CULP INC
Form 10-Q
December 09, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

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

For the quarterly period ended October 30, 2011
Commission File No. 1-12597

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

NORTH CAROLINA	56-1001967
(State or other jurisdiction of incorporation or other organization)	(I.R.S. Employer Identification No.)
1823 Eastchester Drive High Point, North Carolina	27265-1402
(Address of principal executive offices)	(zip code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to the filing requirements for at least the past 90 days. x YES NO o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period after the registrant was required to submit and post such files). x 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 x Non-accelerated filer o

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 October 30, 2011: 12,766,788
Par Value: $0.05 per share

INDEX TO FORM 10-Q
For the period ended October 30, 2011

Item 1: Financial Statements

CULP, INC.
CONSOLIDATED STATEMENTS OF NET INCOME
FOR THE THREE AND SIX MONTHS ENDED OCTOBER 30, 2011 AND OCTOBER 31, 2010
UNAUDITED
(Amounts in Thousands, Except for Per Share Data)

	THREE MONTHS ENDED	
	October 30, 2011	October 31, 2010
Net sales	$ 58,013	48,879
Cost of sales	49,367	41,270
Gross profit	8,646	7,609
Selling, general and administrative expenses	5,720	4,202
Income from operations	2,926	3,407
Interest expense	188	225
Interest income	(110)	(49)
Other (income) expense	(15)	30
Income before income taxes	2,863	3,201
Income taxes	(3,389)	(801)
Net income	$ 6,252	4,002
Net income per share, basic	$ 0.49	0.31
Net income per share, diluted	0.49	0.30
Average shares outstanding, basic	12,733	12,932
Average shares outstanding, diluted	12,871	13,167

	SIX MONTHS ENDED	
	October 30, 2011	October 31, 2010
Net sales	$ 118,283	104,791
Cost of sales	100,759	87,473
Gross profit	17,524	17,318
Selling, general and administrative expenses	11,477	9,416

Restructuring credit		-	(8)
Income from operations		6,047	7,910
Interest expense		409	435
Interest income		(238)	(87)
Other expense		49	83
Income before income taxes		5,827	7,479
Income taxes		(2,244)	(270)
Net income	$	8,071	7,749
Net income per share, basic	$	0.63	0.60
Net income per share, diluted		0.62	0.59
Average shares outstanding, basic		12,898	12,901
Average shares outstanding, diluted		13,025	13,186

See accompanying notes to consolidated financial statements.

CULP, INC.
CONSOLIDATED BALANCE SHEETS
OCTOBER 30, 2011, OCTOBER 31, 2010 AND MAY 1, 2011
UNAUDITED
(Amounts in Thousands)

	October 30, 2011	October 31 2010	* May 1, 2011
Current assets:			
Cash and cash equivalents	$13,795	15,262	23,181
Short-term investments	10,482	4,035	7,699
Accounts receivable, net	16,241	14,810	20,209
Inventories	33,776	29,435	28,723
Deferred income taxes	2,659	176	293
Assets held for sale	75	123	75
Income taxes receivable	79	477	79
Other current assets	1,602	1,234	2,376
Total current assets	78,709	65,552	82,635
Property, plant and equipment, net	30,431	31,225	30,296
Goodwill	11,462	11,462	11,462
Deferred income taxes	4,540	1,391	3,606
Other assets	1,982	2,278	2,052
Total assets	$127,124	111,908	130,051
Current liabilities:			
Current maturities of long-term debt	$2,401	2,396	2,412
Accounts payable-trade	21,689	17,992	24,871
Accounts payable - capital expenditures	112	253	140
Accrued expenses	6,839	5,665	7,617
Accrued restructuring costs	40	287	44
Deferred income taxes	-	-	82
Income taxes payable - current	373	90	646
Total current liabilities	31,454	26,683	35,812
Income taxes payable - long-term	4,096	3,890	4,167
Deferred income taxes	659	622	596
Long-term debt, less current maturities	6,818	9,209	9,135
Total liabilities	43,027	40,404	49,710
Commitments and Contingencies (Note 17)			
Shareholders' equity	84,097	71,504	80,341

Total liabilities and shareholders' equity	$127,124	111,908	130,051
Shares outstanding	12,767	13,199	13,264

* 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, 2011 AND OCTOBER 31, 2010
UNAUDITED
(Amounts in Thousands)

	SIX MONTHS ENDED	
	October 30, 2011	October 31, 2010
Cash flows from operating activities:		
Net income	$8,071	7,749
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	2,386	2,097
Amortization of other assets	127	258
Stock-based compensation	178	204
Excess tax benefit related to stock-based compensation	(39)	(270)
Deferred income taxes	(3,280)	(1,183)
Gain (loss) on sale of equipment	(128)	4
Foreign currency exchange (gains) losses	(164)	60
Changes in assets and liabilities:		
Accounts receivable	4,004	5,110
Inventories	(4,964)	(3,363)
Other current assets	750	477
Other assets	(31)	(45)
Accounts payable - trade	(3,382)	(4,493)
Accrued expenses	(754)	(4,112)
Accrued restructuring	(4)	(37)
Income taxes	(189)	121
Net cash provided by operating activities	2,581	2,577
Cash flows from investing activities:		
Capital expenditures	(2,551)	(5,076)
Proceeds from the sale of equipment	130	27
Purchase of short-term investments	(4,789)	(1,012)
Proceeds from the sale of short-term investments	2,032	-
Net cash used in investing activities	(5,178)	(6,061)
Cash flows from financing activities:		
Proceeds from lines of credit	3,500	-
Payments on lines of credit	(3,500)	-
Payments on long-term debt	(2,305)	(80)
Payments on vendor-financed capital expenditures	-	(188)
Proceeds from common stock issued	237	511
Common stock repurchased	(4,776)	-

Debt issuance costs	(26)	(27)
Excess tax benefit related to stock-based compensation	39	270
Net cash (used in) provided by financing activities	(6,831)	486
Effect of exchange rate changes on cash and cash equivalents	42	(35)
Decrease in cash and cash equivalents	(9,386)	(3,033)
Cash and cash equivalents at beginning of period	23,181	18,295
Cash and cash equivalents at end of period	$13,795	15,262

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 Shares	Common Stock Amount	Capital Contributed in Excess of Par Value	Accumulated Earnings	Accumulated Other Comprehensive Income	Total Shareholders' Equity
Balance, May 2, 2010	13,051,785	$652	49,459	12,833	103	$ 63,047
Net income	-	-	-	16,164	-	16,164
Stock-based compensation	-	-	360	-	-	360
Loss on cash flow hedge, net of taxes	-	-	-	-	(103)	(103)
Common stock issuable in connection with performance based units	40,000	2	(2)	-	-	-
Common stock withheld for withholding taxes payable and cost of option exercises	(60,415)	(3)	(560)	-	-	(563)
Excess tax benefit related to stock based compensation	-	-	339	-	-	339
Fully vested common stock award	3,114	-	-	-	-	-
Common stock issuable in connection with stock option plans	229,974	12	1,085	-	-	1,097
Balance, May 1, 2011	13,264,458	663	50,681	28,997	-	80,341
Net income	-	-	-	8,071	-	8,071
Stock-based compensation	-	-	178	-	-	178
Unrealized gain on short-term investments	-	-	-	-	7	7
Excess tax benefit related to stock based compensation	-	-	39	-	-	39
Common stock repurchased	(550,245)	(27)	(4,749)	-	-	(4,776)
Fully vested common stock award	3,075	-	-			-
Common stock issued in connection with stock option plans	49,500	2	235	-	-	237
Balance, October 30, 2011	12,766,788	$638	46,384	37,068	7	$ 84,097

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 in accordance with accounting principles generally accepted in the U.S. 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, 2011 for the fiscal year ended May 1, 2011.

The company's six-months ended October 30, 2011 and October 31, 2010, represent 26 week periods, respectively.

2. Significant Accounting Policies

As of October 30, 2011, there were no changes in the nature of our significant accounting policies or the application of those policies from those reported in our annual report on Form 10-K for the year then ended May 1, 2011.

Recently Adopted Accounting Pronouncements

ASC Topic 605

In October 2009, the FASB issued ASU 2009-13, which amends ASC Topic 605, "Revenue Recognition", to revise accounting guidance related to revenue arrangements with multiple deliverables. The guidance relates to the determination of when the individual deliverables included in a multiple-element arrangement may be treated as separate units of accounting and modifies the manner in which the transaction consideration is allocated across the individual deliverables. Also, this guidance expands the disclosure requirements for revenue arrangements with multiple deliverables. This guidance was effective as of May 2, 2011 (the beginning of our fiscal 2012) and did not have an impact on our consolidated results of operations and financial condition.

Recently Issued Accounting Pronouncements

ASC Topic 220

In June of 2011, the FASB issued ASU No. 2011-05, which amends ASC Topic 220, "Comprehensive Income", to revise accounting guidance related to the presentation of comprehensive income in an entity's financial statements. The guidance allows an entity the option to present the total comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or two separate but consecutive statements. In both choices, an entity is required to present each component of net income along with a total net income, each component of other comprehensive income along with a total for other comprehensive income, and a total amount of comprehensive income. ASU 2011-05 eliminates the option to present the components of other comprehensive income as part of the statement of changes in stockholders' equity or notes to the financial statements. This revised guidance does not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income. This guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. As a result, this guidance is effective for our first quarter of fiscal 2013. This guidance will change how we present comprehensive income in our consolidated financial statements as we currently present the components of other comprehensive income and total comprehensive income as part of our notes to the consolidated financial statements (see Note 13).

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

In September 2011, the FASB issued amended guidance that permits an entity to make a qualitative assessment of whether it is more likely than not that a reporting unit's fair value is less than its carrying amount before applying the current two-step goodwill impairment test. If an entity concludes that it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, it would not be required to perform the two-step impairment test for that reporting unit. This guidance is effective for interim and annual reporting periods beginning April 30, 2012, with early adoption permitted, and will not have a material impact on our results of operations, cash flows or financial position.

3. Stock-Based Compensation

Common Stock Award

On October 1, 2011, we granted a total of 3,075 shares of common stock to our board of directors. These shares of common stock vested immediately and were measured at $8.45 per share, which represents the closing price of the company's common stock at the date of grant.

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

We recorded $26,000 and $31,000 of compensation expense within selling, general, and administrative expense for these common stock awards for the six-month period ending October 30, 2011 and October 31, 2010, respectively.

Incentive Stock Option Awards

We did not grant any incentive stock option awards during the first six months of fiscal 2012.

At October 30, 2011, options to purchase 219,375 shares of common stock were outstanding, had a weighted average exercise price of $7.26 per share, and a weighted average contractual term of 5.6 years. At October 30, 2011, the aggregate intrinsic value for options outstanding was $305,000.

At October 30, 2011, outstanding options to purchase 160,175 shares of common stock were exercisable, had a weighted average exercise price of $7.85 per share, and a weighted average contractual term of 5.3 years. At October 30, 2011, the aggregate intrinsic value for options exercisable was $129,000.

The aggregate intrinsic value for options exercised during six-month periods ended October 30, 2011 and October 31, 2010 were $196,000 and $742,000, respectively.

The remaining unrecognized compensation cost related to incentive stock option awards at October 30, 2011, was $129,000 which is expected to be recognized over a weighted average period of 1.2 years.

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

We recorded $67,000 and $77,000 of compensation expense on incentive stock option grants within selling, general, and administrative expense for the six-month periods ended October 30, 2011, and October 31, 2010, respectively.

Time Vested Restricted Stock Awards

We did not grant any time vested restricted stock awards during the first six months of fiscal 2012.

We recorded $85,000 and $83,000 of compensation expense within selling, general, and administrative expense for time vested restricted stock awards for the six-month periods ending October 30, 2011 and October 31, 2010, respectively.

At October 30, 2011, there were 185,000 shares of time vested restricted stock outstanding and unvested. Of the 185,000 shares outstanding and unvested, 105,000 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. At October 30, 2011, the weighted average fair value of these outstanding and unvested shares was $3.63 per share.

During the six-month period ending October 30, 2011, 10,000 shares of time vested restricted stock vested and had a weighted average fair value of $18,800 or $1.88 per share.

At October 30, 2011, the remaining unrecognized compensation cost related to the unvested restricted stock awards was $244,000, which is expected to be recognized over a weighted average vesting period of 1.9 years.

Performance Based Restricted Stock Units

We did not grant any performance based restricted stock units during the first six months of fiscal 2012.

On January 7, 2009 (fiscal 2009), certain key management employees and a non-employee were granted 120,000 shares of performance based restricted stock units. This award contingently vested in one-third increments, if in any discrete period of two consecutive quarters from February 2, 2009 through April 30, 2012, certain performance goals are met. As of August 1, 2010 (fiscal 2011), the performance goals as defined in the agreement were met and as a result, all of the performance based restricted stock units have vested.

No compensation cost was recorded for performance based restricted stock units for the six-month period ended October 30, 2011 as all performance based restricted stock units that have been granted by the company were fully vested at the end of fiscal 2011. We recorded $12,000 within selling, general, and administrative expense for performance based restricted stock units for the six-month period ended October 31, 2010.

Other Share-Based Arrangements

Effective May 2, 2011, we entered into an agreement in which we granted a non-employee a stock appreciation right that is indexed on 70,000 shares of our common stock. This agreement requires us to settle in cash an amount equal to $35,000, plus the excess, if any, over a stock appreciation right value of $700,000 at May 2, 2011. This stock appreciation right value of $700,000 represents the 70,000 indexed shares of common stock noted above measured at the closing price per share of $10 at May 2, 2011. The cash settlement in connection with the stock appreciation right value would represent the difference between a stock appreciation right value that is indexed on the 70,000 shares of common stock noted above and based on the highest closing price per share of our common stock for the period May 2, 2011 through June 30, 2012 (limited to $12 per share) and the $700,000 stock appreciation right value at May 2, 2011. This award will vest over the period May 2, 2011 through June 30, 2012 as this represents the non-employee's required service period.

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

Compensation expense associated with this agreement was $29,000 for the six-months ended October 30, 2011.

4. Accounts Receivable

A summary of accounts receivable follows:

(dollars in thousands)	October 30, 2011	May 1, 2011
Customers	$17,347	$21,562
Allowance for doubtful accounts	(686)	(776)
Reserve for returns and allowances and discounts	(420)	(577)
	$16,241	$20,209

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

(dollars in thousands)	Six months ended October 30, 2011	October 31, 2010
Beginning balance	$(776)	$(1,322)
Provision for bad debts	48	415
Net write-offs, net of recoveries	42	(5)
Ending balance	$(686)	$(912)

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

(dollars in thousands)	Six months ended October 30, 2011	October 31, 2010
Beginning balance	$(577)	$(534)
Provision for returns, allowances and discounts	(1,197)	(1,152)
Credits issued	1,354	1,080
Ending balance	$(420)	$(606)

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

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, 2011	May 1, 2011
Raw materials	$5,226	$6,130
Work-in-process	2,166	2,421
Finished goods	26,384	20,172
	$33,776	$28,723

6. Other Assets

A summary of other assets follows:

(dollars in thousands)	October 30, 2011	May 1, 2011
Cash surrender value – life insurance	$1,326	$1,323
Non-compete agreements, net	406	480
Other	250	249
	$1,982	$2,052

We recorded non-compete agreements in connection with our asset purchase agreements with International Textile Group, Inc. (ITG) and Bodet & Horst at their fair values based on valuation techniques. The non-compete agreement associated with ITG was amortized on a straight line basis over the four year life of the agreement and expired at the end of the third quarter of fiscal 2011. 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 $12,500 over the life of the agreement. As of October 30, 2011, the total remaining non-compete payments were $137,500

The gross carrying amount of these non-compete agreements was $1.0 million at October 30, 2011 and May 1, 2011, respectively. At October 30, 2011 and May 1, 2011, accumulated amortization for these non-compete agreements was $643,000 and $544,000, respectively. Amortization expense for these non-compete agreements was $99,000 and $243,000 for the six month periods ended October 30, 2011 and October 31, 2010, respectively. The remaining amortization expense (which includes the total remaining Bodet & Horst non-compete payments of $137,500) for the next four fiscal years follows: FY 2012 - $99,000; FY 2013 - $198,000; FY 2014 - $198,000; and FY 2015 - $49,000. The weighted average amortization period for these non-compete agreements is 2.8 years as of October 30, 2011.

At October 30, 2011 and May 1, 2011, we had four life insurance contracts with death benefits to the respective insured totaling $12.9 million. Our cash surrender value – life insurance balances of $1.3 million at October 30, 2011 and May 1, 2011, respectively, are collectible upon death of the respective insured.

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

7. Accrued Expenses

A summary of accrued expenses follows:

(dollars in thousands)	October 30, 2011	May 1, 2011
Compensation, commissions and related benefits	$4,628	$6,032
Interest	147	184
Other accrued expenses	2,064	1,401
	$6,839	$7,617

8. Long-Term Debt and Lines of Credit

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

(dollars in thousands)	October 30, 2011	May 1, 2011
Unsecured senior term notes	$8,800	$11,000
Canadian government loan	419	547
	9,219	11,547
Current maturities of long-term debt	(2,401)	(2,412)
Long-term debt, less current maturities of long-term debt	$6,818	$9,135

Unsecured Term Notes

In connection with the Bodet & Horst acquisition in 2008, we entered into a note agreement dated August 11, 2008. This agreement 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 August 11, 2011. The principal payments are payable over an average term of 3.8 years through August 11, 2015. Any principal prepayments will be assessed a penalty as defined in the agreement. This agreement contains customary financial and other covenants as defined in the agreement.

We made our first principal payment of $2.2 million associated with this note agreement on August 11, 2011.

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.

Revolving Credit Agreement – United States

At May 1, 2011, we had an unsecured Amended and Restated Credit Agreement that provided for a revolving loan commitment of $6.5 million, including letters of credit up to $3.0 million. This agreement was set to expire August 15, 2012. On August 25, 2011, we entered into a seventeenth amendment to the Amended and Restated Credit Agreement, amending the agreement effective May 1, 2011 (the end of our fiscal 2011). This amendment extends the expiration date of the line of credit through August 25, 2013, increases the revolving loan commitment from $6.5 million to $10.0 million, and decreases the capital expenditure limit for fiscal years 2012 and 2013 from $10.0 million to $6.0 million. The amended agreement provides for a pricing matrix to determine the interest rate payable on loans made under the agreement (applicable interest rate of 2.24% at October 30, 2011). As of October 30, 2011, there were $125,000 in outstanding letters of credit (all of which related to workers compensation). At October 30, 2011 and May 1, 2011, there were no borrowings outstanding under the agreement.

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

Revolving Credit Agreement – China

At October 30, 2011, we had an unsecured credit agreement associated with our operations in China that provided for a line of credit of up to approximately $6.3 million. This agreement expires on September 2, 2012 and has an interest rate determined by the Chinese government. There were no borrowings outstanding under the agreement as of October 30, 2011 and May 1, 2011.

Overall

Our loan agreements require, among other things, that we maintain compliance with certain financial covenants. At October 30, 2011, the company was in compliance with these financial covenants.

At October 30, 2011, the principal payment requirements of long-term debt during the next four years are: Year 1 – $2.4 million; Year 2 - $2.4 million; Year 3 - $2.2 million; and Year 4 - $2.2 million.

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 October 30, 2011, the carrying value of the company's long-term debt was $9.2 million and the fair value was $8.5 million. At May 1, 2011, the carrying value of the company's long-term debt was $11.5 million and the fair value was $10.2 million.

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.

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

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

Fair value measurements at October 30, 2011 using:

(amounts in thousands)	Quoted prices in active markets for identical assets Level 1	Significant other observable inputs Level 2	Significant unobservable inputs Level 3	Total
Assets:				
Low Duration Bond Fund	$2,007	N/A	N/A	$2,007
Limited Term Bond Fund	2,024	N/A	N/A	2,024
Intermediate Term Bond Fund	1,022	N/A	N/A	1,022

Fair value measurements at May 1, 2011 using:

(amounts in thousands)	Quoted prices in active markets for identical assets Level 1	Significant other observable inputs Level 2	Significant unobservable inputs Level 3	Total
Assets:				
Low Duration Bond Fund	$1,003	N/A	N/A	$1,003

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 include short-term bond funds and deposit accounts that have maturities of less than one year. Our short-term bond funds are classified as available-for-sale and their unrealized gains or losses are included in other comprehensive income. Our short-term bond funds were recorded at their fair value of $5.0 million and $1.0 million at October 30, 2011 and May 1, 2011, respectively. At October 30, 2011 and May 1, 2011, the fair value of our short-term bond funds approximates its cost basis.

The carrying amount of cash and cash equivalents, short-term investments that pertain to interest bearing deposit accounts, accounts receivable, other current assets, accounts payable and accrued expenses approximates fair value because of the short maturity of these financial instruments.

10. Derivatives

In accordance with the provisions ASC Topic 815, Derivatives and Hedging, our Canadian dollar foreign exchange contract was designated as a cash flow hedge, with the fair value of this financial instrument recorded in other assets and changes in fair value recorded in accumulated other comprehensive income. ASC Topic 815 requires disclosure of gains and losses on derivative instruments in the following tabular format.

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

(Amounts in Thousands)

	Fair Values of Derivative Instruments As of,			
	October 30, 2011		May 1, 2011	
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	$ -	Other assets	$-

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)	
	2012	2011		2012	2011		2012	2011
Canadian Dollar Foreign Exchange Contract	$ -	$(103)	Other Expense	$ -	$ 5	Other Expense	$ -	$ 79

On January 21, 2009, we entered into a Canadian dollar foreign exchange rate contract to mitigate the risk of foreign exchange rate fluctuations associated with our loan from the Government of Quebec. This agreement effectively converted the Canadian dollar principal payments at a fixed Canadian dollar foreign exchange rate compared with the United States dollar of 1.218 and was due to expire on November 1, 2013. During the first quarter of fiscal 2011, we elected to terminate this contract due to the favorable Canadian dollar foreign changes rates in comparison to the fixed contractual rate noted above.

11. Cash Flow Information

Payments for interest and income taxes follows:

	Six months ended	
	October 30,	October 31,
(dollars in thousands)	2011	2010
Interest	$445	$454
Net income tax payments	1,227	840

No interest costs were capitalized for the six months ending October 30, 2011. Interest costs of $17,000 for the construction of qualifying property, plant, and equipment were capitalized for the six months ending October 31, 2010.

During the six-month period ending October 30, 2011, no shares of common stock were withheld to satisfy withholding tax liabilities and other costs incurred in connection with vesting of performance based restricted stock units or the exercise of options to purchase common stock. During the six-month period ending October 31, 2010, 33,835 shares of common stock were withheld to satisfy withholding tax liabilities and other costs incurred in connection with 40,000 shares of common stock issued and related to the vesting of performance based restricted stock units and the exercise of 72,000 options to purchase of common stock. The total withholding tax liabilities and other costs incurred totaled $329,000.