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CULP INC
Form 8-K
November 24, 2003

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

Form 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities
Exchange Act of 1934

Date of Report (Date of earliest event reported) November 24, 2003

CULP, INC.

(Exact name of registrant as specified in its charter)

| | | |
|---|-----------------------|--------------------------------------|
| North Carolina | 0-12781 | 56-1001967 |
| (State or other jurisdiction of incorporation) | (Commission File No.) | (IRS Employer Identification No.) |

101 South Main Street
High Point, North Carolina 27260
(Address of principal executive offices)
(336) 889-5161
(Registrant's telephone number, including area code)

(Former name or former address, if changed since last report)

INDEX

| | |
|---|-----------|
| Item 7 - Exhibits | Page 3 |
| Item 12 - Results of Operations and Financial Condition | 3 |

Signature
Exhibits

4

Item 7 -- Exhibits

99(a) News Release dated November 24, 2003

99(b) Financial Information Release dated November 24, 2003

Item 12 -- Results of Operations and Financial Condition

On November 24, 2003, Culp, Inc. (the "Registrant") issued a news release to announce its financial results for the quarter ended November 2, 2003. The news release is attached hereto as Exhibit 99(a).

Also on November 24, 2003, the Registrant released a Financial Information Release containing additional financial information and disclosures about the Registrant's second quarter ended November 2, 2003. The news release and financial information release contain disclosures about free cash flow, a non-GAAP performance measure, that management believes provides useful information to investors because it measures the company's available cash flow for potential debt repayment, stock repurchases and additions to cash, cash equivalents and short-term investments. In addition, the news release and financial information release contain proforma income statements which reconcile the reported income statements with proforma results, which exclude restructuring and related charges and cumulative effect of accounting change. The company has included this proforma information in order to show operational performance excluding the effects of restructuring charges.

Forward Looking Information. This Report and the exhibits attached hereto contain statements that may be deemed "forward-looking statements" within the meaning of the federal securities laws, including the Private Securities Litigation Reform Act of 1995 (Section 27A of the Securities Act of 1933 and Section 27A of the Securities and Exchange Act of 1934). Such statements are inherently subject to risks and uncertainties. Further, forward looking statements are intended to speak only as of the date on which they are made. Forward-looking statements are statements that include projections, expectations or beliefs about future events or results or otherwise are not statements of historical fact. Such statements are often but not always characterized by qualifying words such as "expect," "believe," "estimate," "plan" and "project" and their derivatives, and include but are not limited to statements about expectations for the company's future sales, gross profit margins, SG&A or other expenses, and earnings, as well as any statements regarding the company's view of estimates of the company's future results by analysts. Factors that could influence the matters discussed in such statements include the level of housing starts and sales of existing homes, consumer confidence, trends in disposable income, and general economic conditions. Decreases in these economic indicators

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could have a negative effect on the company's business and prospects. Likewise, increases in interest rates, particularly home mortgage rates, and increases in consumer debt or the general rate of inflation, could affect the company adversely. In addition, strengthening of the U. S. dollar against other currencies could make the company's products less competitive on the basis of price in markets outside the United States. Also, economic and political instability in international areas could affect the company's operations or sources of goods in those areas, as well as demand for the company's products in international markets. Finally, unanticipated delays or costs in executing restructuring actions could cause the cumulative effect of restructuring actions to fail to meet the objectives set forth by management. Other factors that could affect the matters discussed in forward looking statements are included in the company's periodic reports filed with the Securities and Exchange Commission.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

CULP, INC.
(Registrant)

By: Franklin N. Saxon

Executive Vice President and
Chief Financial Officer

Dated: November 24, 2003

Exhibit 99(a)

NEWS RELEASE

Investor Contact: Kathy J. Hardy
Corporate Secretary
336-888-6209

Media Contact: Kenneth M. Ludwig
Senior Vice President,
Human Resources
336-889-5161

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CULP ANNOUNCES SECOND QUARTER FISCAL 2004 RESULTS

HIGH POINT, N.C. (November 24, 2003) - Culp, Inc. (NYSE: CFI) today reported financial and operating results for the fiscal 2004 second quarter and six months ended November 2, 2003. Highlights for the second quarter include:

- o Net income of \$0.27 per diluted share, driven by profit improvement in the upholstery fabrics segment and continued strength in the mattress ticking segment
- o Best year-over-year quarterly sales comparison in five quarters, reflecting better overall industry demand
- o Cash, cash equivalents and short-term investments increased to \$31.8 million from \$24.4 million at the end of fiscal 2003, reflecting free cash flow of \$7.2 million for the year to date period
- o Earnings expectation for the third quarter of fiscal 2004 is net income of \$0.13 to \$0.17 per diluted share

For the three months ended November 2, 2003, net sales were \$82.7 million compared with \$83.7 million a year ago. The company reported net income of \$3.1 million, or \$0.27 per diluted share, for the second quarter of fiscal 2004 compared with a net loss of \$6.6 million, or \$0.57 per diluted share, for the second quarter of fiscal 2003, including restructuring and related charges. The financial results for the second quarter of last year include a total of \$14.5 million in restructuring and related charges. Excluding these charges, net income for the second fiscal quarter of 2003 was \$2.3 million, or \$0.19 per diluted share. (A reconciliation to the net income and earnings per share calculations for fiscal 2003 periods is set forth on Page 4.)

For the six months ended November 2, 2003, the company reported net sales of \$156.4 million, compared with \$169.7 million for the same period a year ago. The first six months of fiscal 2004 included 27 weeks versus 26 weeks for the same period of fiscal 2003. Net income for the first six months of fiscal 2004 was \$2.7 million, or \$0.23 per diluted share. Including restructuring charges and the cumulative effect of accounting change, the company reported a net loss for the first six months of fiscal 2003 of \$29.8 million, or \$2.61 per diluted share. Excluding restructuring and related charges and the cumulative effect of accounting change, net income for the first six months of fiscal 2003 was \$3.2 million, or \$0.27 per diluted share.

"As previously announced, our results for the second fiscal quarter primarily reflect better-than-expected demand for upholstery fabrics and continued strength in mattress ticking," commented Robert G. Culp, III, chairman of the board and chief executive officer of Culp, Inc. "In addition, our financial performance reflects the higher capacity utilization and gains in manufacturing efficiencies associated with recent restructuring initiatives within the upholstery fabrics segment. We are pleased with the overall tone of our business for the second quarter, although there is still considerable uncertainty about the immediate trend in demand for upholstery fabrics. However, as our latest sales volumes and profitability have indicated, we believe that Culp is well positioned to capitalize on even a modest recovery.

"As expected, the mattress ticking segment continued to strengthen as the bedding industry has enjoyed a steady increase in sales through the fall," said Culp. "Mattress ticking sales were \$26.8 million for the second quarter of fiscal 2004, a 6.0 percent increase compared with \$25.3 million in the second quarter of fiscal 2003. In the upholstery fabrics segment, net sales declined 4.3 percent for the second quarter of fiscal 2004 compared with the same period a year ago. This is a marked improvement over the 22.5 percent year-over-year decline in sales for the previous quarter, and represents the smallest quarterly

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sales decline since the first quarter of fiscal 2003. However, even with the better trends this quarter, our upholstery fabric sales continue to be affected by the growing consumer preference for leather furniture and an increase in imported fabrics.

"One of Culp's important financial goals is to maximize free cash flow. We generated sufficient cash from operations through the first six months to increase our cash, cash equivalents and short-term investments to \$31.8 million at the close of the second fiscal quarter, up significantly from \$24.4 million at the end of fiscal 2003. As a result of our focused efforts to carefully manage our working capital and maintain a strong balance sheet, Culp's long-term debt of \$76.6 million at the close of the quarter was down \$20.0 million from a year ago. Additionally, we have a healthy debt-to-capital ratio of 43.7 percent compared with 51.7 percent a year ago."

Commenting on the business outlook, Culp added, "Looking ahead, the third fiscal quarter is not typically the strongest period of the year for our business because of scheduled holiday plant closings. While we experienced a modest pick-up in demand this quarter, we do not expect to sustain this momentum in incoming business. With some softness in incoming orders for upholstery fabrics and the expected seasonal slowdown, we anticipate our consolidated sales for the third fiscal quarter will decrease moderately over last year's level. While mattress ticking segment sales are expected to continue to increase, we believe the gain will be less than the 6.0 percent increase this quarter. Upholstery fabric segment sales are expected to decline at a higher rate than the 4.3 percent drop this quarter. Based on these sales expectations and the current industry outlook, we expect to report net income in the range of \$0.13 to \$0.17 per share diluted, with the actual results depending primarily upon the level of demand throughout the quarter. We believe the results for the past quarter demonstrate the inherent strength of our operations and our ability to execute in an unpredictable environment. We are proving the value of our 2003 restructuring initiatives to enhance productivity and lower operating expenses, and expect to benefit further from these actions throughout fiscal 2004."

Culp, Inc. is one of the world's largest marketers of upholstery fabrics for furniture and is a leading marketer of mattress ticking for bedding. The company's fabrics are used principally in the production of residential and commercial furniture and bedding products.

This release contain statements that may be deemed "forward-looking statements" within the meaning of the federal securities laws, including the Private Securities Litigation Reform Act of 1995 (Section 27A of the Securities Act of 1933 and Section 27A of the Securities and Exchange Act of 1934). Such statements are inherently subject to risks and uncertainties. Further, forward looking statements are intended to speak only as of the date on which they are made. Forward-looking statements are statements that include projections, expectations or beliefs about future events or results or otherwise are not statements of historical fact. Such statements are often but not always characterized by qualifying words such as "expect," "believe," "estimate," "plan" and "project" and their derivatives, and include but are not limited to statements about expectations for the company's future sales, gross profit margins, SG&A or other expenses, and earnings, as well as any statements regarding the company's view of estimates of the company's future results by analysts. Factors that could influence the matters discussed in such statements include the level of housing starts and sales of existing homes, consumer confidence, trends in disposable income, and general economic conditions. Decreases in these economic indicators could have a negative effect on the company's business and prospects. Likewise, increases in interest rates, particularly home mortgage rates, and increases in consumer debt or the general rate of inflation, could affect the company adversely. In addition, strengthening of the U. S. dollar against other currencies could make the company's products less competitive on the basis of price in markets outside the

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United States. Also, economic and political instability in international areas could affect the company's operations or sources of goods in those areas, as well as demand for the company's products in international markets. Finally, unanticipated delays or costs in executing restructuring actions could cause the cumulative effect of restructuring actions to fail to meet the objectives set forth by management. Other factors that could affect the matters discussed in forward-looking statements are included in the company's periodic reports filed with the Securities and Exchange Commission.

CULP, INC. Condensed Financial Highlights

| | Three Months Ended | |
|--|---------------------|---------------------|
| | November 2, 2003 | October 27, 2002 |
| Net sales | \$ 82,731,000 | \$ 83,740,000 |
| Net income (loss) | \$ 3,146,000 | \$ (6,590,000) |
| Basic and diluted net income (loss) per share | \$ 0.27 | \$ (0.57) |
| Net income per share, diluted, excluding restructuring and related charges* | \$ 0.27 | \$ 0.19 |
| Average shares outstanding: | | |
| Basic | 11,524,000 | 11,483,000 |
| Diluted | 11,774,000 | 11,483,000 |
| | | |
| | Six Months Ended | |
| | November 2, 2003 | October 27, 2002 |
| Net sales | \$ 156,407,000 | \$ 169,748,000 |
| Income (loss) before cumulative effect of accounting change | 2,735,000 | (5,675,000) |
| Cumulative effect of accounting change, net of income taxes | -- | (24,151,000) |
| Net income (loss) | \$ 2,735,000 | \$ (29,826,000) |
| Basic income (loss) per share: | | |
| Income (loss) before cumulative effect of accounting change | \$ 0.24 | \$ (0.50) |
| Cumulative effect of accounting change | -- | (2.11) |
| Net income (loss) | \$ 0.24 | \$ (2.61) |
| Diluted income (loss) per share: | | |
| Income (loss) before cumulative effect of accounting change | \$ 0.23 | \$ (0.50) |
| Cumulative effect of accounting change | -- | (2.11) |
| Net income (loss) | \$ 0.23 | \$ (2.61) |
| Net income per share, diluted, excluding restructuring and related charges, and cumulative effect of accounting change** | \$ 0.23 | \$ 0.27 |
| Average shares outstanding: | | |
| Basic | 11,519,000 | 11,433,000 |
| Diluted | 11,718,000 | 11,433,000 |

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* Excludes restructuring and related charges of \$14.5 million (\$8.9 million or \$0.77 per share diluted after taxes) for the second quarter of fiscal 2003.

** Excludes cumulative effect of accounting change, net of income taxes, of \$24.2 million (\$2.11 per share diluted) for the first half of fiscal 2003. Excludes restructuring and related charges of \$14.5 million (\$8.9 million or \$0.78 per share diluted, after taxes) for the first half of fiscal 2003.

CULP, INC.

Reconciliation of Net Income (Loss) as Reported to Pro Forma Net Income

| | Three Months Ended October 27, 2002 | Six Months Ended October 27, 2002 |
|---|--|--|
| | ----- | ----- |
| Net loss, as reported | \$ (6,590,000) | \$ (29,826,000) |
| Cumulative effect of accounting change, net of income taxes | -- | 24,151,000 |
| Restructuring and related charges, net of income taxes | 8,874,000 | 8,874,000 |
| | ----- | ----- |
| Pro forma net income | \$ 2,284,000 | \$ 3,199,000 |
| | ===== | ===== |

Reconciliation of Net Income (Loss) Per Share as Reported to Pro Forma Net Income Per Share

| | | |
|---|-----------|-----------|
| Diluted net loss per share, as reported | \$ (0.57) | \$ (2.61) |
| Cumulative effect of accounting change, net of income taxes | -- | 2.11 |
| Restructuring and related charges, net of income taxes | 0.77 | 0.78 |
| Effect of dilutive stock options | (0.01) | (0.01) |
| | ----- | ----- |
| Pro forma diluted net income per share | \$ 0.19 | \$ 0.27 |
| | ===== | ===== |

Reconciliation of Net Cash Provided by Operating Activities to Free Cash Flow

| | November 2, 2003 | October 27, 2002 |
|--|---------------------|---------------------|
| | ----- | ----- |
| Net cash provided by operating activities | \$ 11,450,000 | \$ 17,829,000 |
| Capital expenditures | (2,954,000) | (3,566,000) |
| Payments on vendor-financed capital expenditures | (1,254,000) | (247,000) |
| | ----- | ----- |
| Free cash flow | \$ 7,242,000 | \$ 14,016,000 |
| | ===== | ===== |

Exhibit 99(b)

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CULP, INC. FINANCIAL INFORMATION RELEASE
 CONSOLIDATED STATEMENTS OF INCOME (LOSS)
 FOR THE THREE MONTHS AND SIX MONTHS ENDED NOVEMBER 2, 2003 AND OCTOBER 27, 2002
 (UNAUDITED)
 (Amounts in Thousands, Except for Per Share Data)

| | | THREE MONTHS | | |
|---|----|---------------------|---------------------|-------------------|
| | | Amounts | | |
| | | November 2, 2003 | October 27, 2002 | % Over (Under) |
| | | ----- | ----- | ----- |
| Net sales | \$ | 82,731 | 83,740 | (1.2)% |
| Cost of sales | | 65,993 | 69,997 | (5.7)% |
| | | ----- | ----- | ----- |
| Gross profit | | 16,738 | 13,743 | 21.8 % |
| Selling, general and administrative expenses | | 10,296 | 9,481 | 8.6 % |
| Restructuring expense | | 0 | 13,360 | (100.0)% |
| | | ----- | ----- | ----- |
| Income (loss) from operations | | 6,442 | (9,098) | 170.8 % |
| Interest expense | | 1,509 | 1,676 | (10.0)% |
| Interest income | | (121) | (121) | 0.0 % |
| Other expense (income), net | | 62 | 242 | (74.4)% |
| | | ----- | ----- | ----- |
| Income (loss) before income taxes | | 4,992 | (10,895) | 145.8 % |
| Income taxes * | | 1,846 | (4,305) | 142.9 % |
| | | ----- | ----- | ----- |
| Net income (loss) | \$ | 3,146 | (6,590) | 147.7 % |
| | | ===== | ===== | ===== |
| Net income (loss) per share-basic | | \$0.27 | (\$0.57) | 147.4 % |
| Net income (loss) per share-diluted | | \$0.27 | (\$0.57) | 147.4 % |
| Net income per share, diluted, excluding restructuring and related charges (see proforma statement on page 7) | | \$0.27 | \$0.19 | 42.1 % |
| Average shares outstanding-basic | | 11,524 | 11,483 | 0.4 % |
| Average shares outstanding-diluted | | 11,774 | 11,483 | 2.5 % |

| | | SIX MONTHS ENDED | | |
|---------------|----|---------------------|---------------------|-------------------|
| | | Amounts | | |
| | | November 2, 2003 | October 27, 2002 | % Over (Under) |
| | | ----- | ----- | ----- |
| Net sales | \$ | 156,407 | 169,748 | (7.9)% |
| Cost of sales | | 128,190 | 142,151 | (9.8)% |
| | | ----- | ----- | ----- |
| Gross profit | | 28,217 | 27,597 | 2.2 % |

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| | | | |
|--|----------|----------|----------|
| Selling, general and administrative expenses | 20,807 | 19,918 | 4.5 % |
| Restructuring expense | 0 | 13,360 | (100.0)% |
| | ----- | ----- | ----- |
| Income (loss) from operations | 7,410 | (5,681) | 230.3 % |
| Interest expense | 3,006 | 3,579 | (16.0)% |
| Interest income | (243) | (271) | (10.3)% |
| Other expense (income), net | 307 | 453 | (32.2)% |
| | ----- | ----- | ----- |
| Income (loss) before income taxes | 4,340 | (9,442) | 146.0 % |
| Income taxes * | 1,605 | (3,767) | 142.6 % |
| | ----- | ----- | ----- |
| Income (loss) before cumulative effect of accounting change | 2,735 | (5,675) | 148.2 % |
| Cumulative effect of accounting change, net of income taxes | 0 | (24,151) | |
| | ----- | ----- | |
| Net income (loss) | \$ 2,735 | (29,826) | |
| | ===== | ===== | |
| Basic income (loss) per share: | | | |
| Income (loss) before cumulative effect of accounting change | \$ 0.24 | (0.50) | 147.8 % |
| Cumulative effect of accounting change | 0.00 | (2.11) | (100.0)% |
| | ----- | ----- | ----- |
| Net income (loss) | 0.24 | (2.61) | 109.1 % |
| | ===== | ===== | ===== |
| Diluted income (loss) per share: | | | |
| Income (loss) before cumulative effect of accounting change | \$ 0.23 | (0.50) | 147.0 % |
| Cumulative effect of accounting change | 0.00 | (2.11) | (100.0)% |
| | ----- | ----- | ----- |
| Net income (loss) | 0.23 | (2.61) | 108.9 % |
| | ===== | ===== | ===== |
| Net income per share, diluted, excluding restructuring and related charges and cumulative effect of accounting change (see proforma statement on page 8) | \$0.23 | \$0.27 | (14.8)% |
| Average shares outstanding-basic | 11,519 | 11,433 | 0.8 % |
| Average shares outstanding-diluted | 11,718 | 11,433 | 2.5 % |

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

CULP, INC. FINANCIAL INFORMATION RELEASE
CONSOLIDATED BALANCE SHEETS
NOVEMBER 2, 2003, OCTOBER 27, 2002 AND APRIL 27, 2003
UNAUDITED
(Amounts in Thousands)

Amounts

Increase

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| | November 2, 2003 | October 27, 2002 | (Decrease Dollars) |
|---|---------------------|---------------------|-----------------------|
| Current assets | | | |
| Cash and cash equivalents | \$ 16,623 | 35,037 | (18,414) |
| Short-term investments | 15,134 | 0 | 15,134 |
| Accounts receivable | 31,342 | 32,869 | (1,527) |
| Inventories | 53,848 | 54,571 | (723) |
| Deferred income taxes | 12,303 | 9,447 | 2,856 |
| Other current assets | 3,211 | 6,497 | (3,286) |
| Total current assets | 132,461 | 138,421 | (5,960) |
| Property, plant & equipment, net | 81,219 | 85,049 | (3,830) |
| Goodwill | 9,240 | 9,240 | 0 |
| Other assets | 1,892 | 2,888 | (996) |
| Total assets | \$ 224,812 | 235,598 | (10,786) |
| Current liabilities | | | |
| Current maturities of long-term debt | \$ 539 | 462 | 77 |
| Accounts payable | 23,928 | 18,948 | 4,980 |
| Accrued expenses | 13,522 | 16,199 | (2,677) |
| Accrued restructuring | 6,712 | 10,065 | (3,353) |
| Income taxes payable | 1,578 | 0 | 1,578 |
| Total current liabilities | 46,279 | 45,674 | 605 |
| Long-term debt | 76,077 | 96,096 | (20,019) |
| Deferred income taxes | 3,851 | 3,502 | 349 |
| Total liabilities | 126,207 | 145,272 | (19,065) |
| Shareholders' equity | 98,605 | 90,326 | 8,279 |
| Total liabilities and shareholders' equity | \$ 224,812 | 235,598 | (10,786) |
| Shares outstanding | 11,529 | 11,483 | 46 |

* Derived from audited financial statements

CULP, INC. FINANCIAL INFORMATION RELEASE
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE SIX MONTHS ENDED NOVEMBER 2, 2003 AND OCTOBER 27, 2002
Unaudited
(Amounts in Thousands)

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| | SIX MONTHS E |
|--|---------------|
| | Amounts |
| | November 2, O |
| | 2003 |
| Cash flows from operating activities: | |
| Net income (loss) | \$ 2,735 |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: | |
| Cumulative effect of accounting change, net of income taxes | 0 |
| Depreciation | 6,883 |
| Amortization of other assets | 91 |
| Stock-based compensation | 105 |
| Restructuring expense | 0 |
| Changes in assets and liabilities: | |
| Accounts receivable | 917 |
| Inventories | (4,296) |
| Other current assets | (7) |
| Other assets | 252 |
| Accounts payable | 5,121 |
| Accrued expenses | (549) |
| Accrued restructuring expenses | (1,031) |
| Income taxes payable | 1,229 |
| Net cash provided by operating activities | 11,450 |
| Cash flows used in investing activities: | |
| Capital expenditures | (2,954) |
| Purchases of short-term investments | (5,147) |
| Net cash used in investing activities | (8,101) |
| Cash flows used in financing activities: | |
| Payments on vendor-financed capital expenditures | (1,254) |
| Proceeds from issuance of long-term debt | 116 |
| Principal payments of long-term debt | 0 |
| Proceeds from common stock issued | 57 |
| Net cash used in financing activities | (1,081) |
| Increase in cash and cash equivalents | 2,268 |
| Cash and cash equivalents at beginning of period | 14,355 |
| Cash and cash equivalents at end of period | \$ 16,623 |
| Free Cash Flow (1) | \$ 7,242 |

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(1) Free Cash Flow reconciliation is as follows:

| | 2nd QTR FY 2004 |
|--|--------------------|
| A) Net cash provided by operating activities | 11,450 |
| B) Minus: Capital Expenditures | (2,954) |
| C) Minus: Payments on vendor-financed capital expenditures | (1,254) |
| | 7,242 |
| | 7,242 |

CULP, INC. FINANCIAL INFORMATION RELEASE
FINANCIAL ANALYSIS
NOVEMBER 2, 2003

| | FISCAL 03 | FISCAL 04 | |
|---|--------------|-----------|-----------|
| | Q2 | Q1 | Q2 |
| INVENTORIES | | | |
| Inventory turns | 4.9 | 5.0 | 5.1 |
| RECEIVABLES | | | |
| Days sales in receivables | 36 | 32 | 34 |
| WORKING CAPITAL | | | |
| Current ratio | 3.0 | 3.1 | 2.9 |
| Operating working capital turnover (1) | 4.8 | 5.1 | 5.3 |
| Operating working capital (1) | \$68,492 | \$54,854 | \$61,262 |
| PROPERTY, PLANT & EQUIPMENT | | | |
| Depreciation rate | 6.5% | 6.2% | 6.3% |
| Percent property, plant & equipment are depreciated | 61.5% | 62.3% | 62.9% |
| Capital expenditures | \$12,229 (2) | \$1,875 | \$1,079 |
| LEVERAGE | | | |
| Total liabilities/equity | 160.8% | 124.7% | 128.0% |
| Long-term debt/equity | 106.9% | 80.3% | 77.7% |
| Long-term debt/capital employed | 51.7% | 44.5% | 43.7% |
| Long-term debt | \$96,558 | \$76,551 | \$76,616 |
| OTHER | | | |
| Book value per share | \$7.87 | \$8.28 | \$8.55 |
| Employees at quarter end | 2,568 | 2,383 | 2,373 |
| Sales per employee (annualized) | \$122,272 | \$121,628 | \$139,161 |
| Capital employed | \$186,884 | \$171,891 | \$175,221 |

(1) Working capital for this calculation is accounts receivable, inventories and accounts payable

(2) Expenditures for entire year

CULP, INC. FINANCIAL INFORMATION RELEASE

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SALES / GROSS PROFIT BY SEGMENT/DIVISION
FOR THE THREE AND SIX MONTHS ENDED NOVEMBER 2, 2003 AND OCTOBER 27, 2002

(Amounts in thousands)

| Segment/Division Sales | Amounts | | | THREE MONTHS EN |
|---|---------------------|---------------------|-------------------|----------------------|
| | November 2, 2003 | October 27, 2002 | % Over (Under) | |
| | | | | |
| Upholstery Fabrics | | | | |
| Culp Decorative Fabrics | \$ 30,821 | 33,904 | (9.1)% | |
| Culp Velvets/Prints | 23,484 | 23,330 | 0.7% | |
| Culp Yarn | 1,638 | 1,246 | 31.5% | |
| | 55,943 | 58,480 | (4.3)% | |
| Mattress Ticking | | | | |
| Culp Home Fashions | 26,788 | 25,260 | 6.0% | |
| | \$ 82,731 | 83,740 | (1.2)% | |
| Segment Gross Profit | | | | |
| Upholstery Fabrics | \$ 10,409 | 7,650 | 36.1% | |
| Restructuring related charges | 0 | 1,160 | (100.0)% | |
| Pro forma Upholstery Fabrics gross profit (1) | 10,409 | 8,810 | 18.1% | |
| Mattress Ticking | 6,329 | 6,093 | 3.9% | |
| Pro forma gross profit | \$ 16,738 | 14,903 | 12.3% | |
| | | | | |
| Segment/Division Sales | Amounts | | | SIX MONTHS ENDED (UN |
| | November 2, 2003 | October 27, 2002 | % Over (Under) | |
| | | | | |
| Upholstery Fabrics | | | | |
| Culp Decorative Fabrics | \$ 58,829 | 68,675 | (14.3)% | |
| Culp Velvets/Prints | 40,324 | 46,437 | (13.2)% | |
| Culp Yarn | 3,246 | 3,346 | (3.0)% | |
| | 102,399 | 118,458 | (13.6)% | |
| Mattress Ticking | | | | |
| Culp Home Fashions | 54,008 | 51,290 | 5.3% | |

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| | | | | |
|---|----|---------|---------|----------|
| | \$ | 156,407 | 169,748 | (7.9)% |
| | | ===== | ===== | ===== |
| Segment Gross Profit | | | | |
| ----- | | | | |
| Upholstery Fabrics | \$ | 15,816 | 15,651 | 1.1 % |
| Restructuring related charges | | 0 | 1,160 | (100.0)% |
| | | ----- | ----- | ----- |
| Pro forma Upholstery Fabrics gross profit (1) | | 15,816 | 16,811 | (5.9)% |
| Mattress Ticking | | 12,401 | 11,946 | 3.8 % |
| | | ----- | ----- | ----- |
| Pro forma gross profit | \$ | 28,217 | 28,757 | (1.9)% |
| | | ===== | ===== | ===== |

(1) Pro forma includes \$1.2 million in restructuring related charges from the shut down of the Chattanooga operation

CULP, INC. FINANCIAL INFORMATION RELEASE
INTERNATIONAL SALES BY GEOGRAPHIC AREA
FOR THE THREE MONTHS AND SIX MONTHS ENDED NOVEMBER 2, 2003 AND OCTOBER 27, 2002

(Amounts in thousands)

| THREE MONTHS ENDED (UNAUDITED) | | | | |
|--------------------------------|----|---------------------|---------------------|-------------------|
| ----- | | | | |
| Amounts | | | | |
| ----- | | | | |
| Geographic Area | | November 2, 2003 | October 27, 2002 | % Over (Under) |
| ----- | | | | |
| North America (Excluding USA) | \$ | 7,048 | 8,424 | (16.3)% |
| Far East & Asia | | 1,907 | 1,549 | 23.1 % |
| All other areas | | 445 | 1,239 | (64.1)% |
| | | ----- | ----- | ----- |
| | \$ | 9,400 | 11,211 | (16.2)% |
| | | ===== | ===== | ===== |
| Percent of total sales | | 11.4% | 13.4% | |

SIX MONTHS ENDED (UNAUDITED)

| ----- | | | | |
|---------|--|-------------|-------------|--------|
| Amounts | | | | |
| ----- | | | | |
| | | November 2, | October 27, | % Over |
| ----- | | | | |
| | | | | |

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| Geographic Area | 2003 | 2002 | (Under) |
|-------------------------------|-----------|--------|---------|
| North America (Excluding USA) | \$ 13,420 | 15,974 | (16.0)% |
| Far East & Asia | 3,301 | 2,983 | 10.6 % |
| All other areas | 872 | 2,676 | (67.4)% |
| | \$ 17,593 | 21,634 | (18.7)% |
| Percent of total sales | 11.2% | 12.7% | |

CULP, INC.
PROFORMA CONSOLIDATED STATEMENTS OF INCOME (LOSS)
FOR THE THREE MONTHS ENDED NOVEMBER 2, 2003 AND OCTOBER 27, 2002
(Amounts in Thousands, Except for Per Share Data)

| | THREE MONTHS ENDED | | | | | |
|---|------------------------------------|---------------|------------------------------------|---------------|-------------|---------------|
| | As Reported November 2, 2003 | % of Sales | As Reported October 27, 2002 | % of Sales | Adjustments | % of Sales |
| Net sales | \$ 82,731 | 100.0% | 83,740 | 100.0% | 0 | |
| Cost of sales | 65,993 | 79.8% | 69,997 | 83.6% | (1,160) | -1.0% |
| Gross profit | 16,738 | 20.2% | 13,743 | 16.4% | (1,160) | -1.0% |
| Selling, general and administrative expenses | 10,296 | 12.4% | 9,481 | 11.3% | | |
| Restructuring expense | 0 | 0.0% | 13,360 | 16.0% | (13,360) | -16.0% |
| Income (loss) from operations | 6,442 | 7.8% | (9,098) | -10.9% | (14,520) | -17.3% |
| Interest expense | 1,509 | 1.8% | 1,676 | 2.0% | 0 | 0.0% |
| Interest income | (121) | -0.1% | (121) | -0.1% | 0 | 0.0% |
| Other expense (income), net | 62 | 0.1% | 242 | 0.3% | 0 | 0.0% |
| Income (loss) before income taxes | 4,992 | 6.0% | (10,895) | -13.0% | (14,520) | -17.3% |
| Income taxes (1) | 1,846 | 37.0% | (4,305) | 39.5% | (5,646) | 38.8% |
| Net income (loss) | \$ 3,146 | 3.8% | (6,590) | -7.9% | (8,874) | -10.6% |
| Net income (loss) per share-basic | \$0.27 | | (\$0.57) | | (\$0.77) | |
| Net income (loss) per share-diluted | \$0.27 | | (\$0.57) | | (\$0.77) | |
| Average shares outstanding-basic | 11,524 | | 11,483 | | 11,483 | |
| Average shares outstanding-diluted | 11,774 | | 11,483 | | 11,483 | |

Notes:

(1) Percent of net sales column for income taxes is calculated as a % of

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- income (loss) before income taxes
- (2) Pre-restructuring income tax rate was 37% for the second quarter of fiscal 2003.
 - (3) The \$1.2 million represents restructuring related charges for inventory markdowns and movement of equipment related to the shut down of the Chattanooga operation
 - (4) The \$13.4 million represents restructuring charges for the shut down of the Chattanooga operation, \$12.1 million, and the additional write-down of wet printed assets held for sale, \$1.3 million
 - (5) Incremental shares of 271,000 for fiscal 2003 included in fully diluted calculation

CULP, INC.
PROFORMA CONSOLIDATED STATEMENTS OF INCOME (LOSS)
FOR THE SIX MONTHS ENDED NOVEMBER 2, 2003 AND OCTOBER 27, 2002
(Amounts in Thousands, Except for Per Share Data)

| | SIX MONTHS ENDED | | | | | |
|--|------------------------------------|---------------|------------------------------------|---------------|-------------|---------------|
| | As Reported November 2, 2003 | % of Sales | As Reported October 27, 2002 | % of Sales | Adjustments | % of Sales |
| Net sales | \$ 156,407 | 100.0% | 169,748 | 100.0% | 0 | |
| Cost of sales | 128,190 | 82.0% | 142,151 | 83.7% | (1,160) | -0.7% |
| Gross profit | 28,217 | 18.0% | 27,597 | 16.3% | (1,160) | -0.7% |
| Selling, general and administrative expenses | 20,807 | 13.3% | 19,918 | 11.7% | | 0.0% |
| Restructuring expense | | 0.0% | 13,360 | 7.9% | (13,360) | -7.9% |
| Income (loss) from operations | 7,410 | 4.7% | (5,681) | -3.3% | (14,520) | -8.8% |
| Interest expense | 3,006 | 1.9% | 3,579 | 2.1% | 0 | 0.0% |
| Interest income | (243) | -0.2% | (271) | -0.2% | 0 | 0.0% |
| Other expense (income), net | 307 | 0.2% | 453 | 0.3% | 0 | 0.0% |
| Income (loss) before income taxes | 4,340 | 2.8% | (9,442) | -5.6% | (14,520) | -8.8% |
| Income taxes (1) | 1,605 | 37.0% | (3,767) | 39.9% | (5,646) | 38.0% |
| Income (loss) before cumulative effect of accounting change | \$ 2,735 | 1.7% | (5,675) | -3.3% | (8,874) | -5.5% |
| Cumulative effect of accounting change, net of income taxes | 0 | | (24,151) | | 24,151 | |
| Net income (loss) | ===== | | ===== | | | |
| Basic income (loss) per share: | | | | | | |
| Income (loss) before | | | | | | |

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| | | | |
|---|---------|--------|----------|
| cumulative effect of accounting change | \$ 0.24 | (0.50) | (\$0.78) |
| Cumulative effect of accounting change | 0.00 | (2.11) | 2.11 |
| | ----- | ----- | |
| Net income (loss) | 0.24 | (2.61) | |
| | ===== | ===== | |
| Diluted income (loss) per share: | | | |
| Income (loss) before cumulative effect of accounting change | \$ 0.23 | (0.50) | (0.78) |
| Cumulative effect of accounting change | 0.00 | (2.11) | 2.11 |
| | ----- | ----- | |
| Net income (loss) | 0.23 | (2.61) | |
| | ===== | ===== | |
| Average shares outstanding-basic | 11,519 | 11,433 | 11,433 |
| Average shares outstanding-diluted | 11,718 | 11,433 | 11,433 |

Notes:

- (1) Percent of net sales column for income taxes is calculated as a % of income (loss) before income taxes
- (2) Pre-restructuring income tax rate was 37% for the first six months of fiscal 2003
- (3) The \$1.2 million represents restructuring related charges for inventory markdowns and movement of equipment related to the shut down of the Chattanooga operation
- (4) The \$13.4 million represents restructuring charges for the shut down of the Chattanooga operation, \$12.1 million, and the additional write-down of wet printed assets held for sale, \$1.3 million
- (5) Incremental shares of 345,000 included in fully diluted calculation

CULP, INC. FINANCIAL INFORMATION RELEASE
FINANCIAL NARRATIVE

for the three and six months ended November 2, 2003 and October 27, 2002

OVERVIEW

Highlights for the second quarter ended November 2, 2003, include:

- o Net income of \$0.27 per share diluted, driven by profit improvement in the upholstery fabrics segment and continued strength in the mattress ticking segment
- o Best year over year quarterly sales comparison in five quarters, reflecting better overall industry demand
- o Cash, cash equivalents and short-term investments increased to \$31.8 million from \$24.4 million at the end of fiscal 2003, reflecting free cash flow of \$7.2 million for the year to date period
- o Earnings expectation for the third quarter of fiscal 2004 is net income of \$0.13 to \$0.17 per diluted share.

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GENERAL -- For the second quarter of fiscal 2004, net sales decreased 1.2% to \$82.7 million; and the company reported net income of \$3.1 million or \$0.27 per share diluted, compared with a net loss of \$6.6 million or \$0.57 per share diluted in the second quarter of fiscal 2003. Excluding restructuring and related charges, earnings for the second quarter of fiscal 2003 were \$2.3 million or \$0.19 per share diluted (see reconciliation on page 7). For the first six months of fiscal 2004, net sales decreased 7.9% to \$156.4 million; and the company reported net income of \$2.7 million or \$0.23 per share diluted, compared to a net loss of \$29.8 million or \$2.61 per share diluted, for the same period last year. Excluding restructuring and related charges, and the cumulative effect of accounting change, earnings for the first six months of fiscal 2003 were \$3.2 million or \$0.27 per share diluted (see reconciliation on page 8). Year-to-date for fiscal 2004 included 27 weeks versus 26 weeks for the same period of fiscal 2003.

INCOME STATEMENT COMMENTS

UPHOLSTERY FABRICS SEGMENT (See page 5 - Sales and Gross Profit by Segment)

Net Sales -- Upholstery fabric sales for the second quarter of fiscal 2004 decreased 4.3% to \$55.9 million when compared to the second quarter of fiscal 2003, reflecting growth quarter over quarter in the segment's Culp Velvets/Prints (CVP) division and better overall residential furniture demand. The 4.3% decline is a substantial improvement over the 22.5% decrease in the first quarter of fiscal 2004 and the 17.2% decrease in the fourth quarter of fiscal 2003.

Upholstery fabric yards sold during the second quarter were 13.1 million versus 14.1 million in the second quarter of fiscal 2003, a decline of 7.1%. Average selling price was \$4.13 for the second quarter compared with \$4.05 in the same quarter of last year, an increase of 2.0%, due to higher selling prices in the Culp Decorative Fabrics (CDF) division.

Gross Profit -- Gross profit for the second quarter of fiscal 2004 was \$10.4 million, or 18.6%, versus \$7.7 million, or 13.1%, for the same quarter of last year. Excluding restructuring related charges of \$1.2 million, which were included in cost of sales in last year's second quarter, gross profit dollars and margins were \$8.8 million and 15.1%, respectively. The increase in gross profit and margins reflects higher capacity utilization and gains in manufacturing operating efficiencies within the CDF division.

China Operations -- The start up of the company's China operation is generally proceeding in accordance with previously announced plans, although delays of one to two months were experienced in receiving some manufacturing equipment. The equipment has been received, and installation is expected to be completed within two months. During the third quarter, the company expects to begin incoming fabric inspection and testing, and to start shipping fabric to customers. Limited finishing operations are anticipated to begin in the fourth quarter of this fiscal year. As expected, the company is experiencing modest operating losses in its China operation during the start up phase, which is expected to be completed by the end of this fiscal year, although some level of operating losses from the China operation is expected to continue until some time in fiscal 2005.

MATTRESS TICKING SEGMENT (See page 5 - Sales and Gross Profit by Segment)

Net Sales -- Mattress ticking sales for the second quarter of fiscal 2004 increased 6.0% to \$26.8 million, due to better industry demand and continued

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market share gains with key customers. The sales gain in this segment for the fiscal year to date (5.3%) is especially noteworthy because it is occurring during the bedding industry's transition to selling predominately one-sided mattresses, which utilizes about one-third less mattress ticking. This transition at retail began in mid to late calendar year 2002 and is expected to continue through early calendar year 2005.

Mattress ticking yards sold during the second quarter of fiscal 2004 were 10.9 million compared with 10.1 million yards in the second quarter of last year. The average selling price was \$2.43 for the second quarter, compared to \$2.48 in the same quarter last year. The slight decrease from last year's same quarter and the first quarter of this year is due to product mix and a higher concentration of closeout sales this quarter.

Gross Profit -- For the second quarter of fiscal 2004, the mattress ticking segment reported gross profit dollars and margins of \$6.3 million and 23.6%, respectively, compared with \$6.1 million and 24.1% for the same period of last year.

SG&A EXPENSES -- SG&A expenses of \$10.3 million for the second quarter increased approximately \$800,000, or 8.6%, from the prior year amount. As a percent of net sales, SG&A expenses increased to 12.4% from 11.3% the previous year. SG&A expenses in the second quarter included higher professional fees and higher bad debt expense. In the second quarter of fiscal 2003, SG&A expenses included a credit to bad debt expense resulting from a net reduction of \$424,000 in the allowance for doubtful accounts, due to a reduction in past due balances. Bad debt expense in the second quarter of fiscal 2004 was \$122,000.

INTEREST EXPENSE AND INTEREST INCOME -- Interest expense for the second quarter declined to \$1.5 million from \$1.7 million the previous year due to lower borrowings outstanding. Interest income of \$121,000 was unchanged from the previous year. The effect on interest income earned of a higher average invested cash balance for fiscal 2004 was offset by lower interest rates earned in fiscal 2004 as compared to the same period last year.

OTHER EXPENSE -- Other expense for the second quarter of fiscal 2004 totaled \$62,000 compared with \$242,000 in the prior year. The decrease was principally due to 1) lower amortization expense related to reduced amounts of debt issue costs and 2) lower fees associated with foreign currency contracts for inventory purchases, offset somewhat by 3) the unfavorable impact of a higher Canadian exchange rate.

INCOME TAXES -- The effective tax rate (taxes as a percentage of pretax income (loss)) for the first six months of fiscal 2004 was 37%, compared with 39.9% for the first six months of fiscal 2003. The higher rate for the prior year period reflects the increased tax benefits related to the company's loss in the U.S. resulting from the restructuring charges recorded in the second quarter. Excluding the cumulative effect of accounting change and restructuring and related charges, the effective tax rate for the first half of fiscal 2003 was 37%.

BALANCE SHEET COMMENTS

CASH, CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS - Cash, cash equivalents and short-term investments as of November 2, 2003 increased to \$31.8 million from \$24.4 million at the end of fiscal 2003, reflecting free cash flow of \$7.2 million for the first six months of fiscal 2004 (see discussion of free cash flow below).

WORKING CAPITAL -- Accounts receivable as of November 2, 2003 decreased

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4.6% from the year-earlier level, principally due to an increase in the number of customers taking the cash discount for shorter payment terms. Days sales outstanding totaled 34 days at November 2, 2003 compared with 36 a year ago. Inventories at the close of the second quarter decreased 1.3% from a year ago. Inventory turns for the second quarter were 5.1 versus 4.9 for the year-earlier period. Operating working capital (comprised of accounts receivable, inventories and accounts payable) was \$61.3 million at November 2, 2003, down from \$68.5 million a year ago.

PROPERTY, PLANT AND EQUIPMENT -- Capital spending for the first six months of fiscal 2004 was \$3.0 million. Depreciation is estimated at \$14.0 million for the full fiscal year, which is unchanged from the previous year. For fiscal 2004, the company's capital expenditure budget is \$8.0 million, of which \$3.0 million is related to the company's China operations. The China investment includes manufacturing equipment and leasehold improvements.

INTANGIBLE ASSETS -- As of November 2, 2003, \$9.2 million in goodwill is the company's only intangible asset.

LONG-TERM DEBT - All of the company's remaining \$76.6 million in debt is unsecured and is comprised of a \$75 million term loan, with a fixed interest rate of 7.76%, and a \$1.6 million, non-interest bearing term loan with the Canadian government. Additionally, the company has a \$15.0 million revolving credit line with a bank, of which no balance is outstanding at November 2, 2003. The bank agreement expires in August, 2004. The first scheduled principal payment on the \$75 million term loan is due March 2006 in the amount of \$11.0 million. The Canadian government loan is repaid in annual installments of approximately \$500,000 per year.

The company's long-term debt to capital ratio was 43.7% compared with 51.7% for the same period last year. The company was in compliance with all financial covenants in its loan agreements as of November 2, 2003.

FREE CASH FLOW COMMENTS

Free cash flow (see reconciliation on page 3 of this release) was \$7.2 million for the first six months of fiscal 2004, compared with \$14.0 million for the same period last year. This decrease is primarily due to less cash flow generated from working capital. For fiscal 2004, the company believes free cash flow will be substantially less than fiscal 2003 primarily because the company does not expect the continued significant reduction in working capital reflected in each of the previous three years. In addition, the company will have higher payments on vendor-financed capital expenditures.

BUSINESS OUTLOOK

While the overall residential furniture and bedding industry demand improved during the second quarter, as expected, there still does not appear to be a sustainable trend in incoming business, particularly in upholstery fabrics. Therefore, the company expects that third quarter sales will decrease slightly from the same quarter of last year. Mattress ticking segment sales are expected to increase in the third quarter, although at a lower rate than the 6.0% growth in the second quarter. Upholstery fabric segment sales are expected to decline from the same quarter of last year at a higher rate than the 4.3% in the second quarter, due primarily to softness in incoming orders of the segment's Culp Decorative Fabrics' (CDF) division. With these sales expectations and industry outlook, the company expects to report net income in the range of \$0.13 to \$0.17 per diluted share, with actual results depending upon the level of demand throughout the quarter.

