CULP INC
Form 10-Q
March 11, 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 January 31, 2010
Commission File No. 0-12597

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 Date 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	Smaller Reporting Company o

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

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 January 31, 2010: 12,934,963
Par Value: $0.05 per share

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

		Page
	Part I - Financial Statements	
Item 1.	Financial Statements:	
	Consolidated Statements of Operations — Three and Nine Months Ended January 31, 2010 and February 1, 2009	I-1
	Consolidated Balance Sheets — January 31, 2010, February 1, 2009 and May 3, 2009	I-2
	Consolidated Statements of Cash Flows — Nine Months Ended January 31, 2010 and February 1, 2009	I-3
	Consolidated Statements of Shareholders' Equity	I-4
	Notes to Consolidated Financial Statements	I-5
	Cautionary Statement Concerning Forward-Looking Information	I-35
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	I-36
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	I-53
Item 4.	Controls and Procedures	I-53
	Part II - Other Information	
Item 1.	Legal Proceedings	II-1
Item 1A.	Risk Factors	II-1
Item 5.	Other Information	II-1
Item 6.	Exhibits	II-1
Signatures		II-2

Item 1. Financial Statements

CULP, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE THREE MONTHS AND NINE MONTHS ENDED JANUARY 31, 2010 AND FEBRUARY 1, 2009
(UNAUDITED)
(Amounts in Thousands, Except for Per Share Data)

THREE MONTHS ENDED

	Amounts			Percent of Sales	
	January 31, 2010	February 1, 2009	% Over (Under)	January 31, 2010	February 1, 2009
Net sales	$ 53,980	44,592	21.1 %	100.0 %	100.0 %
Cost of sales	43,323	38,843	11.5 %	80.3 %	87.1 %
Gross profit	10,657	5,749	85.4 %	19.7 %	12.9 %
Selling, general and administrative expenses	6,435	4,676	37.6 %	11.9 %	10.5 %
Restructuring expense	26	402	(93.5) %	0.0 %	0.9 %
Income from operations	4,196	671	N.M.	7.8 %	1.5 %
Interest expense	327	646	(49.4) %	0.6 %	1.4 %
Interest income	(52)	(20)	160.0 %	(0.1) %	(0.0) %
Other expense	96	28	242.9 %	0.2 %	0.1 %
Income before income taxes	3,825	17	N.M.	7.1 %	0.0 %
Income taxes *	825	467	76.7 %	21.6 %	N.M.
Net income (loss)	$ 3,000	(450)	N.M.	5.6 %	(1.0) %
Net income (loss) per share, basic	$ 0.24	(0.04)	N.M.		
Net income (loss) per share, diluted	$ 0.23	(0.04)	N.M.		
Average shares outstanding, basic	12,713	12,653	0.5 %		
Average shares outstanding, diluted	13,074	12,653	3.3 %		

NINE MONTHS ENDED

	Amounts			Percent of Sales	
	January 31, 2010	February 1, 2009	% Over (Under)	January 31, 2010	February 1, 2009
Net sales	$ 149,173	156,176	(4.5) %	100.0 %	100.0 %
Cost of sales	121,795	139,879	(12.9) %	81.6 %	89.6 %
Gross profit	27,378	16,297	68.0 %	18.4 %	10.4 %

Selling, general and administrative expenses	16,716	14,498	15.3 %	11.2 %	9.3 %
Restructuring (credit) expense	(317)	9,438	N.M.	(0.2) %	6.0 %
Income (loss) from operations	10,979	(7,639)	N.M.	7.4 %	(4.9) %
Interest expense	1,026	1,739	(41.0) %	0.7 %	1.1 %
Interest income	(81)	(75)	8.0 %	(0.1) %	(0.0) %
Other expense (income)	714	(207)	N.M.	0.5 %	(0.1) %
Income (loss) before income taxes	9,320	(9,096)	N.M.	6.2 %	(5.8) %
Income taxes *	1,565	31,442	N.M.	16.8 %	N.M.
Net income (loss)	$ 7,755	(40,538)	N.M.	5.2 %	(26.0) %
Net income (loss) per share, basic	$ 0.61	(3.20)	N.M.		
Net income (loss) per share, diluted	$ 0.60	(3.20)	N.M.		
Average shares outstanding, basic	12,679	12,650	0.2 %		
Average shares outstanding, diluted	12,960	12,650	2.5 %		

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

See accompanying notes to consolidated financial statements.

CULP, INC.
CONSOLIDATED BALANCE SHEETS
JANUARY 31, 2010, FEBRUARY 1, 2009, AND MAY 3, 2009
UNAUDITED
(Amounts in Thousands)

	Amounts		Increase (Decrease)		* May 3,
	January 31, 2010	February 1, 2009	Dollars	Percent	2009
Current assets:					
Cash and cash equivalents	$ 19,015	15,809	3,206	20.3 %	11,797
Accounts receivable	20,871	14,219	6,652	46.8 %	18,116
Inventories	24,366	25,376	(1,010)	(4.0) %	23,978
Deferred income taxes	57	-	57	100.0 %	54
Assets held for sale	98	1,681	(1,583)	(94.2) %	1,209
Income taxes receivable	331	-	331	100.0 %	210
Other current assets	1,217	1,493	(276)	(18.5) %	1,264
Total current assets	65,955	58,578	7,377	12.6 %	56,628
Property, plant and equipment, net	26,431	24,763	1,668	6.7 %	24,253
Goodwill	11,462	11,593	(131)	(1.1) %	11,593
Other assets	2,660	2,922	(262)	(9.0) %	2,820
Total assets	$ 106,508	97,856	8,652	8.8 %	95,294
Current liabilities:					
Current maturities of long-term debt	$ 4,880	7,180	(2,300)	(32.0) %	4,764
Current portion of obligation under a capital lease	107	692	(585)	(84.5) %	626
Accounts payable-trade	18,649	10,947	7,702	70.4 %	17,030
Accounts payable - capital expenditures	790	725	65	9.0 %	923
Accrued expenses	8,144	5,592	2,552	45.6 %	6,504
Accrued restructuring costs	362	1,215	(853)	(70.2) %	853
Income taxes payable - current	153	1,469	(1,316)	(89.6) %	83
Total current liabilities	33,085	27,820	5,265	18.9 %	30,783
Accounts payable - capital expenditures	188	912	(724)	(79.4) %	638
Income taxes payable - long-term	3,690	747	2,943	394.0 %	3,264
Deferred income taxes	1,092	1,213	(121)	(10.0) %	974
Obligation under capital lease	-	107	(107)	(100.0) %	-
	11,529	20,933	(9,404)	(44.9) %	11,604

Long-term debt, less current maturities						
Total liabilities		49,584	51,732	(2,148)	(4.2) %	47,263
Commitments and contingencies (Note 23)						
Shareholders' equity		56,924	46,124	10,800	23.4 %	48,031
Total liabilities and shareholders' equity	$	106,508	97,856	8,652	8.8 %	95,294
Shares outstanding		12,935	12,768	167	1.3 %	12,768

* Derived from audited financial statements.

See accompanying notes to consolidated financial statements.

I-2

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

	NINE MONTHS ENDED	
	Amounts	
	January 31, 2010	February 1, 2009
Cash flows from operating activities:		
Net income (loss)	$7,755	(40,538)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation	3,042	5,756
Amortization of other assets	416	350
Stock-based compensation	695	306
Excess tax benefits related to stock-based compensation	(182)	-
Deferred income taxes	190	33,816
Restructuring expenses, net of gain on sale of related assets	(127)	7,960
Gain on sale of equipment	(72)	(51)
Foreign currency exchange losses (gains)	613	(313)
Changes in assets and liabilities, net of effects of acquisition of business:		
Accounts receivable	(2,742)	12,820
Inventories	(385)	11,452
Other current assets	46	(200)
Other assets	(48)	26
Accounts payable	1,558	(11,347)
Accrued expenses	1,555	(2,668)
Accrued restructuring	(491)	(217)
Income taxes	109	(2,289)
Net cash provided by operating activities	11,932	14,863
Cash flows from investing activities:		
Capital expenditures	(4,209)	(1,719)
Net cash paid for acquisition of business	-	(11,365)
Proceeds from the sale of equipment	513	4,148
Net cash used in investing activities	(3,696)	(8,936)
Cash flows from financing activities:		
Proceeds from the issuance of long-term debt	-	11,000
Payments on vendor-financed capital expenditures	(797)	(962)
Payments on capital lease obligation	(519)	(586)
Payments on long-term debt	(32)	(4,310)
Debt issuance costs	(15)	(133)
Proceeds from common stock issued	250	21
Excess tax benefits related to stock-based compensation	182	-

Net cash (used in) provided by financing activities	(931)	5,030
Effect of exchange rate changes on cash and cash equivalents	(87)	(62)
Increase in cash and cash equivalents	7,218	10,895
Cash and cash equivalents at beginning of period	11,797	4,914
Cash and cash equivalents at end of period	$19,015	15,809

See accompanying notes to consolidated financial statements.

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

	Common Stock		Capital Contributed in Excess	Accumulated Earnings	Accumulated Other Comprehensive Income	Total Shareholders'
	Shares	Amount	of Par Value	(Deficit)	(Loss)	Equity
Balance, April 27, 2008	12,648,027	$ 632	47,288	38,487	(48)	$ 86,359
Net loss	-	-	-	(38,842)	-	(38,842)
Stock-based compensation	-	-	425	-	-	425
Gain on cash flow hedges, net of taxes	-	-	-	-	68	68
Restricted stock granted	115,000	5	(5)	-	-	-
Common stock issued in connection with stock option plans	4,500	1	20	-	-	21
Balance, May 3, 2009	12,767,527	638	47,728	(355)	20	48,031
Net income	-	-	-	7,755	-	7,755
Stock-based compensation	-	-	695	-	-	695
Gain on cash flow hedge, net of taxes	-	-	-	-	62	62
Restricted stock granted	80,000	4	(4)	-	-	-
Common stock issued in connection with performance based units	40,000	2	(2)	-	-	-
Common stock surrendered for withholding taxes payable	(9,064)	(1)	(50)	-	-	(51)
Excess tax benefits related to stock-based compensation			182			182
Common stock issued in connection with stock option plans	56,500	3	247			250
Balance, January 31, 2010	12,934,963	$ 646	48,796	7,400	82	$ 56,924

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 except as disclosed in notes 16, 17 and 21 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 16, 2009 for the fiscal year ended May 3, 2009.

The company's three months ended January 31, 2010 and February 1, 2009, represent 13 week periods, respectively. The company's nine months ended January 31, 2010 and February 1, 2009, represent 39 and 40 week periods, respectively.

Certain prior year amounts have been reclassified on the Consolidated Statement of Cash Flows to conform to current year presentation and reflect the effects of foreign exchange losses and gains on operating cash flows and cash and cash equivalents held as of February 1, 2009. Reclassifications are not material to total net cash provided by operating activities, total net cash used in investing activities, and total net cash (used in) provided by financing activities.

2. Significant Accounting Policies

As of January 31, 2010, there were no changes in the nature of the company's significant accounting policies or the application of those policies from those reported in the company's annual report on Form 10-K for the year then ended May 3, 2009.

Recently Adopted Accounting Pronouncements

ASC Topic 105

In June 2009, the Financial Accounting Standards Board, or FASB, approved the FASB Accounting Standards Codification, or ASC, as the single source of authoritative nongovernmental GAAP. All existing accounting standard guidance issued by the FASB, American Institute of Certified Public Accountants, Emerging Issues Task Force and related literature, excluding guidance from the Securities and Exchange Commission, or SEC, has been superseded by the ASC. All other non-grandfathered, non-SEC accounting literature not included in the ASC has become non-authoritative. The ASC did not change GAAP, but instead introduced a new structure that combines all authoritative standards into a comprehensive, topically organized online database. The ASC was effective for interim or annual periods ending after September 15, 2009.

Accordingly, the Company adopted the ASC as of November 1, 2009 as provided by Accounting Standards Update, or ASU, No. 2009-01, "Topic 105 – Generally Accepted Accounting Principles – amendments based on Statement of Financial Accounting Standards No. 168, The FASB Accounting Standards Codification, and the Hierarchy of Generally Accepted Accounting Principles." As a result of this adoption, previous references to new accounting standards and literature are no longer applicable. Beginning in the second quarter of fiscal 2010, the company has provided references to both new and old guidance to assist in understanding the impacts of recently adopted accounting literature, particularly for guidance adopted since the beginning of the current fiscal year but prior to the ASC.

Culp, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

ASC Topic 820

Effective April 28, 2008, the company adopted ASC Topic 820, Fair Value Measurements and Disclosures, (previously reported as "SFAS No. 157" as amended by "FSP No. 157-2") for financial assets and liabilities. To allow time to consider the effects of the implementation issues that have arisen, on February 12, 2008, the Financial Accounting Standards Board ("FASB") provided a one-year deferral of the effective date of ASC Topic 820-10 for nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed in financial statements at fair value on a non-recurring basis (that is, at least annually). As a result the company adopted ASC Topic 820-10 for nonfinancial assets and liabilities that are valued at fair value on a non-recurring basis on May 4, 2009. The deferral provision of ASC Topic 820-10 for nonfinancial assets and liabilities primarily apply to nonfinancial assets and liabilities initially measured at fair value in business combinations and nonfinancial assets and liabilities measured at fair value in conjunction with goodwill, other intangible assets and long-lived asset impairment testing. The impact of the adoption of ASC Topic 820-10 for nonfinancial assets and nonfinancial liabilities did not have a material impact on the company's consolidated results of operations, cash flows, or financial position.

ASC Topic 810

In December 2007, the FASB issued ASC Topic 810, Consolidation (previously reported as SFAS No. 160, "Non-controlling Interests in Consolidated Financial Statements"). This standard requires that ownership interests held by parties other than the consolidating parent company be presented separately within equity in the statement of financial position; the amount of consolidated net income be clearly identified and presented on the statements of operations; all transactions resulting in a change in ownership interest whereby the parent retains control be accounted for as equity transactions; and when a controlling interest is not retained by the parent, any retained equity investment be valued at fair market value with a gain or loss being recognized on the transaction. The company adopted ASC Topic 810 on May 4, 2009, and such adoption did not have a material effect on the company's financial condition or results of operations.

ASC Topic 350

In April 2008, the FASB amended certain provisions of ASC Topic 350, Intangible Assets – Goodwill and Other (previously reported as FSP No. 142-3,"Determination of the Useful Life of Intangible Assets). These amendments outlined the factors that must be considered in developing renewal or extension assumptions used to determine the useful life over which to amortize the cost of a recognized intangible asset under ASC Topic 350. The amended provisions of ASC Topic 350 require an entity to consider its own assumptions about renewal or extension of the term of the arrangement, consistent with its expected use of the asset, and is an attempt to improve consistency between the useful life of a recognized intangible asset under ASC Topic 350 and the period of expected cash flows used to measure the fair value under ASC Topic 805, Business Combinations. The amended provisions of ASC Topic 350 also require disclosures about the intent and/or ability to renew or extend the term of recognized intangible assets and the treatment of related costs incurred to renew or extend such terms. The guidance for determining the useful life of a recognized intangible asset must be applied prospectively to intangible assets acquired after the effective date. The company adopted the amended provisions of ASC Topic 350 on May 4, 2009, and such adoption did not have a material effect on the company's financial condition or results of operations.

Culp, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

ASC Topic 805

In December 2007, the FASB amended certain provisions of ASC Topic 805, Business Combinations (previously reported as SFAS No. 141R, "Business Combinations"). This amendment retains the fundamental requirements of the original pronouncement requiring that the purchase method of accounting be used for all business combinations. This amendment defines the acquirer as the entity that obtains control of one or more businesses in the business combination, establishes the acquisition date as the date the acquirer achieves control and requires the acquirer to recognize the assets acquired, liabilities assumed and any non-controlling interest at their fair values as of the acquisition date. This amendment also requires the acquisition related costs be recognized separately from the acquisition. This guidance also amends the goodwill impairment test requirements in ASC Topic 350. For a goodwill impairment test as of a date after the effective date of this amended provisions of ASC Topic 805, the value of the reporting unit and the amount of implied goodwill, calculated in the second step test, will be determined in accordance with the measurement and recognition guidance on accounting for business combinations under the amended provision of ASC Topic 805. This change could effect the determination of what amount, if any, should be recognized as an impairment loss for goodwill recorded before the effective date of the amended provisions under ASC Topic 805. This accounting is required beginning when the amended provisions under ASC Topic 805 became effective on May 4, 2009 for the company, and applies to goodwill related to acquisitions accounted for prior to the amendments of ASC Topic 805 as well as those accounted for after the amended provisions under ASC Topic 805. The adoption of the amended provisions of ASC Topic 805 did not have a material effect on the company's financial condition or results of operations. The company had $11.5 million in goodwill at January 31, 2010, related to previous business combinations. The company cannot determine what effect, if any, the amended provisions of ASC Topic 805 will have on the results of its impairment testing subsequent to January 31, 2010.

ASC Topic 260

In June 2008, the FASB amended certain provisions of ASC Topic 260, Earnings Per Share (previously reported as FSP EITF 03-06-1, "Determining Whether Instruments Granted in Share-Based Payment Transactions are Participating Securities'). The amended provisions of ASC Topic 260, requires that unvested share-based payment awards containing non-forfeited rights to dividends be included in the computation of earnings per common share. The company adopted the amended provisions of ASC Topic 260 on May 4, 2009, and such adoption did not have a material effect on the company's financial condition or results of operations.

ASC Topic 820

In April 2009, the FASB amended certain provisions of ASC Topic 820, Fair Value Measurements and Disclosures (previously reported as FSP No. 157-4, "Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly"). The amended provisions of ASC Topic 820 provide additional guidance for estimating fair value in accordance with ASC Topic 820 when the volume and level of activity for the asset or liability have significantly decreased. The amended provisions of ASC Topic 820 also include guidance on identifying circumstances that indicate a transaction is not orderly. The amended provisions of ASC Topic 820 require the disclosure of the inputs and valuation techniques used to measure fair value and a discussion of changes in valuation techniques and related inputs, if any, during the period. The amended provisions of ASC Topic 820 also require that the entity define major categories for equity securities and debt securities to be major security types. The company adopted the amended provision of ASC Topic 820 on May 4, 2009, and such adoption did not have a material effect on the company's financial condition or results of operations.

Culp, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

ASC Topic 320

In April 2009, the FASB amended certain provisions of ASC Topic 320, Investments – Debt and Equity Securities (previously reported as FSP No. 115-2 and FSP No. 124-2,"Recognition and Presentation of Other-Than-Temporary Impairments"). The amended provisions of ASC Topic 320 amend the other-than-temporary impairment guidance in U.S. GAAP for debt securities to make the guidance more operational and to improve the presentation and disclosure of other-than-temporary impairments on debt and equity securities in the financial statements. The amended provisions of ASC Topic 320 do not amend existing recognition and measurement guidance related to other-than-temporary impairments of equity securities. The amended provisions of ASC Topic 320 require the entity to assess whether the impairment is other-than-temporary and guidance on determining the amount of the other-than-temporary impairment should be recognized in earnings or other comprehensive income. The amended provisions of ASC Topic 320 also require an entity to disclose information that enables users to understand the types of securities held, including those investments in an unrealized loss position for which the other-than-temporary impairment has not been recognized. The company adopted the amended provisions of ASC Topic 320 on May 4, 2009, and such adoption did not have a material effect on the company's financial condition or results of operations.

ASC Topic 825

In April 2009, the FASB amended certain provisions of ASC Topic 825, Financial Instruments (previously reported as FSP No. 107-1 and APB 28-1, "Interim Disclosures about Fair Value of Financial Instruments", amends SFAS No. 107,"Disclosures about Fair Value of Financial Instruments"). The amended provisions of ASC Topic 825 require disclosures about the fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements. The amended provisions of ASC Topic 825 also require those disclosures in summarized financial information at interim periods. The company adopted the amended provisions of ASC Topic 825 on May 4, 2009, and such adoption did not have a material effect on the company's financial condition or results of operations.

ASC Topic 855

In May 2009, the FASB issued ASC Topic 855, Subsequent Events (previously reported as SFAS No. 165, "Subsequent Events") which establishes general standards of accounting for, and requires disclosure of, events that occur after the balance sheet date but before financial statements are issued or are available to be issued. Specifically, this standard sets forth the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition occurring after the balance sheet date in its financial statements, and the disclosures that an entity should make about events or transactions that occurred after the balance sheet date. The company adopted ASC Topic 855 in the first quarter of fiscal 2010.

Culp, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

ASC Topic 805

In April 2009, the FASB amended certain provisions of ASC Topic 805, Business Combinations (previously reported as FSP No. FAS 141(R)-1, “Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies), which amends the provisions related to the initial recognition and measurement, subsequent measurement and disclosure of assets and liabilities arising from contingencies in a business combination. The amended provisions of ASC Topic 805 apply to all assets acquired and liabilities assumed in a business combination that arise from contingencies that would be within the scope ASC Topic 450, Contingencies (previously reported as SFAS No. 5,“Accounting for Contingencies”) if not acquired or assumed in a business combination, except for assets or liabilities arising from contingencies that are subject to specific guidance in ASC Topic 805. The amended provisions of ASC Topic 805 apply prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. The adoption of amended provisions of ASC Topic 805 is effective May 4, 2009 and did not have an impact on the company’s condensed consolidated financial statements.

ASC Topic 820

In August 2009, the FASB issued Accounting Standards Update (“ASU”) 2009-05 “Measuring Liabilities at Fair Value”, which amends FASB ASC 820 to provide guidance on accounting for the fair value measurement of liabilities. This guidance provides clarification that in certain circumstances in which a quoted price in an active market for the identical liability is not available, a reporting entity is required to measure fair value using one or more of the following valuation techniques: the quoted price of the identical liability when traded as an asset, the quoted prices for similar liabilities or similar liabilities when traded as assets, and/or another valuation technique that is consistent with the principles of fair value measurements. This guidance clarifies that a company is not required to include an adjustment for restrictions that prevent the transfer of the liability and if an adjustment is applied to the quoted price used in a valuation technique, the result is a Level 2 or 3 fair value measurement. This guidance was effective for interim and annual periods beginning after August 27, 2009 (the company’s third quarter of fiscal 2010). The provisions of this guidance did not have material effect on its results of operations, financial position or liquidity.

ASC Topic 810

In January 2010, the FASB issued ASU 2010-02, which amends ASC Topic 810, Consolidation, to revise accounting guidance related to the accounting and reporting for decreases in ownership of a subsidiary. This amendment provides guidance in regards to how an entity is required to account for a decrease in its ownership interest of a subsidiary that does not result in a change of control of the subsidiary as an equity transaction. This amendment was effective in our third quarter of fiscal 2010. This amendment did not have a material impact on our consolidated financial statements and disclosures.

Culp, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

Recently Issued Accounting Pronouncements

ASC Topic 715

In December 2008, the FASB amended certain provisions of ASC Topic 715, Compensation-Retirement Benefits (previously reported as FSP FAS 132(R)-1, "Employers' Disclosures about Postretirement Benefit Plan Assets"). The amended provisions of ASC Topic 715 will require more detailed disclosures regarding defined benefit pension plan assets, including the levels within the fair value hierarchy and other related disclosures under ASC Topic 820, and significant concentration of risk within plan assets. The amended provisions of ASC Topic 715 becomes effective for our fiscal year ending May 2, 2010 and currently is not expected to impact our consolidated financial statements or disclosures.

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 fiscal years beginning after November 15, 2009. The company will adopt the provisions of ASC Topic 860 in fiscal 2011. Because the company historically does not have significant transfers of financial assets, the adoption of this standard is not expected to have a material impact on its 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. The company will adopt the amended provisions of ASC Topic 810 in fiscal 2011. Currently, the company does not have any variable-interest entities and, therefore, this standard is not expected to have a material impact on its consolidated results of operations or financial condition.

ASC Topic 605

In October 2009, the FASB issued ASU 2009-13, which amends ASC 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.

Culp, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

3. Asset Acquisition – Mattress Fabric Segment

Pursuant to an Asset Purchase Agreement among the company, Bodet & Horst USA, LP and Bodet & Horst GMBH & Co. KG (collectively "Bodet & Horst") dated August 11, 2008, we purchased certain assets and assumed certain liabilities of the knitted mattress fabric operation of Bodet & Horst, including its manufacturing operation in High Point, North Carolina. The purchase has allowed us to have a vertically integrated manufacturing operation in all major product categories of the mattress fabrics industry. The purchase involved the equipment, inventory, and intellectual property associated with the High Point manufacturing operation, which has served as our primary source of knitted mattress fabric for six years. The purchase price was cash in the amount of $11.4 million, which included an adjustment of $477 for changes in working capital as defined in the Asset Purchase Agreement, and the assumption of certain liabilities.

During the first quarter of fiscal 2010, we finalized our valuation of the fair values for the assets acquired and liabilities assumed regarding this purchase. As a result of this final valuation, we recorded an adjustment to increase the fair value of the non-compete agreement and reduce the fair value of the goodwill by $131. The following table presents the final allocation of the acquisition cost, including professional fees and other related acquisition costs, to the assets acquired and liabilities assumed based on their fair values.

(dollars in thousands)	Fair Value		
Inventories	$	1,439	
Other current assets		17	
Property, plant, and equipment		3,000	
Non-compete agreement (Note 7)		887	
Goodwill		7,348	
Accounts payable		(1,291	)
	$	11,400	

The following unaudited pro forma consolidated results of operations for the three month and nine month periods ended February 1, 2009, have been prepared as if the acquisition of Bodet & Horst had occurred at April 28, 2008.

(dollars in thousands)	Three months ended February 1, 2009		
Net Sales	$	44,592	
Income from operations		671	
Net loss		(450	)
Net loss per share, basic		(0.04	)
Net loss per share, diluted		(0.04	)

Culp, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

(dollars in thousands)	Nine months ended February 1, 2009
Net Sales	$ 156,176
Loss from operations	(6,694)
Net loss	(40,083)
Net loss per share, basic	(3.17)
Net loss per share, diluted	(3.17)

The unaudited pro forma information is presented for informational purposes only and is not necessarily indicative of the results of operations that actually would have been achieved had the acquisition been consummated as of that time, nor is it intended to be a projection of future results.

4. Stock-Based Compensation

Incentive Stock Option Awards

On October 1, 2009, the company granted to its board of directors 6,000 options to purchase shares of common stock at the fair market value on the date of grant. These options vest immediately and expire ten years after the date of grant. The fair value of these option awards were estimated on the date of grant using the Black-Scholes option pricing model. The fair value of stock options granted to the company's board of directors during the nine-month period ended January 31, 2010 was $4.44 per share using the following assumptions.

	Grant on October 1, 2009
Risk-free interest rate	3.21 %
Dividend yield	0.00 %
Expected volatility	69.06 %
Expected term (in years)	10

The assumptions utilized in the model are evaluated and revised, as necessary, to reflect market conditions, actual historical experience, and groups of employees that have similar exercise patterns that are considered separately for valuation purposes. 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 company does not plan to issue any dividends, and, therefore, the yield is 0.00%. 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 based on the contractual term of the stock option award and expected participant exercise trends.

Culp, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

As of January 31, 2010, there were 590,265 outstanding options to purchase common stock. Of the outstanding options to purchase common stock, 413,867 were exercisable and had a weighted average contractual term of 3.8 years. The remaining unrecognized compensation cost related to incentive stock option awards at January 31, 2010 was $404 which is expected to be recognized over a weighted average period of 2.6 years.

The company recorded $64 and $274 of compensation expense on incentive stock option grants within selling, general, and administrative expense for the three-month and nine-month periods ended January 31, 2010, respectively. The company recorded $82 and $301 of compensation expense on incentive stock option grants within selling, general, and administrative expense for the three-month and nine-month periods ended February 1, 2009, respectively

Time Vested Restricted Stock Awards

On July 1, 2009, and under the company's 2007 Equity Incentive Plan, two executive officers were granted 80,000 shares of time vested restricted common stock. This time vested restricted stock award vests in equal one-third installments on July 1, 2012, 2013, and 2014. Compensation expense on this award is recognized from the date of grant through the end of the vesting period on a straight-line basis. The fair value (the closing price of the company's common stock) of this restricted stock award is measured at the date of grant (July 1, 2009) and was $5.08 per share.

The company recorded $61 and $132 of compensation expense within selling, general, and administrative expense for time vested restricted stock awards for the three-month and nine-month periods ending January 31, 2010. The company recorded $3 of compensation expense within selling, general, and administrative expense for time vested restricted stock awards for the three-month and nine-month periods ending February 1, 2009.

As of January 31, 2010, there were 195,000 shares of time vested restricted stock outstanding and unvested. Of the 195,000 shares outstanding, 115,000 shares (granted on January 7, 2009) vest in equal one-third installments on May 1, 2012, 2013, and 2014, respectively. The remaining 80,000 shares (granted on July 1, 2009) vest in equal one-third installments on July 1, 2012, 2013, and 2014, respectively.

As of January 31, 2010, the remaining unrecognized compensation cost related to the unvested restricted stock awards was $587, which is expected to be recognized over a weighted average vesting period of 3.4 years.

Performance Based Restricted Stock Units

On January 7, 2009, and under the company's 2007 Equity Incentive Plan, certain key management employees and a non-employee were granted 120,000 shares of performance based restricted stock units. This award contingently vests in one-third increments, if in any discreet period of two consecutive quarters from February 2, 2009 through April 30, 2012, certain performance goals are met. The fair value (the closing price of the company's common stock) of the restricted stock awards granted to key management employees is measured at the date of grant (January 7, 2009) and was $1.88 per share. The fair value (the closing price of the company's common stock) of the restricted stock award granted to a non-employee is measured at the earlier date of when the performance criteria are met or the end of each reporting period. At January 31, 2010, two-thirds of the restricted stock award granted to a non-employee vested in one-third increments on August 2, 2009 and January 31, 2010, respectively. The restricted stock award vested on August 2, 2009 and January 31, 2010, were measured at $6.59 and $13.01 per share, which represents the closing price of the company's common stock at the date in which the performance criteria was met. The remaining one-third of the restricted stock award granted to the non-employee was unvested as of January 31, 2010, and was measured at $13.01 per share, which represents the closing price of the company's common stock at the end of the reporting period.

I-13

Culp, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

The company recorded $130 and $289 of compensation expense within selling, general, and administrative expense for performance based restricted stock units for the three-month and nine-month periods ended January 31, 2010. The company recorded $2 within selling, general, and administrative expense for performance based restricted stock units for the three-month and nine-month periods ended February 1, 2009. Compensation cost is recorded based on an assessment each reporting period of the probability if certain performance goals will be met during the contingent vesting period. If performance goals are not probable of occurrence, no compensation cost will be recognized and any previously recognized compensation cost would be reversed.

As of January 31, 2010, 80,000 shares of performance based restricted stock units were vested as certain performance criteria were met. As of January 31, 2010, 40,000 unvested shares of performance based restricted stock units were outstanding.

As of January 31, 2010, the remaining unrecognized compensation cost related to unvested restricted stock units were $58 which is expected to be recognized over a weighted average vesting period of 1.5 years.

Other Share-Based Arrangements

The company has a stock-based agreement with a non-employee that requires the company to settle in cash and is indexed by shares of the company's common stock as defined in the agreement. The cash settlement is based on a 30-day average closing price of the company's common stock at the time of payment. At January 31, 2010, this agreement was indexed by approximately 68,260 shares of the company's common stock. The fair value of this agreement is included in accrued expenses and was $802 and $259 at January 31, 2010 and May 3, 2009, respectively. The company recorded an increase in this accrual of $543 to reflect the change in fair value for the nine-month period ending January 31, 2010. The company recorded a decrease in this accrual of $419 to reflect the change in fair value for the nine-month period ending February 1, 2009. The company did not make any payments under this arrangement for the nine-month period ending January 31, 2010. The company made payments totaling $113 for the nine-month period ending February 1, 2009.

Culp, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

5. Accounts Receivable

A summary of accounts receivable follows:

(dollars in thousands)	January 31, 2010	May 3, 2009
Customers	$22,476	$20,093
Allowance for doubtful accounts	(1,131)	(1,535)
Reserve for returns and allowances and discounts	(474)	(442)
	$20,871	$18,116

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

	Nine months ended	
(dollars in thousands)	January 31, 2010	February 1, 2009
Beginning balance	$(1,535)	$(1,350)
Provision for bad debts	(96)	(395)
Net write-offs, net of recoveries	500	216
Ending balance	$(1,131)	$(1,529)

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

	Nine months ended	
(dollars in thousands)	January 31, 2010	February 1, 2009
Beginning balance	$(442)	$(407)
Provision for returns and allowances and discounts	(2,307)	(1,367)
Credits issued	2,275	1,375
Ending balance	$(474)	$(399)

6. 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)	January 31, 2010	May 3, 2009
Raw materials	$6,062	$5,987
Work-in-process	1,201	1,254
Finished goods	17,103	16,737
	$24,366	$23,978

I-15

Culp, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

7. Other Assets

A summary of other assets follows:

(dollars in thousands)	January 31, 2010	May 3, 2009
Cash surrender value – life insurance	$1,308	$1,294
Non-compete agreements, net	952	1,164
Other	400	362
	$2,660	$2,820

The company recorded non-compete agreements in connection with the company's asset purchase agreements with ITG and Bodet & Horst at their fair values based on valuation techniques. These non-compete agreements pertain to the company's mattress fabrics segment. The non-compete agreement associated with ITG is amortized on a straight line basis over the four year life of the agreement. The non-compete agreement associated with Bodet & Horst is amortized on a straight line basis over the six year life of the agreement and requires quarterly payments of $13 over the life of the agreement. As of January 31, 2010, the total remaining non-compete payments were $225.

At January 31, 2010 and May 3, 2009, the gross carrying amount of these non-compete agreements were $2.1 million and $1.9 million, respectively. At November 1, 2009 and May 3, 2009, accumulated amortization for these non-compete agreements were $1.2 million and $777, respectively. Amortization expense for these non-compete agreements was $121 and $380 for the three-month and nine-month periods ended January 31, 2010. Amortization expense for these non-compete agreements were $116 and $303 for the three-month and nine-month periods ended February 1, 2009. The remaining amortization expense (which includes the total remaining Bodet & Horst non-compete payments of $225) for the next five fiscal years follows: FY 2010 - $121; FY 2011 - $413; FY 2012 - $198; FY 2013 - $198; FY 2014 - $198; and thereafter $49. The weighted average amortization period for these non-compete agreements is 4.3 years as of January 31, 2010.

The company's cash surrender value – life insurance balances at January 31, 2010 and May 3, 2009, are payable upon death of the respective beneficiary.

8. Goodwill

During the first quarter of fiscal 2010, the company finalized its valuation of the fair values for the assets acquired and liabilities assumed regarding the Bodet & Horst asset acquisition. As a result of this final valuation, the company recorded an adjustment to increase the fair value of the non-compete agreement and reduce the fair value of the goodwill by $131. At January 31, 2010 and May 3, 2009, the carrying amount of the company's goodwill was $11.5 million and $11.6 million, respectively. The goodwill balance relates to the mattress fabrics segment.

9. Accounts Payable – Capital Expenditures

At January 31, 2010, the company had a vendor financed arrangement regarding capital expenditures that bears interest with a fixed interest rate of 7.14% in addition to non-vendor financed capital expenditures. At January 31, 2010, the company had total amounts due regarding capital expenditures of $978, of which $565 was vendor-financed and $413 was non-vendor financed. At May 3, 2009, the company had total amounts due regarding capital expenditures totaling $1.6 million, of which $1.4 million was vendor-financed and $198 was non-vendor financed.

The payment requirements of the company's accounts payable – capital expenditures during the next two years are: Year 1 - $790; and Year 2 - $188.

Culp, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

During August 2009, the company prepaid and paid in full $521 on a vendor financed arrangement that had a fixed interest rate of 6%.

10. Accrued Expenses

A summary of accrued expenses follows:

(dollars in thousands)	January 31, 2010	May 3, 2009
Compensation, commissions and related benefits	$5,697	$4,770
Interest	564	243
Other accrued expenses	1,883	1,491
	$8,144	$6,504

11. Long-Term Debt and Lines of Credit

A summary of long-term debt and lines of credit follows:

(dollars in thousands)	January 31, 2010	May 3, 2009
Unsecured senior term notes – Bodet & Horst	$11,000	$11,000
Unsecured term notes – existing	4,694	4,694
Canadian government loan	715	674
	16,409	16,368
Current maturities of long-term debt	(4,880)	(4,764)
Long-term debt, current maturities of long-term debt	$11,529	$11,604

Unsecured Term Notes- Bodet & Horst

In connection with the Bodet & Horst acquisition, we entered into an agreement that provided for the issuance of $11.0 million of unsecured term notes with a fixed interest rate of 8.01% and a term of seven years. Principal payments of $2.2 million per year are due on the notes beginning three years from the date of the agreement (August 11, 2008). The principal payments are payable over an average term of 5.5 years through August 11, 2015. This agreement contains customary financial and other covenants as defined in the agreement.

This loan agreement requires that we maintain compliance with certain financial covenants. At January 31, 2010, we were in compliance with these financial covenants.

Unsecured Term Notes- Existing

Our existing unsecured term notes have a fixed interest rate of 8.80% (payable semi-annually in March and September and subject to prepayment provisions each fiscal quarter as defined in the agreement). The remaining principal payment of $4.7 million is to be paid on March 15, 2010.

This loan agreement requires that we maintain compliance with certain financial covenants. At January 31, 2010, we were in compliance with these financial covenants, subject to waivers provided by the lenders associated with this

agreement.

Culp, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

Government of Quebec Loan

We have an agreement with the Government of Quebec for a term loan that is non-interest bearing and is payable in 48 equal monthly installments (denominated in Canadian dollars) commencing December 1, 2009. The proceeds were used to partially finance capital expenditures at our Rayonese facility located in Quebec, Canada. As of January 31, 2010, the outstanding balance on this loan was valued at $767 and $715 in Canadian and U.S. dollars, respectively.

Revolving Credit Agreement – United States

We have an unsecured credit agreement that provides for a revolving loan commitment of $6.5 million, including letters of credit up to $5.5 million. This agreement bears interest at the one-month LIBOR plus an adjustable margin (all in rate of 3.23% at January 31, 2010) based on the company's debt/EBITDA ratio, as defined in the agreement. As of January 31, 2010, there were $425 in outstanding letters of credit (all of which related to workers compensation) and no borrowings outstanding under the agreement.

On July 15, 2009, we entered into a fourteenth amendment to this revolving credit agreement. This amendment extended the expiration date to August 15, 2010.

On February 24, 2010, we entered into a fifteenth amendment to this revolving credit agreement. This amendment provided greater flexibility by increasing the capital expenditure limit on cash basis from $4.0 million to $7.5 million for fiscal year 2010. In addition, for any fiscal year after fiscal 2010, capital expenditures are not to exceed the sum of $4.0 million and such additional amount of capital expenditures do not cause the company to be in noncompliance with their fixed charge coverage ratio as defined in the agreement.

This loan agreement requires that we maintain compliance with certain financial covenants. At January 31, 2010, we were in compliance with these financial covenants, subject to the fifteenth amendment discussed above.

Revolving Credit Agreement – China

Effective March 3, 2010, the company obtained a commitment letter from a bank to renew its revolving credit agreement in China. The agreement provides for a line of credit available up to approximately $6.0 million and extends the expiration date to March 2, 2011. This agreement bears interest at a rate determined by the Chinese government. There were no borrowings or letters of credit outstanding under the agreement as of January 31, 2010.

Overall

As of January 31, 2010, the principal payment requirements of long-term debt during the next five years are: Year 1 – $4.9 million; Year 2 - $2.4 million; Year 3 - $2.4 million; Year 4 - $2.3 million; Year 5 - $2.2 million; and thereafter - $2.2 million.

Culp, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

12. Capital Lease Obligation

In May 2008, the company entered into a capital lease to finance the construction of certain equipment related to its mattress fabrics segment. The lease agreement contains a bargain purchase option and bears interest at 8.5%. The lease agreement requires principal payments totaling $1.4 million that commenced on July 1, 2008 to be paid in quarterly installments through April 2010. This agreement is secured by equipment with a carrying value of $2.4 million. The remaining principal payment of $107 will be paid in the fourth quarter fiscal 2010.

At January 31, 2010, the company has recorded $1.4 million for equipment under capital leases. This balance is reflected in property, plant, and equipment in the accompanying consolidated balance sheet as of January 31, 2010. Depreciation expense on the carrying value of $2.4 million associated with this capital lease obligation was $52 and $156 for the three-month and nine-month periods ending January 31, 2010. Depreciation expense was $52 and $87 for the three-month and nine-month periods ending February 1, 2009. The equipment under this capital lease was placed into service in the company's second quarter of fiscal 2009.

13. 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.

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

	Fair value measurements at January 31, 2010 using:			
	Quoted prices in active markets for identical assets	Significant other observable inputs	Significant unobservable inputs	
(amounts in thousands)	Level 1	Level 2	Level 3	Total
Assets:				
Canadian Dollar Fx Contract	N/A	$ 82	N/A	$ 82
Liabilities:				
None	N/A	N/A	N/A	N/A

I-19

Culp, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

As shown above, the Canadian foreign exchange contract derivative instrument is valued based on fair value provided by the company's bank and is classified within level 2 of the fair value hierarchy. The determination of where an asset or liability falls in the hierarchy requires significant judgment. The company evaluates its 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, the company expects that changes in classifications between different levels will be rare.

Most derivative contracts are not listed on an exchange and require the use of valuation models. Consistent with ASC Topic 820, the company attempts to maximize the use of observable market inputs in its models. When observable inputs are not available, the company defaults to unobservable inputs. Derivatives valued based on models with significant unobservable inputs and that are not actively traded, or trade activity is one way, are classified within level 3 of the fair value hierarchy.

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.

The fair value of the company's long-term debt is estimated by discounting the future cash flows at rates currently offered to the company for similar debt instruments of comparable maturities. At January 31, 2010, the carrying value of the company's long-term debt was $16.4 million and the fair value was $15.8 million. At May 3, 2009, the carrying value of the company's long-term debt was $16.4 million and the fair value was $15.4 million.

14. Derivatives

In accordance with the provisions ASC Topic 815, Derivatives and Hedging, the company's Canadian dollar foreign exchange contract and its interest rate swap agreement are designated as cash flow hedges, with the fair value of these financial instruments recorded in other assets or accrued expenses and changes in fair value recorded in accumulated other comprehensive income (loss). ASC Topic 815 requires disclosure of gains and losses on derivative instruments in the following tabular format.

(Amounts in Thousands)

	Fair Values of Derivative Instruments As of,			
	January 31, 2010		May 3, 2009	
Derivatives designated as hedging instruments under ASC Topic 815	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Canadian dollar foreign exchange contract	Other assets	$82	Other assets	$20

Culp, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

Derivatives in ASC Topic 815 Net Investment Hedging Relationships	Amt of Gain (Loss) (net of tax) Recognized in OCI on Derivative (Effective Portion) and recorded in Other assets and Accrued Expenses at Fair Value		Location of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Amount of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)		Location of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Amount of Gain (net of tax) or (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	
	January 31, 2010	February 1, 2009		January 31, 2010	February 1, 2009		January 31, 2010	February 1, 2009
Canadian Dollar Foreign Exchange Contract	$ 62	-	N/A	N/A	N/A	N/A	N/A	N/A
Interest Rate Swap Agreement	-	$ (24)	N/A	N/A	N/A	N/A	N/A	N/A

Canadian Dollar Foreign Exchange Rate

On January 21, 2009, the company entered into a Canadian dollar foreign exchange contract to mitigate the risk of foreign exchange rate fluctuations associated with its loan with the Government of Quebec. The agreement effectively converts the Canadian dollar principal payments at a fixed Canadian dollar foreign exchange rate compared with the United States dollar of 1.21812. This agreement expires November 1, 2013 and is secured by cash deposits totaling $200,000. These cash deposits of $200,000 are recorded in cash and cash equivalents in Consolidated Balance Sheet as of January 31, 2010 and May 3, 2009, respectively.

Interest Rate Swap Agreement

In connection with the company's first real estate loan on its corporate headquarters building, 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 agreement, which represented 50% of the principal amount of the real estate loan, and effectively converted the floating rate LIBOR based interest payments to fixed payments at 4.99% plus the spread calculated under the real estate loan agreement.

In connection with the sale of the company's headquarters in the third quarter of fiscal 2009, the company's interest rate swap agreement to hedge the interest rate exposure on the first real estate loan was transferred to an unsecured term loan associated with the ITG acquisition. During the fourth quarter of fiscal 2009, the company paid off the unsecured term loan associated with the ITG acquisition and the related interest rate swap agreement.

Culp, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

15. Cash Flow Information

Payments for interest and income taxes follows:

(dollars in thousands)	Nine months ended January 31, 2010	February 1, 2009
Interest	$727	$1,066
Net income tax payments	1,152	54

Interest costs of $22 and $42 for the construction of qualifying property, plant, and equipment were capitalized for the nine month periods ending January 31, 2010 and February 1, 2009, respectively.

16. Restructuring and Restructuring Related Charges

The following summarizes the fiscal 2010 activity in the restructuring accrual (dollars in thousands):

(dollars in thousands)	Balance, May 3, 2009	Employee Termination Benefit Adjustments	Employee Termination Benefit Payments Net of Cobra Premiums	Lease Termination and Other Exit Cost Adjustments	Lease Termination and Other Exit Cost Receipts (Payments)	Balance January 31, 2010
September 2008 Upholstery fabrics	$43	$ -	$ -	(101)	$ 58	$ -
December 2006 Upholstery fabrics (1)	494	(169)	(198)	13	(41)	99
September 2005 Upholstery fabrics	81	-	-	-	(81)	-
Fiscal 2003 Culp Decorative fabrics (2)	235	-	-	67	(39)	263
Totals	$853	$ (169)	$ (198)	$ (21)	$ (103)	$362

(1) The restructuring accrual at January 31, 2010, represents employee termination benefits and lease termination and other exit costs of $22 and $77, respectively. The restructuring accrual at May 3, 2009, represents employee termination benefits and lease termination and other exit costs of $389 and $105, respectively.

(2) The restructuring accrual at January 31, 2010 and May 3, 2009 represents lease termination and other exit costs of $263 and $235, respectively.

The following summarizes restructuring and related charges incurred for the nine-month period ending January 31, 2010 (dollars in thousands):

Sales
Proceeds

(dollars in thousands)	Operating Costs on Closed Facilities	Lease Termination and Other Exit Costs	Write-Downs of Buildings and Equipment	Inventory Markdowns	Asset Movement Costs	Employee Termination Benefits	from Equipment With No Carrying Value	Total
September 2008 Upholstery fabrics (3)	$ -	$ (101)	$ -	$ -	$ -	$ -	$ -	$ (101)
December 2006 Upholstery fabrics (4)	92	13	-	(50)	-	(169)	(127)	(241)
Fiscal 2003 Upholstery fabrics (5)	-	67	-	-	-	-	-	67
Totals	$ 92	$ (21)	$ -	$ (50)	$ -	$ (169)	$ (127)	$ (275)

(3) This $101 credit was recorded in restructuring credit in the 2010 Consolidated Statement of Operations.

(4) Of this $241 credit, a charge of $42 was recorded in cost of sales and a credit of $283 was recorded in restructuring credit in the 2010 Consolidated Statement of Operations.

(5) This $67 charge was recorded in restructuring credit in the 2010 Consolidated Statement of Operations.

Culp, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

The following summarizes restructuring and related charges incurred for the nine-month period ending February 1, 2009 (dollars in thousands):

(dollars in thousands)	Operating Costs on Closed Facilities	Lease Termination and Other Exit Costs	Write-Downs of Buildings and Equipment		Inventory Markdowns	Accelerated Depreciation	Employee Termination Benefits	Sales Proceeds from Equipment With No Carrying Value	Total
September 2008 Upholstery fabrics (6)	$ 19	$ 466	$ 6,562		$ 480	$ 2,090	$ 35	$ -	$ 9,652
December 2006 Upholstery fabrics (7)	65	215	1,398		950	-	784	-	3,412
Other Upholstery fabrics (8)	-	-	-		-	-	(22)	-	(22)
Totals	$ 84	$ 681	$ 7,960	(9)	$ 1,430	$ 2,090	$ 797	$ -	$ 13,042

(6) Of this total charge, $2.6 million and $7.0 million were recorded in cost of sales and restructuring expense in the 2009 Consolidated Statement of Operations.

(7) Of this total charge, $994 was recorded in cost of sales, $21 was recorded in selling, general, and administrative expense, and $2.4 million was recorded in restructuring expense in the 2009 Consolidated Statement of Operations. Of this total charge, $571, $2.4 million and $438 was recorded in the third quarter, second quarter and first quarter of fiscal 2009, respectively. Of the $571 total third quarter charge, $205 represents lease termination and other exit costs associated with the sale of the corporate headquarters, $161 represents inventory markdowns, $148 represents impairment charges on a building and equipment, $36 represents other operating costs associated with closed plant facilities, and $21 represents employee termination benefits.

(8) This $22 credit was recorded in restructuring expense in the 2009 Consolidated Statement of Operations.

(9) The $8.0 million restructuring charge represents impairments of $2.2 million for fixed assets abandoned in connection with the consolidation of certain plant facilities in China and $774 for a reduction in the selling price of our corporate headquarters to $4.0 million. Our corporate headquarters were sold for $4.0 million in the third quarter of fiscal 2009. Also, during the course of our strategic review in the second quarter of fiscal 2009, of our upholstery fabrics business, we assessed the recoverability of the carrying value of our upholstery fabric fixed assets that are being held and used in operations. This strategic review resulted in impairment losses of $4.4 million and $531 for fixed assets located in China and the U.S., respectively. In addition, we incurred impairment losses totaling $115 for assets held for sale associated with its U.S. upholstery fabric operations. These losses reflect the amounts by which the carrying values of these fixed assets exceed their estimated fair values determined by their estimated future discounted cash flow and quoted market prices.

Culp, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

17. Assets Held For Sale

A summary of assets held for sale follows:

(dollars in thousands)	January 31, 2010	May 3, 2009
Upholstery fabrics	$88	$1,189
Mattress fabrics	10	20
	$98	$1,209

The carrying value of these assets held for sale are presented separately in the January 31, 2010 and May 3, 2009 consolidated balance sheets and are no longer being depreciated.

Upholstery Fabrics

During fiscal 2010, the company received proceeds totaling $223 for the sale of equipment related to its upholstery fabric operations. We expect the remaining carrying value amount of $88 to be sold by the end of the first quarter of fiscal 2011.

Due to the favorable results from the company's profit improvement plan and restructuring activities initiated in the second quarter of fiscal 2009, management assessed the classification of upholstery fabric assets classified as held for sale during the second quarter of fiscal 2010. As a result of this assessment, upholstery fabric assets with a carrying value of $699 were reclassified from assets held for sale to held and used (property, plant, and equipment on the January 31, 2010 Consolidated Balance Sheet). This carrying value of $699 represents these assets' carrying amount before being classified as held for sale (the third quarter of fiscal 2009), adjusted for depreciation expense that would have been recognized had these assets been classified as held and used, which is lower than these assets' fair value at the date they were reclassified to held and used. Consequently, we recorded a charge totaling $178 in the second quarter of fiscal 2010 to depreciation expense in the 2010 Consolidated Statement of Operations.

Mattress Fabrics

During fiscal 2010, the company received proceeds totaling $10 for the sale of equipment related to its mattress fabric operations. We expect the remaining carrying value amount of $10 to be sold by the end of the fiscal 2010.

18. 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-based compensation calculated using the treasury stock method. Weighted average shares used in the computation of basic and diluted net income (loss) per share follows:

Culp, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

(amounts in thousands)	Three months ended January 31, 2010	Three months ended February 1, 2009
Weighted average common shares outstanding, basic	12,713	12,653
Dilutive effect of stock-based compensation	361	-
Weighted average common shares outstanding, diluted	13,074	12,653

All options of common stock were included in the computation of diluted net income for the three months ending January 31, 2010, as the exercise price of the options was less than the average market price of the common shares. Options to purchase 695,765 shares of common stock were not included in the computation of diluted net loss per share for the three months ended February 1, 2009, as the exercise price of the options was greater than the average market price of the common shares.

The computation of basic net income per share for the three months ending January 31, 2010, did not include 195,000 shares of time vested restricted common stock and 40,000 shares of performance based restricted stock units as these awards were unvested as of January 31, 2010. The computation of basic net loss per share for the three months ending February 1, 2009, did not include 115,000 shares of time vested restricted common stock and 120,000 shares of performance based restricted stock units as these awards were unvested as of February 1, 2009.

(amounts in thousands)	Nine months ended January 31, 2010	Nine months ended February 1, 2009
Weighted average common shares outstanding, basic	12,679	12,650
Dilutive effect of stock-based compensation	281	-
Weighted average common shares outstanding, diluted	12,960	12,650

Options to purchase 157,500 and 680,765 shares of common stock were not included in the computation of diluted net income (loss) per share for the nine months ended January 31, 2010 and February 1, 2009, respectively, because the exercise price of the options was greater than the average market price of the common shares. Additionally, options to purchase 2,873 shares were not included in the computation of diluted net loss per share for the nine months ended February 1, 2009, because the company incurred a net loss.

The computation of basic net income per share for the nine months ending January 31, 2010, did not include 195,000 shares of time vested restricted common stock and 40,000 shares of performance based restricted stock units as these awards were unvested as of January 31, 2010. The computation of basic net loss per share for the nine months ending February 1, 2009, did not include 115,000 shares of time vested restricted common stock and 120,000 shares of performance based restricted stock units as these awards were unvested as of February 1, 2009.

19. Comprehensive Income (Loss)

Comprehensive income (loss) is the total income (loss) and other changes in shareholders' equity, except those resulting from investments by shareholders and distributions to shareholders not reflected in net income (loss).

Culp, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

A summary of comprehensive income (loss) follows:

	Nine months ended	
(dollars in thousands)	January 31, 2010	February 1, 2009
Net income (loss)	$7,755	$(40,538)
Gain (Loss) on cash flow hedge, net of income taxes	62	(24)
Comprehensive income (loss)	$7,817	$(40,562)

20. Segment Information

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

The company evaluates the operating performance of its segments based upon income (loss) from operations before restructuring and related charges or credits, 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 and all costs related to being a public company. 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, assets held for sale, goodwill and other non-current assets associated with the ITG and Bodet & Horst acquisitions. The upholstery fabrics segment also includes assets held for sale in segment assets.

Culp, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

Financial information for the company's operating segments as follows:

	Three months ended			
(dollars in thousands)	January 31, 2010		February 1, 2009	
Net sales:				
Mattress Fabrics	$26,953		$25,198	
Upholstery Fabrics	27,027		19,394	
	$53,980		$44,592	
Gross profit:				
Mattress Fabrics	$5,587		$4,176	
Upholstery Fabrics	5,098		1,931	
Total segment gross profit	10,685		6,107	
Restructuring related charges	(28	) (1)	(358	) (3)
	$10,657		$5,749	
Selling, general, and administrative expenses:				
Mattress Fabrics	$2,031		$1,941	
Upholstery Fabrics	2,627		1,880	
Total segment selling, general, and administrative expenses	4,658		3,821	
Unallocated corporate expenses	1,777		838	
Restructuring related charges	-	(1)	17	(3)
	$6,435		$4,676	
Income (loss) from operations:				
Mattress Fabrics	$3,556		$2,235	
Upholstery Fabrics	2,471		51	
Total segment income from operations	6,027		2,286	
Unallocated corporate expenses	(1,777			