales	58,442	61,223
Gross profit	16,901	15,733
Selling, general and administrative expenses	9,602	9,433
Income from operations	7,299	6,300
Interest income	(15) (69
Other expense	155	225
Income before income taxes	7,159	6,144
Income taxes	2,684	2,373
Net income	\$ 4,475	3,771
Net income per share, basic	\$ 0.36	0.31
Net income per share, diluted	0.36	0.30
Average shares outstanding, basic	12,308	12,343
Average shares outstanding, diluted	12,507	12,484

SIX MONTHS ENDED

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	October 30, 2016	November 1, 2015
Net sales	\$ 156,026	157,141
Cost of sales	120,705	125,206
Gross profit	35,321	31,935
Selling, general and administrative expenses	19,348	18,175
Income from operations	15,973	13,760
Interest income	(40)	(112)
Other expense	307	320
Income before income taxes	15,706	13,552
Income taxes	5,917	5,081
Net income	\$ 9,789	8,471
Net income per share, basic	\$ 0.80	0.69
Net income per share, diluted	0.78	0.68
Average shares outstanding, basic	12,297	12,310
Average shares outstanding, diluted	12,495	12,481

See accompanying notes to consolidated financial statements.

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See accompanying notes to consolidated financial statements.

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CULP, INC.
CONSOLIDATED BALANCE SHEETS
OCTOBER 30, 2016, NOVEMBER 1, 2015 AND MAY 1, 2016
UNAUDITED
(Amounts in Thousands)

	October 30, 2016	November 1, 2015	* May 1, 2016
Current assets:			
Cash and cash equivalents	\$13,910	31,176	37,787
Short-term investments	2,430	6,320	4,359
Accounts receivable, net	19,039	23,314	23,481
Inventories	45,954	46,479	46,531
Income taxes receivable	-	75	155
Other current assets	1,675	2,614	2,477
Total current assets	83,008	109,978	114,790
Property, plant and equipment, net	45,537	38,319	39,973
Goodwill	11,462	11,462	11,462
Deferred income taxes	581	3,415	2,319
Long-term investments - Held-To-Maturity	31,050	-	-
Long-term investments - Rabbi Trust	4,994	3,279	4,025
Other assets	2,495	2,494	2,573
Total assets	\$179,127	168,947	175,142
Current liabilities:			
Accounts payable-trade	20,183	25,221	23,994
Accounts payable - capital expenditures	3,000	1,269	224
Accrued expenses	8,878	9,895	11,922
Income taxes payable - current	513	305	180
Total current liabilities	32,574	36,690	36,320
Income taxes payable - long-term	3,734	3,655	3,841
Deferred income taxes	1,699	1,206	1,483
Deferred compensation	5,171	4,421	4,686
Total liabilities	43,178	45,972	46,330
Commitments and Contingencies (Note 15)			
Shareholders' equity			
Preferred stock, \$0.05 par value, authorized 10,000,000			

Common stock, \$0.05 par value,
authorized
40,000,000 shares, issued and
outstanding
12,311,756 at October 30, 2016;
12,350,265
at November 1, 2015; and 12,265,489
at

May 1, 2016	615	618	614
Capital contributed in excess of par value	45,349	44,708	43,795
Accumulated earnings	90,029	77,806	84,547
Accumulated other comprehensive loss	(44)	(157)	(144)
Total shareholders' equity	135,949	122,975	128,812
 Total liabilities and shareholders' equity	 \$ 179,127	 168,947	 175,142

* 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 30, 2016 AND NOVEMBER 1, 2015
UNAUDITED
(Amounts in Thousands)

	SIX MONTHS ENDED	
	October 30, 2016	November 1, 2015
Cash flows from operating activities:		
Net income	\$9,789	8,471
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	3,511	3,184
Amortization of other assets	80	86
Stock-based compensation	1,657	1,339
Excess tax benefit related to stock-based compensation	(167)	(838)
Deferred income taxes	2,121	2,816
Realized loss on sale of short-term investments	12	56
Loss (gain) on sale of equipment	9	(60)
Foreign currency exchange gains	(53)	(13)
Changes in assets and liabilities:		
Accounts receivable	4,142	4,892
Inventories	219	(4,135)
Other current assets	751	(302)
Other assets	-	8
Accounts payable - trade	(3,274)	(2,921)
Accrued expenses and deferred compensation	(2,749)	(1,547)
Income taxes	554	168
Net cash provided by operating activities	16,602	11,204
Cash flows from investing activities:		
Capital expenditures	(6,308)	(5,255)
Proceeds from the sale of equipment	-	225
Proceeds from the sale of short-term investments	2,000	3,612
Purchase of short-term investments	(23)	(46)
Purchase of long-term investments (Held-To-Maturity)	(31,050)	-
Purchase of long-term investments (Rabbi Trust)	(929)	(864)
Net cash used in investing activities	(36,310)	(2,328)
Cash flows from financing activities:		
Proceeds from line of credit	7,000	-
Payments on line of credit	(7,000)	-
Payments on long-term debt	-	(2,200)
Excess tax benefit related to stock-based compensation	167	838

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Dividends paid	(4,307)	(6,417)
Payments on debt issuance costs	(2)	(43)
Proceeds from common stock issued	11	126
Net cash used in financing activities	(4,131)	(7,696)
Effect of exchange rate changes on cash and cash equivalents	(38)	271
(Decrease) increase in cash and cash equivalents	(23,877)	1,451
Cash and cash equivalents at beginning of period	37,787	29,725
Cash and cash equivalents at end of period	\$13,910	31,176

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 in Excess of Par	Accumulated Earnings	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
	Shares	Amount	Value	Earnings	Loss	Equity
Balance, May 3, 2015	12,219,121	\$ 611	43,159	75,752	(95)	\$ 119,427
Net income	-	-	-	16,935	-	16,935
Stock-based compensation	-	-	2,742	-	-	2,742
Unrealized loss on investments	-	-	-	-	(49)	(49)
Excess tax benefit related to stock based compensation	-	-	841	-	-	841
Common stock repurchased	(100,776)	(5)	(2,392)	-	-	(2,397)
Common stock issued in connection with performance based units	115,855	6	(6)	-	-	-
Fully vested common stock award	3,000	-	-	-	-	-
Common stock issued in connection with exercise of stock options	54,500	3	197	-	-	200
Common stock surrendered for withholding taxes payable	(26,211)	(1)	(746)	-	-	(747)
Dividends paid	-	-	-	(8,140)	-	(8,140)
Balance, May 1, 2016 *	12,265,489	614	43,795	84,547	(144)	128,812
Net income	-	-	-	9,789	-	9,789
Stock-based compensation	-	-	1,657	-	-	1,657
Unrealized gain on investments	-	-	-	-	100	100
Excess tax benefit related to stock based compensation	-	-	167	-	-	167
Common stock issued in connection with performance based units	49,192	2	(2)	-	-	-
Fully vested common stock award	4,800	-	-	-	-	-
Common stock issued in connection with exercise of stock options	2,000	-	11	-	-	11
Common stock surrendered for withholding taxes payable	(9,725)	(1)	(279)	-	-	(280)
Dividends paid	-	-	-	(4,307)	-	(4,307)
Balance, October 30, 2016	12,311,756	\$ 615	45,349	90,029	(44)	\$ 135,949

* Derived from audited financial statements.

See accompanying notes to consolidated financial statements.

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. 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, 2016, for the fiscal year ended May 1, 2016.

The company's six months ended October 30, 2016, and November 1, 2015, represent 26 week periods, respectively.

2. Significant Accounting Policies

As of October 30, 2016, 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 ended May 1, 2016.

Recently Adopted Accounting Pronouncements

In November 2015, the FASB issued ASU No. 2015-17, Balance Sheet Classification of Deferred Taxes, an amendment to FASB ASC Topic 740, which simplifies the presentation of deferred income taxes on an entity's classified balance sheet. Currently, entities that are required to issue a classified balance sheet present a net current and net noncurrent deferred income tax asset or liability for each tax jurisdiction. The amendments in this ASU require entities to offset all deferred income tax assets and liabilities for each tax jurisdiction and present a net deferred income tax asset or liability as a single noncurrent amount. The recognition and measurement guidance for deferred income tax assets and liabilities are not affected by this amendment. This amended guidance is effective for fiscal years and interim periods within those fiscal years, beginning after December 15, 2016. Early adoption is permitted and the standard may be applied either retrospectively or on a prospective basis to all deferred income tax assets and liabilities.

We early adopted this amendment during the third quarter of fiscal 2016 on a retrospective basis. Accordingly, we reclassified our current deferred income taxes to noncurrent on our November 1, 2015 Consolidated Balance Sheet, which increased noncurrent deferred income taxes \$3.0 million and decreased noncurrent deferred tax liabilities \$4.7 million.

In June 2014, the Financial Accounting Standards Board ("FASB") amended its authoritative guidance on accounting for certain share-based payment awards. The amended guidance requires that share-based compensation awards with terms of a performance target that affects vesting, and that could be achieved after the requisite service period, be treated as a performance condition. As such, the performance target should not be reflected in estimating the grant-date fair value of the award and compensation cost should be recognized in the period in which it becomes probable that the performance target will be achieved. The guidance will permit an entity to apply the amendments in the update either (a) prospectively to all awards granted or modified after the effective date or (b) retrospectively to all awards with performance targets that are outstanding as of the beginning of the earliest annual period presented in the consolidated financial statements and to all new or modified awards thereafter.

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

This guidance was effective for the first quarter of fiscal 2017 and did not have any impact on our consolidated financial statements as we currently do not have any share-based payment awards with terms of a performance target that affects vesting and could be achieved after the requisite service period.

Recently Issued Accounting Pronouncements

In May 2014, the FASB issued ASU No. 2014-09, which amends ASC Topic 606, Revenue from Contracts with Customers. The amendments in this ASU are intended to enhance the comparability of revenue recognition practices and will be applied to all contracts with customers. Improved disclosures related to the nature, amount, timing, and uncertainty of revenue that is recognized are requirements under the amended guidance. In April 2015, the FASB issued ASU 2015-24, Revenue from Contracts with Customers: Deferral of the Effective Date which proposed a deferral of the effective date by one year, and on July 7, 2015, the FASB decided to delay the effective date by one year. The deferral results in the new revenue standard being effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. We are therefore required to apply the new revenue guidance in our fiscal 2019 interim and annual financial statements. This ASU can be adopted either retrospectively or as a cumulative-effect adjustment as of the date of adoption. We are currently assessing the impact that this guidance will have on our consolidated financial statements.

In July 2015, the FASB issued ASU No. 2015-11, Simplifying the Measurement of Inventory, which changed the measurement principle for inventory from the lower of cost or market to lower of cost and net realizable value. This ASU is effective for fiscal years and interim periods within those fiscal years, beginning after December 15, 2016. We are therefore required to apply this guidance in our fiscal 2018 interim and annual financial statements. We are currently assessing the impact that this guidance will have on our consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842), which increases transparency and comparability among companies accounting for lease transactions. The most significant change of this update will require the recognition of lease assets and liabilities on the balance sheet for operating lease arrangements with lease terms greater than twelve months for lessees. This update will require a modified retrospective application which includes a number of optional practical expedients related to the identification and classification of leases commenced before the effective date. This ASU is effective for fiscal years and interim periods within those fiscal years, beginning after December 15, 2018. We are therefore required to apply this guidance in our fiscal 2020 interim and annual financial statements. We are currently assessing the impact that this guidance will have on our consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-09, "Compensation - Stock Compensation (Topic 718): Improvements to Employee Shares-Based Payment Accounting." ASU 2016-09 is intended to improve the accounting for share-based payment transactions as part of the FASB's simplification initiative. ASU 2016-09 changes several aspects of the accounting for share-based payment award transactions, including: (1) accounting for income taxes; (2) classification of excess tax benefits on the statement of cash flows; (3) forfeitures; (4) minimum statutory tax withholding requirements; and (5) classification of employee taxes paid on the statement of cash flows when an employer withholds shares for tax-withholding purposes. ASU 2016-09 is effective for fiscal years beginning after December 15, 2016, and interim periods within those years for public companies. We are therefore required to apply this guidance in our fiscal 2018 interim and annual financial statements. We are currently assessing the impact that ASU 2016-09 will have on its consolidated financial statements.

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

In August 2016, the FASB issued ASU No. 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments, to address the diversity in how certain cash receipts and cash payments are presented in the statement of cash flows. This new guidance provides clarity around the cash flow classification for eight specific issues in an effort to reduce the current and potential future diversity in practice. This standard, which is to be applied retrospectively, will be effective for the first interim period within annual reporting periods beginning after December 15, 2017, and early adoption is permitted. We are therefore required to apply this new guidance in our fiscal 2019 interim and annual financial statements. We are currently assessing the impact that this guidance will have on our consolidated financial statements.

In October 2016, the FASB issued ASU No. 2016-16, Income Taxes (Topic 740): Intra-Entity Transfers of Assets Than Inventory, to reduce the diversity in practice and complexity associated with accounting for the income tax consequences of intra-entity transfers of assets other than inventory. Current GAAP prohibits recognition of deferred income taxes for an intra-entity transfer until the asset has been sold to an outside party. The new pronouncement stipulates that an entity should recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. This new guidance will be effective for annual reporting periods beginning after December 15, 2017, including interim periods within those annual reporting periods, with early adoption permitted in the first interim period only. We are therefore required to apply this new guidance in our fiscal 2019 interim and annual financial statements. The amendments are to applied on a modified retrospective basis through a cumulative-effect adjustment directly to retained earnings as of the beginning of the period of adoption. We are currently assessing the impact that this guidance will have on our consolidated financial statements.

There are no other new accounting pronouncements that are expected to have a significant impact on our consolidated financial statements.

3. Stock-Based Compensation

Equity Incentive Plan Description

On September 16, 2015, our shareholders approved an equity incentive plan entitled the Culp, Inc. 2015 Equity Incentive Plan (the "2015 Plan"). The 2015 Plan updated and replaced our 2007 Equity Incentive Plan (the "2007 Plan") as the vehicle for granting new equity based awards substantially similar to those authorized under the 2007 Plan. In general, the 2015 Plan authorizes the grant of stock options intended to qualify as incentive stock options, nonqualified stock options, stock appreciation rights, restricted stock, restricted stock units, performance units, and other equity and cash related awards as determined by our Compensation Committee. An aggregate of 1,200,000 shares of common stock were authorized for issuance under the 2015 Plan, with certain sub-limits that would apply with respect to specific types of awards that may be issued as defined in the 2015 Plan. In connection with the approval of the 2015 Plan, no further awards will be granted under the 2007 Plan, but outstanding awards under the 2007 Plan will be settled in accordance with their terms.

At October 30, 2016, there were 980,486 shares available for future equity based grants under our 2015 plan.

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

Incentive Stock Option Awards

We did not grant any incentive stock option awards through the second quarter of fiscal 2017.

At October 30, 2016, options to purchase 81,600 shares of common stock were outstanding and exercisable, had a weighted average exercise price of \$8.44 per share, and a weighted average contractual term of 0.8 years. At October 30, 2016, the aggregate intrinsic value for options outstanding and exercisable was \$1.6 million.

The aggregate intrinsic value for options exercised for the six months ending October 30, 2016 and November 1, 2015, was \$43,000 and \$1.0 million, respectively.

At October 30, 2016, there were no unvested incentive stock option awards. Therefore, there was no unrecognized compensation cost related to incentive stock option awards at October 30, 2016.

No compensation expense was recorded for incentive stock options for the six months ended October 30, 2016 and November 1, 2015, respectively.

Common Stock Awards

On October 3, 2016, we granted a total of 4,800 shares of common stock to our outside directors. These shares of common stock vest immediately and were measured at \$29.80 per share, which represents the closing price of our common stock at the date of grant.

On October 1, 2015, we granted a total of 3,000 shares of common stock to our outside directors. These shares of common stock vest immediately and were measured at \$31.77 per share, which represents the closing price of our common stock at the date of grant.

We recorded \$143,000 and \$95,000 within selling, general, and administrative expense for these common stock awards for the six months ending October 30, 2016, and November 1, 2015, respectively.

Performance Based Restricted Stock Units Fiscal 2017 Grant

On July 14, 2016, certain key members of management were granted performance-based restricted stock units which could earn up to 107,880 shares of common stock if certain performance targets are met as defined in the related restricted stock unit agreements. These awards were valued based on the fair market value on the date of grant. The fair value of these awards was \$28 per share, which represents the closing price of our common stock on the date of grant. The vesting of these awards is over the requisite service period of three years.

On July 14, 2016, a non-employee was granted performance-based restricted stock units which could earn up to 11,549 shares of common stock if certain performance targets are met as defined in the related restricted stock unit agreement. The fair value of this award is measured at the earlier date of when the performance criteria are met or the end of the reporting period. At October 30, 2016, this grant was unvested and was measured at \$28.15 per share, which represents the closing price of our common stock at the end of the reporting period. The vesting of this award is over the requisite service period of three years.

Culp, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Fiscal 2016 Grant

On July 15, 2015, certain key members of management were granted performance-based restricted stock units which could earn up to 107,554 shares of common stock if certain performance targets are met as defined in the related restricted stock unit agreements. These awards were valued based on the fair market value on the date of grant. The fair value of these awards was \$32.23 per share, which represents the closing price of our common stock on the date of grant. The vesting of these awards is over the requisite service period of three years.

On July 15, 2015, a non-employee was granted performance-based restricted stock units which could earn up to 10,364 shares of common stock if certain performance targets are met as defined in the related restricted stock unit agreement. The fair value of this award is measured at the earlier date of when the performance criteria are met or the end of the reporting period. At October 30, 2016, this grant was unvested and was measured at \$28.15 per share, which represents the closing price of our common stock at the end of the reporting period. The vesting of this award is over the requisite service period of three years.

Fiscal 2015 Grants

On June 24, 2014, certain key members of management were granted performance-based restricted stock units which could earn up to 102,845 shares of common stock if certain performance targets are met as defined in the related restricted stock unit agreements. These awards were valued based on the fair market value on the date of grant. The fair value of these awards was \$17.70 per share, which represents the closing price of our common stock on the date of grant. The vesting of these awards is over the requisite service period of three years.

On March 3, 2015, a non-employee was granted performance-based restricted stock units which could earn up to 28,000 shares of common stock if certain performance targets are met as defined in the related restricted stock unit agreements. The fair value of this award is measured at the earlier date of when the performance criteria are met or the end of the reporting period. At October 30, 2016, 16,000 restricted stock units associated with this grant were unvested and were measured at \$28.15 per share, which represents the closing price of the company's common stock at the end of the reporting period. The vesting of these 16,000 restricted stock units vest over their requisite service period of 28 months.

During the first quarter of fiscal 2017, 12,000 shares of common stock associated with the grant vested and had a weighted average fair value of \$345,000 or \$28.77 per share.

2014 Grant

On June 25, 2013, certain key members of management were granted performance-based restricted stock units which could earn up to 72,380 shares of common stock if certain performance targets are met as defined in the related restricted stock unit agreements. These awards were valued based on the fair market value on the date of grant. The fair value of these awards was \$17.12 per share, which represents the closing price of our common stock on the date of grant. The vesting of these awards is over the requisite service period of three years.

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

During the first quarter of fiscal 2017, 37,192 shares of common stock associated with this grant vested and had a weighted average fair value of \$637,000 or \$17.12 per share. Our fiscal 2014 grant is fully vested.

Fiscal 2013 Grant

On July 11, 2012, certain key members of management were granted performance based restricted stock units which could earn up to 120,000 shares of common stock if certain performance targets are met as defined in the related restricted stock unit agreements. These awards were valued based on the fair market value on the date of grant. The fair value of these awards was \$10.21 per share, which represents the closing price of our common stock on the date of grant. The vesting of these awards is over the requisite service period of three years.

During the first quarter of fiscal 2016, 115,855 shares of common stock associated with our fiscal 2013 grant vested and had a weighted average fair value of \$1.2 million or \$10.21 per share. Our fiscal 2013 grant is fully vested.

Overall

We recorded compensation expense of \$1.5 million and \$1.2 million within selling, general, and administrative expense for our performance based restricted stock unit awards for the six month periods ending October 30, 2016 and November 1, 2015, respectively. Compensation cost is recorded based on an assessment each reporting period of the probability if certain performance goals will be met during the vesting period. If performance goals are not probable of occurrence, no compensation cost will be recognized and any recognized compensation cost would be reversed.

As of October 30, 2016, the remaining unrecognized compensation cost related to our performance based restricted stock unit awards was \$5.0 million, which is expected to be recognized over a weighted average vesting period of 2.0 years.

Time Vested Restricted Stock Units

On July 14, 2016, an employee was granted 1,200 shares of time vested restricted stock units. This award was valued based on the fair market value on the date of grant. The fair value of this award was \$28 per share, which represents the closing price of our common stock on the date of grant. The vesting of this award is over the requisite service period of 11 months.

We recorded compensation expense of \$11,000 within selling, general, and administrative expense for our time vested restricted stock unit awards for the six months ending October 30, 2016. There were not any time vested restricted stock unit awards granted or unvested during the six months ending November 1, 2015 and, therefore, no compensation expense was recorded.

At October 30, 2016, the remaining unrecognized compensation cost related to unvested time vested restricted stock awards was \$23,000, which is expected to be recognized over the next 7.5 months.

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

4. Accounts Receivable

A summary of accounts receivable follows:

(dollars in thousands)	October 30, 2016	November 1, 2015	May 1, 2016
Customers	\$20,580	\$ 25,045	\$25,531
Allowance for doubtful accounts	(420)	(826)	(1,088)
Reserve for returns and allowances and discounts	(1,121)	(905)	(962)
	\$19,039	\$ 23,314	\$23,481

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

(dollars in thousands)	Six months ended	
	October 30, 2016	November 1, 2015
Beginning balance	\$(1,088)	\$ (851)
Provision for bad debts	216	(81)
Net write-offs, net of recoveries	452	106
Ending balance	\$(420)	\$ (826)

A summary of the activity in the allowance for returns and allowances and discounts accounts follows:

(dollars in thousands)	Six months ended	
	October 30, 2016	November 1, 2015
Beginning balance	\$(962)	\$ (738)
Provision for returns, allowances and discounts	(1,620)	(1,561)
Credits issued	1,461	1,394
Ending balance	\$(1,121)	\$ (905)

5. 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 30, 2016	November 1, 2015	May 1, 2016
Raw materials	\$6,128	\$ 6,272	\$5,462
Work-in-process	2,518	2,779	2,972
Finished goods	37,308	37,428	38,097
	\$45,954	\$ 46,479	\$46,531

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

6. Other Assets

A summary of other assets follows:

	October 30, 2016	November 1, 2015	May 1, 2016
(dollars in thousands)			
Cash surrender value – life insurance	\$ 358	\$ 339	\$357
Non-compete agreement, net	866	941	903
Customer relationships, net	689	740	715
Other	582	474	598
	\$2,495	\$ 2,494	\$2,573

Non-Compete Agreement

We recorded our non-compete agreement at its fair value based on a discounted cash flow valuation model. Our non-compete agreement is amortized on a straight-line basis over the fifteen year life of the respective agreement.

The gross carrying amount of our non-compete agreement was \$2.0 million at October 30, 2016, November 1, 2015 and May 1, 2016, respectively. At October 30, 2016, November 1, 2015, and May 1, 2016, accumulated amortization for our non-compete agreement was \$1.2 million, \$1.1 million, and \$1.1 million, respectively.

Amortization expense for our non-compete agreement was \$38,000 for the six month periods ended October 30, 2016 and November 1, 2015. The remaining amortization expense for the next five fiscal years and thereafter follows: FY 2017 - \$37,000; FY 2018 - \$75,000; FY 2019- \$75,000; FY 2020 - \$75,000; FY 2021 - \$75,000 and Thereafter - \$529,000.

The weighted average amortization period for our non-compete agreement is 11.5 years as of October 30, 2016.

Customer Relationships

We recorded our customer relationships at their fair value based on a multi-period excess earnings valuation model. Our customer relationships are amortized on a straight-line basis over its seventeen year useful life.

The gross carrying amount of our customer relationships was \$868,000 at October 30, 2016, November 1, 2015, and May 1, 2016, respectively. Accumulated amortization for our customer relationships was \$179,000, \$128,000, and \$153,000 at October 30, 2016, November 1, 2015, and May 1, 2016, respectively.

Amortization expense for our customer relationships was \$26,000 for the six months ending October 30, 2016 and November 1, 2015. The remaining amortization expense for the next five fiscal years and thereafter follows: FY 2017 - \$25,000; FY 2018 - \$51,000; FY 2019 - \$51,000; FY 2020 - \$51,000; FY 2021 - \$51,000; and Thereafter - \$460,000.

The weighted average amortization period for our customer relationships is 13.5 years as of October 30, 2016.

Cash Surrender Value – Life Insurance

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At October 30, 2016, November 1, 2015, and May 1, 2016 we had one life insurance contract with a death benefit of \$1.4 million.

Our cash surrender value – life insurance balances totaling \$358,000, \$339,000 and \$357,000 at October 30, 2016, November 1, 2015, and May 1, 2016, respectively, are collectible upon death of the respective insured.

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

7. Accrued Expenses

A summary of accrued expenses follows:

	October 30, 2016	November 1, 2015	May 1, 2016
(dollars in thousands)			
Compensation, commissions and related benefits	\$ 7,111	\$ 6,657	\$ 10,011
Advertising rebates	734	2,536	870
Interest	5	-	-
Other accrued expenses	1,028	702	1,041
	\$ 8,878	\$ 9,895	\$ 11,922

8. Lines of Credit

Revolving Credit Agreement – United States

Our Credit Agreement with Wells Fargo Bank, N.A. ("Wells Fargo") provides a revolving loan commitment of \$30 million. Interest was charged at a rate (applicable interest rate of 1.98% at October 30, 2016) as a variable spread over LIBOR based on our ratio of debt to EBITDA. The Credit Agreement contains certain financial and other covenants as defined in the agreement and is set to expire on August 15, 2018.

The purpose of our revolving credit line is to support potential short term cash needs in different jurisdictions within our global operations, mitigate our risk associated with foreign currency exchange rate fluctuations, and ultimately repatriate earnings and profits from our foreign subsidiaries to the U.S. for various strategic purposes.

Outstanding borrowings are secured by a pledge of 65% of the common stock of Culp International Holdings Ltd. (our subsidiary located in the Cayman Islands), as required by the Credit Agreement. There were no borrowings outstanding under the Credit Agreement at October 30, 2016, November 1, 2015, and May 1, 2016, respectively.

At October 30, 2016, November 1, 2015, and May 1, 2016, there were \$250,000 in outstanding letters of credit (all of which related to workers compensation) provided by the Credit Agreement.

Effective August 1, 2016, we entered into a Third Amendment to our Credit Agreement that will allow us to issue letters of credit not to exceed \$7.5 million. On August 3, 2016, we issued a \$5.0 million letter of credit (all of which is currently outstanding and in addition to the \$250,000 letter of credit noted above) for the construction of a new building associated with our mattress fabrics segment (see Note 15 for further details). This \$5.0 million letter of credit will be automatically reduced in increments of \$1.25 million on August 1, 2017, November 1, 2017, February 1, 2018, and May 15, 2018, respectively.

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Culp, Inc.
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 (Unaudited)
 Revolving Credit Agreement – China

We have an unsecured credit agreement associated with our operations in China that provides for a line of credit of up to 40 million Chinese Yuan Renminbi (approximately \$5.9 million USD at October 30, 2016), that expires on March 8, 2017. This agreement has an interest rate determined by the Chinese government and there were no borrowings outstanding as of October 30, 2016, November 1, 2015, and May 1, 2016.

Overall

Our loan agreements require, among other things, that we maintain compliance with certain financial covenants. At October 30, 2016, the company was in compliance with these financial covenants.

9. Fair Value of Financial Instruments

ASC Topic 820 establishes a fair value hierarchy that distinguishes between assumptions based on market data (observable inputs) and the company's assumptions (unobservable inputs). Determining where an asset or liability falls within that hierarchy depends on the lowest level input that is significant to the fair value measurement as a whole. An adjustment to the pricing method used within either level 1 or level 2 inputs could generate a fair value measurement that effectively falls in a lower level in the hierarchy. The hierarchy consists of three broad levels as follows:

Level 1 – Quoted market prices in active markets for identical assets or liabilities;

Level 2 – Inputs other than level 1 inputs that are either directly or indirectly observable, and

Level 3 – Unobservable inputs developed using the company's estimates and assumptions, which reflect those that market participants would use.

Recurring Basis

The following table presents information about assets measured at fair value on a recurring basis:

(amounts in thousands)	Fair value measurements at October 30, 2016 using:			Total
	Quoted prices in active markets for identical assets Level 1	Significant other observable inputs Level 2	Significant unobservable inputs Level 3	
Assets:				
Cash and Cash Equivalents	\$23,940	N/A	N/A	\$23,940
U.S. Corporate Bonds	-	7,110	N/A	7,110
Premier Money Market Fund	4,421	N/A	N/A	4,421
Low Duration Bond Fund	1,075	N/A	N/A	1,075

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Intermediate Term Bond Fund	750	N/A	N/A	750
Strategic Income Fund	605	N/A	N/A	605
Large Blend Fund	319	N/A	N/A	319
Growth Allocation Fund	102	N/A	N/A	102
Other	152	N/A	N/A	152

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Culp, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Fair value measurements at November 1,
2015 using:

(amounts in thousands)	Fair value measurements at November 1, 2015 using:			Total
	Level 1	Level 2	Level 3	
Assets:				
Premier Money Market Fund	\$2,703	N/A	N/A	\$2,703
Intermediate Term Bond Fund	2,144	N/A	N/A	2,144
Low Duration Bond Fund	2,098	N/A	N/A	2,098
Limited Term Bond Fund	1,094	N/A	N/A	1,094
Strategic Income Fund	984	N/A	N/A	984
Large Blend Fund	279	N/A	N/A	279
Growth Allocation Fund	125	N/A	N/A	125
Mid Cap Value Fund	94	N/A	N/A	94
Other	78	N/A	N/A	78

Fair value measurements at May 1, 2016
using:

(amounts in thousands)	Fair value measurements at May 1, 2016 using:			Total
	Level 1	Level 2	Level 3	
Assets:				
Premier Money Market Fund	\$3,404	N/A	N/A	\$3,404
Low Duration Bond Fund	1,604	N/A	N/A	1,604
Intermediate Term Bond Fund	1,154	N/A	N/A	1,154
Strategic Income Fund	999	N/A	N/A	999
Limited Term Bond Fund	602	N/A	N/A	602

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Large Blend Fund	289	N/A	N/A	289
Growth Allocation Fund	148	N/A	N/A	148
Mid Cap Value Fund	102	N/A	N/A	102
Other	82	N/A	N/A	82

The determination of where an asset or liability falls in the hierarchy requires significant judgment. We evaluate our hierarchy disclosures each quarter based on various factors and it is possible that an asset or liability may be classified differently from quarter to quarter. However, we expect that changes in classifications between different levels will be rare.

Short-Term Investments

At October 30, 2016, November 1, 2015, and May 1, 2016, our short-term investments totaled \$2.4 million, \$6.3 million, and \$4.4 million, respectively, and consisted of short-term bond funds. Our short-term bond funds are recorded at their fair value, are classified as available-for-sale, and their unrealized gains or losses are included in other comprehensive income (loss). Our short-term bond investments had an accumulated unrealized loss totaling \$45,000, \$171,000, and \$100,000 at October 30, 2016, November 1, 2015, and May 1, 2016, respectively. At October 30, 2016, November 1, 2015, and May 1, 2016, the fair value of our short-term bond funds approximated its cost basis.

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Culp, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Long- Term Investments - Held-To-Maturity

During the second quarter of fiscal 2017, management decided to invest approximately \$31.0 million in investment grade U.S. Corporate bonds with maturities primarily ranging from 2 to 2.5 years. The purpose of this investment was to earn a higher rate of return on our excess cash located in the Cayman Islands. These investments are classified as held-to-maturity as we have the positive intent and ability to hold these investments until maturity. Our held-to-maturity investments will be recorded as either current or noncurrent on the Consolidated Balance Sheet, based on contractual maturity date and stated at amortized cost.

At October 30, 2016, our held-to-maturity investments totaling \$31.0 million consisted of invested cash and cash equivalents of \$23.9 million and U.S. Corporate bonds of \$7.1 million. The \$23.9 million in invested cash and cash equivalents were used to purchase U.S. Corporate bonds during our third quarter of fiscal 2017 (all U.S. Corporate bond purchases were completed by November 3, 2016). The fair value of our held-to-maturity investments approximates their cost basis.

Long-Term Investments - Rabbi Trust

Effective January 1, 2014, we established a Rabbi Trust to set aside funds for participants of our deferred compensation plan (the "Plan") and enable the participants to credit their contributions to various investment options of the Plan. The investments associated with the Rabbi Trust consist of a money market fund and various mutual funds that are classified as available for sale.

Our long-term investments are recorded at their fair value of \$5.0 million, \$3.3 million, and \$4.0 million at October 30, 2016, November 1, 2015, and May 1, 2016, respectively. Our long-term investments had an accumulated unrealized gain of \$1,000 and \$14,000 at October 1, 2016 and November 1, 2015, respectively, and an accumulated realized loss of \$44,000 at May 1, 2016. The fair value of our long-term investments associated with our Rabbi Trust approximates its cost basis.

Other

The carrying amount of cash and cash equivalents, accounts receivable, other current assets, accounts payable, and accrued expenses approximates fair value because of the short maturity of these financial instruments.

10. Cash Flow Information

Interest and income taxes paid are as follows:

	Six months ended	
	October	
	30,	November
(dollars in thousands)	2016	1, 2015
Interest	\$45	\$ 86
Income taxes	3,238	2,088

Interest costs charged to operations were \$45,000 and \$49,000 for the six months ended October 30, 2016 and November 1, 2015, respectively.

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Culp, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Interest costs of \$45,000 and \$49,000 for the construction of qualifying fixed assets were capitalized and will be amortized over the related assets' useful lives for the six months ended October 30, 2016 and November 1, 2015, respectively.

11. Net Income Per Share

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

(amounts in thousands)	Three months ended	
	October 30, 2016	November 1, 2015
Weighted average common shares outstanding, basic	12,308	12,343
Dilutive effect of stock-based compensation	199	141
Weighted average common shares outstanding, diluted	12,507	12,484

All options to purchase shares of common stock were included in the computation of diluted net income for the three months ended October 30, 2016 and November 1, 2015, as the exercise price of the options was less than the average market price of the common shares.

(amounts in thousands)	Six months ended	
	October 30, 2016	November 1, 2015
Weighted average common shares outstanding, basic	12,297	12,310
Dilutive effect of stock-based compensation	198	171
Weighted average common shares outstanding, diluted	12,495	12,481

All options to purchase shares of common stock were included in the computation of diluted net income for the six months ended October 30, 2016 and November 1, 2015, as the exercise price of the options was less than the average market price of the common shares.

12. Segment Information

Our operations are classified into two business segments: mattress fabrics and upholstery fabrics. The mattress fabrics segment manufactures, sources, and sells fabrics and mattress covers to bedding manufacturers. The upholstery fabrics segment sources, manufactures, and sells fabrics primarily to residential furniture manufacturers.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

We evaluate the operating performance of our segments based upon income from operations before certain unallocated corporate expenses and other non-recurring items. Cost of sales in both segments include costs to manufacture or source our products, including costs such as raw material and finished goods purchases, direct and indirect labor, overhead and incoming freight charges. Unallocated corporate expenses primarily represent compensation and benefits for certain executive officers, all costs related to being a public company, and other miscellaneous expenses. Segment assets include assets used in the operations of each segment and primarily consist of accounts receivable, inventories, and property, plant and equipment. The mattress fabrics segment also includes in segment assets, goodwill, a non-compete agreement, and customer relationships associated with an acquisition.

Financial information for the company's operating segments follows:

	Three months ended	
	October	November
(dollars in thousands)	30,	1, 2015
2016		
Net sales:		
Mattress Fabrics	\$45,527	\$ 45,436
Upholstery Fabrics	29,816	31,520
	\$75,343	\$ 76,956
Gross profit:		
Mattress Fabrics	\$10,756	\$ 9,456
Upholstery Fabrics	6,145	6,277
	\$16,901	\$ 15,733
Selling, general, and administrative expenses:		
Mattress Fabrics	\$3,296	\$ 2,989
Upholstery Fabrics	3,652	3,813
Total segment selling, general, and administrative expenses	6,948	6,802
Unallocated corporate expenses	2,654	2,631
	\$9,602	\$ 9,433
Income from operations:		
Mattress Fabrics	\$7,460	\$ 6,467
Upholstery Fabrics	2,493	2,464
Total segment income from operations	9,953	8,931
Unallocated corporate expenses	(2,654)	(2,631)
Total income from operations	7,299	6,300
Interest income	15	69
Other expense	(155)	(225)
Income before income taxes	\$7,159	\$ 6,144

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

(dollars in thousands)	Six months ended	
	October 30, 2016	November 1, 2015
Net sales:		
Mattress Fabrics	\$96,057	\$93,245
Upholstery Fabrics	59,969	63,896
	\$156,026	\$157,141
Gross profit:		
Mattress Fabrics	\$22,657	\$19,381
Upholstery Fabrics	12,664	12,554
	\$35,321	\$31,935
Selling, general, and administrative expenses:		
Mattress Fabrics	\$6,795	\$5,912
Upholstery Fabrics	7,185	7,409
Total segment selling, general, and administrative expenses	13,980	13,321
Unallocated corporate expenses	5,368	4,854
	\$19,348	\$18,175
Income from operations:		
Mattress Fabrics	\$15,862	\$13,468
Upholstery Fabrics	5,479	5,146
Total segment income from operations	21,341	18,614
Unallocated corporate expenses	(5,368)	(4,854)
Total income from operations	15,973	13,760
Interest income	40	112
Other expense	(307)	(320)
Income before income taxes	\$15,706	\$13,552

Culp, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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Balance sheet information for the company's operating segments follows:

(dollars in thousands)	October 30, 2016	November 1, 2015	May 1, 2016
Segment assets:			
Mattress Fabrics			
Current assets (1)	\$38,062	\$40,937	\$43,472
Non-compete agreement	866	941	903
Customer relationships	689	740	715
Goodwill	11,462	11,462	11,462
Property, plant and equipment (2)	43,228	36,050	37,480
Total mattress fabrics assets	94,307	90,130	94,032
Upholstery Fabrics			
Current assets (1)	26,931	28,856	26,540
Property, plant and equipment (3)	1,480	1,474	1,564
Total upholstery fabrics assets	28,411	30,330	28,104
Total segment assets	122,718	120,460	122,136
Non-segment assets:			
Cash and cash equivalents	13,910	31,176	37,787
Short-term investments	2,430	6,320	4,359
Deferred income taxes	581	3,415	2,319
Income taxes receivable	-	75	155
Other current assets	1,675	2,614	2,477
Property, plant and equipment (4)	829	795	929
Long-term investments (Held-to-Maturity)	31,050	-	-
Long-term investments (Rabbi Trust)	4,994	3,279	4,025
Other assets	940	813	955
Total assets	\$179,127	\$168,947	\$175,142

(dollars in thousands)	Six months ended	
	October 30, 2016	November 1, 2015
Capital expenditures (5):		
Mattress Fabrics	\$8,857	\$5,138
Upholstery Fabrics	165	254
Unallocated Corporate	62	143
Total capital expenditures	\$9,084	\$5,535
Depreciation expense:		
Mattress Fabrics	\$3,101	\$2,783
Upholstery Fabrics	410	401
Total depreciation expense	\$3,511	\$3,184

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

Culp, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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The \$43.2 million at October 30, 2016, represents property, plant, and equipment of \$28.5 million and \$14.7 million located in the U.S. and Canada, respectively. The \$36.1 million at November 1, 2015, represents property, (2) plant, and equipment of \$23.3 million and \$12.8 million located in the U.S. and Canada, respectively. The \$37.5 million at May 1, 2016, represents property, plant, and equipment of \$24.8 million and \$12.7 million located in the U.S. and Canada, respectively.

The \$1.5 million at October 30, 2016, represents property, plant, and equipment of \$890 and \$590 located in the (3) U.S. and China, respectively. The \$1.5 million at November 1, 2015, represents property, plant, and equipment of \$785 and \$689 located in the U.S. and China, respectively. The \$1.6 million at May 1, 2016, represents property, plant, and equipment of \$893 and \$671 located in the U.S. and China, respectively.

The \$829, \$795, and \$929 at October 30, 2016, November 1, 2015 and May 1, 2016, respectively, represent (4) property, plant, and equipment associated with unallocated corporate departments and corporate departments shared by both the mattress and upholstery fabric segments. Property, plant, and equipment associated with corporate are located in the U.S.

(5) Capital expenditure amounts are stated on the accrual basis. See Consolidated Statements of Cash Flows for capital expenditure amounts on a cash basis.

13. Income Taxes

Effective Income Tax Rate

We recorded income tax expense of \$5.9 million, or 37.7% of income before income taxes, for the six month period ended October 30, 2016, compared to income tax expense of \$5.1 million, or 37.5% of income before income taxes, for the six month period ended November 1, 2015. Our effective income tax rates for the six month periods ended October 30, 2016, and November 1, 2015, were based upon the estimated effective income tax rate applicable for the full year after giving effect to any significant items related specifically to interim periods. The effective income tax rate can be affected over the fiscal year by the mix and timing of actual earnings from our U.S. operations and foreign sources versus annual projections and changes in foreign currency exchange rates in relation to the U.S. dollar. The following schedule summarizes the factors that are attributable to the difference between income tax expense at the federal income tax rate and the effective income tax rate reflected in the consolidated financial statements:

	2017	2016
federal income tax rate	34.0%	34.0%
U.S state income tax expense	0.6	0.7
tax effects of Chinese foreign exchange gains	1.6	2.3
increase in liability for uncertain tax positions	0.3	0.3
other	1.2	0.2
	37.7%	37.5%

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

Deferred Income Taxes

Valuation Allowance

In accordance with ASC Topic 740, we evaluate our deferred income taxes to determine if a valuation allowance is required. ASC Topic 740 requires that companies assess whether a valuation allowance should be established based on the consideration of all available evidence using a "more-likely-than-not" standard, with significant weight being given to evidence that can be objectively verified. Since the company operates in multiple jurisdictions, we assess the need for a valuation allowance on a jurisdiction-by-jurisdiction basis, taking into account the effects of local tax law. Based on our assessment at October 30, 2016, we recorded a partial valuation allowance of \$603,000, of which \$519,000 pertained to certain U.S. state net operating loss carryforwards and credits and \$84,000 pertained to loss carryforwards associated with our Culp Europe operation located in Poland. Based on our assessment at November 1, 2015, we recorded a partial valuation allowance of \$938,000, of which \$561,000 pertained to certain U.S. state net operating loss carryforwards and credits and \$377,000 pertained to loss carryforwards associated with our Culp Europe operation located in Poland. Based on our assessment at May 1, 2016, we recorded a partial valuation allowance of \$590,000, of which \$518,000 pertained to certain U.S. state net operating loss carryforwards and credits and \$72,000 pertained to loss carryforwards associated with our Culp Europe operation located in Poland.

No valuation allowance was recorded against our net deferred tax assets associated with our operations located in China and Canada at October 30, 2016, November 1, 2015, and May 1, 2016, respectively.

The recorded valuation allowance of \$603,000 at October 30, 2016, has no effect on our operations, loan covenant compliance, or the possible realization of certain U.S. state net operating loss carryforwards and credits and our loss carryforwards associated with our Culp Europe operation located in Poland. If it is determined that it is more-likely-than-not that we will realize any of these deferred tax assets, an income tax benefit will be recognized at that time.

Undistributed Earnings

In accordance with ASC Topic 740, we assess whether the undistributed earnings from our foreign subsidiaries will be reinvested indefinitely or eventually distributed to our U.S. parent company. ASC Topic 740 requires that a deferred tax liability should be recorded for undistributed earnings from foreign subsidiaries that will not be reinvested indefinitely. Based on our assessment as of October 30, 2016, it is our intention not to permanently invest our undistributed earnings from our foreign subsidiaries. Also, we assess the recognition of U.S. foreign income tax credits associated with foreign withholding and income tax payments and whether it is more-likely-than-not that our foreign income tax credits will not be realized. If it is determined that any foreign income tax credits need to be recognized or it is more-likely-than-not our foreign income tax credits will not be realized, an adjustment to our provision for income taxes will be recognized at that time.

At October 30, 2016, we had accumulated earnings and profits from our foreign subsidiaries totaling \$138.9 million. At the same date, the deferred tax liability associated with our undistributed earnings from our foreign subsidiaries totaled \$657,000, which included U.S. income and foreign withholding taxes totaling \$41.4 million, offset by U.S. foreign income tax credits of \$40.7 million.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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At November 1, 2015, we had accumulated earnings and profits from our foreign subsidiaries totaling \$93.2 million. At the same date, the deferred tax liability associated with our undistributed earnings from our foreign subsidiaries totaled \$2.4 million, which included U.S. income and foreign withholding taxes totaling \$35.7 million, offset by U.S. foreign income tax credits of \$33.3 million.

At May 1, 2016, we had accumulated earnings and profits from our foreign subsidiaries totaling \$129.6 million. At the same date, the deferred tax liability associated with our undistributed earnings from our foreign subsidiaries totaled \$604,000, which included U.S. income and foreign withholding taxes totaling \$38.5 million, offset by U.S. foreign income tax credits of \$37.9 million.

Overall

At October 30, 2016, our non-current deferred tax asset of \$581,000 represents \$109,000 and \$472,000 from our operations located in the U.S. and China, respectively. At November 1, 2015, our non-current deferred tax asset of \$3.4 million represents \$2.5 million and \$898,000 from our operations located in the U.S. and China, respectively. At May 1, 2016, our non-current deferred tax asset of \$2.3 million represents \$1.7 million and \$572,000 from our operations located in the U.S. and China, respectively.

Our non-current deferred tax liability balances of \$1.7 million, \$1.2 million, and \$1.5 million at October 30, 2016, November 1, 2015, and May 1, 2016, respectively, pertain to our operations located in Canada.

Uncertainty In Income Taxes

At October 30, 2016, we had a \$15.1 million total gross unrecognized income tax benefit, of which \$11.4 million and \$3.7 million were classified as non-current deferred income taxes and income taxes payable – long-term, respectively, in the accompanying consolidated balance sheets. At November 1, 2015, we had a \$14.2 million total gross unrecognized income tax benefit, of which \$10.5 million and \$3.7 million were classified as non-current deferred income taxes and income taxes payable – long-term, respectively, in the accompanying consolidated balance sheets. At May 1, 2016, we had \$14.9 million of total gross unrecognized income tax benefit, of which \$11.1 million and \$3.8 million were classified as non-current deferred income taxes and income taxes payable – long-term, respectively, in the accompanying consolidated balance sheets.

At October 30, 2016, our \$15.1 million total gross unrecognized income tax benefit included \$3.7 million that, if recognized, would favorably affect the income tax rate in future periods. At November 1, 2015, our \$14.2 million total gross unrecognized income tax benefit, included \$3.7 million that, if recognized, would favorably affect the income tax rate in future periods. At May 1, 2016, our \$14.9 million total gross unrecognized income tax benefit included \$3.8 million that, if recognized, would favorably affect the income tax rate in future periods.

Our gross unrecognized income tax benefit of \$15.1 million at October 30, 2016, relates to tax positions for which significant change is reasonably possible in fiscal 2017. This amount primarily relates to double taxation under applicable income tax treaties with foreign tax jurisdictions. United States federal and state income tax returns filed by us remain subject to examination for income tax years 2005 and subsequent due to loss carryforwards. Canadian federal returns remain subject to examination for income tax years 2009 and subsequent, with the statute of limitations for the 2009 income tax year expiring in January 2017. Canadian provincial (Quebec) returns remain subject to examination for income tax years 2009 and subsequent, with the statute of limitations for the 2009 income tax year expiring in April 2017. Income tax returns associated with our operations located in China are subject to examination for income tax year 2011 and subsequent.

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(Unaudited)

Currently, the Internal Revenue Service is examining our U.S. Federal income tax returns for fiscal 2014 and no adjustments have been proposed at this time. We currently expect this examination to be completed by the end of our fiscal year 2017 (April 30, 2017). During the third quarter of fiscal 2017, Revenue Quebec commenced an examination of our Canadian provincial (Quebec) income tax returns for fiscal years 2013 through 2015. We currently expect this examination to be completed by the end of our first quarter of fiscal 2018 (July 30, 2017).

In accordance with ASC Topic 740, an unrecognized income tax benefit for an uncertain income tax position can be recognized in the first interim period if the more-likely-than-not recognition threshold is met by the reporting period, or is effectively settled through examination, negotiation, or litigation, or the statute of limitations for the relevant taxing authority to examine and challenge the tax position has expired. If it is determined that any of the above conditions occur regarding our uncertain income tax positions, an adjustment to our unrecognized income tax benefit will be recorded at that time.

14. Statutory Reserves

Our subsidiaries located in China are required to transfer 10% of their net income, as determined in accordance with the People's Republic of China (PRC) accounting rules and regulations, to a statutory surplus reserve fund until such reserve balance reaches 50% of the company's registered capital.

The transfer to this reserve must be made before distributions of any dividend to shareholders. As of October 30, 2016, the company's statutory surplus reserve was \$4.6 million, representing 10% of accumulated earnings and profits determined in accordance with PRC accounting rules and regulations. The surplus reserve fund is non-distributable other than during liquidation and can be used to fund previous years' losses, if any, and may be utilized for business expansion or converted into share capital by issuing new shares to existing shareholders in proportion to their shareholding or by increasing the par value of the shares currently held by them provided that the remaining reserve balance after such issue is not less than 25% of the registered capital.

Our subsidiaries located in China can transfer funds to the parent company with the exception of the statutory surplus reserve of \$4.6 million to assist with debt repayment, capital expenditures, and other expenses of the company's business.

15. Commitments and Contingencies

Litigation

The company is involved in legal proceedings and claims which have arisen in the ordinary course of business. Management has determined that it is not reasonably possible that these actions, when ultimately concluded and settled, will have a material adverse effect upon the financial position, results of operations, or cash flows of the company.

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

Purchase Commitments

Overall

At October 30, 2016, November 1, 2015, and May 1, 2016, we had open purchase commitments to acquire a building and equipment for our mattress fabrics segment totaling \$9.8 million, \$1.9 million, and \$10.6 million, respectively. The \$9.8 million and \$10.6 million open purchase commitments as of October 30, 2016 and May 1, 2016, include \$6.1 million and \$9.3 million associated with the construction of a new building noted below.

Construction of New Building

Effective May 16, 2016, we entered into an agreement with a contractor to construct a new building located in North Carolina that will expand our distribution capabilities and office space at a current estimated cost of \$11.2 million. This agreement required an installment payment of \$1.9 million in April 2016 and requires additional installment payments to be made in the following fiscal years: Fiscal 2017- \$4.3 million; Fiscal 2018- \$3.8 million; and Fiscal 2019- \$1.2 million. Interest will be charged on the required outstanding installment payments in excess of services that have been rendered at a rate of 2.25% plus the current 30 day LIBOR rate.

Also, we were required to issue a letter of a credit totaling \$5.0 million with the contractor's bank being the beneficiary. In addition to the interest that will be charged on the outstanding installment payments noted above, there will be a 0.1% unused fee calculated on the balance of the \$5.0 million letter of credit less the amount outstanding per month (see Note 8 for further details).

As of October 30, 2016, we have made payments totaling \$5.1 million for services rendered on the construction of this building. The remaining \$6.1 million on this commitment is required to be paid on an installment basis over the next three fiscal years as follows: Fiscal 2017 - \$1.1 million; Fiscal 2018 - \$3.8 million; and Fiscal 2019 - \$1.2 million.

The construction of this new building is currently expected to be completed in December 2016.

16. Common Stock Repurchase Program

On June 15, 2016, we announced that our board of directors approved an authorization for us to acquire up to \$5.0 million of our common stock. Under the common stock repurchase program, shares may be purchased from time to time in open market transactions, block trades, through plans established under the Securities Exchange Act Rule 10b5-1, or otherwise. The amount of shares purchased and the timing of such purchases will be based on working capital requirements, market and general business conditions, and other factors including alternative investment opportunities.

During the six months ended October 30, 2016, and November 1, 2015, we did not purchase any shares of our common stock.

At October 30, 2016, we had \$5.0 million available for additional repurchases of our common stock.

Culp, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

17. Dividend Program

On December 1, 2016, we announced that our board of directors approved a 14% increase in our quarterly cash dividend from \$0.07 to \$0.08 per share. This payment will be made on January 17, 2017, to shareholders of record as of January 3, 2017.

During the first half of fiscal 2017, dividend payments totaled \$4.3 million, of which \$2.5 million represented a special cash dividend payment of \$0.21 per share, and \$1.8 million represented quarterly dividend payments of \$0.07 per share.

During the first half of fiscal 2016, dividend payments totaled \$6.4 million, of which \$5.0 million represented a special cash dividend of \$0.40 per share, and \$1.4 million represented quarterly dividend payments of \$0.06 per share.

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

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CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING INFORMATION

This report and the exhibits attached hereto contain "forward-looking statements" within the meaning of the federal securities laws, including the Private Securities Litigation Reform Act of 1995 (Section 27A of the Securities Act of 1933 and Section 21E of the Securities and Exchange Act of 1934). Such statements are inherently subject to risks and uncertainties. Further, forward looking statements are intended to speak only as of the date on which they are made, and we disclaim any duty to update or alter such statements, whether as a result of new information, future events or otherwise. Forward-looking statements are statements that include projections, expectations or beliefs about future events or results or otherwise are not statements of historical fact. Such statements are often but not always characterized by qualifying words such as "expect," "believe," "estimate," "plan," "project," "anticipate," "depend" and their derivatives, and include but are not limited to statements about expectations for our future operations, production levels, sales, profit margins, operating income, capital expenditures, income taxes, SG&A or other expenses, pre-tax income, earnings, cash flow, and other performance or liquidity measures, as well as any statements regarding future economic or industry trends or future developments. Factors that could influence the matters discussed in such statements include the level of housing starts and sales of existing homes, consumer confidence, trends in disposable income, and general economic conditions. Decreases in these economic indicators could have a negative effect on our business and prospects. Likewise, increases in interest rates, particularly home mortgage rates, and increases in consumer debt or the general rate of inflation, could affect us adversely. Changes in consumer tastes or preferences toward products not produced by us could erode demand for our products. Changes in the value of the U.S. dollar versus other currencies 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 can have a negative impact on our sales of products produced in those places. Also, economic and political instability in international areas could affect our operations or sources of goods in those areas, as well as demand for our products in international markets. Finally, increases in market prices for petrochemical products can significantly affect the prices we pay for raw materials, and in turn, increase our operating costs and decrease our profitability. Further information about these factors, as well as other factors that could affect our future operations or financial results and the matters discussed in forward-looking statements, are included in Item 1A "Risk Factors" section in our Form 10-K filed with the Securities and Exchange Commission on July 15, 2016, for the fiscal year ended May 1, 2016.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND 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.

General

Our fiscal year is the 52 or 53 week period ending on the Sunday closest to April 30. The six months ended October 30, 2016, and November 1, 2015, each represent 26-week periods. Our operations are classified into two business segments: mattress fabrics and upholstery fabrics. The mattress fabrics segment manufactures, sources and sells fabrics and mattress covers to bedding manufacturers. The upholstery fabrics segment sources, manufactures, and sells fabrics primarily to residential furniture manufacturers.

We evaluate the operating performance of our segments based upon income from operations before certain unallocated corporate expenses and other non-recurring items. Cost of sales in both segments include costs to manufacture or source our products, including costs such as raw material and finished goods purchases, direct and indirect labor, overhead and incoming freight charges. Unallocated corporate expenses represent primarily compensation and benefits for certain executive officers, all costs related to being a public company, and other miscellaneous expenses.

Executive Summary

Results of Operations

	Three Months Ended		
	October		Change
(dollars in thousands)	30, 2016	November 1, 2015	
Net sales	\$75,343	\$ 76,956	(2.1)%
Gross profit	16,901	15,733	7.4%
Gross profit margin	22.4 %	20.4 %	200bp
SG&A expenses	9,602	9,433	1.8%
Income from operations	7,299	6,300	15.9%
Operating margin	9.7 %	8.2 %	150bp
Income before income taxes	7,159	6,144	16.5%
Income taxes	2,684	2,373	13.1%
Net income	4,475	3,771	18.7%

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	Six Months Ended		
	October	November	Change
(dollars in thousands)	30, 2016	1, 2015	
Net sales	\$ 156,026	\$ 157,141	(0.7)%
Gross profit	35,321	31,935	10.6%
Gross profit margin	22.6 %	20.3 %	230bp
SG&A expenses	19,348	18,175	6.5%
Income from operations			