

Edgar Filing: CULP INC - Form 10-K/A

CULP INC  
Form 10-K/A  
April 25, 2001

SECURITIES AND EXCHANGE COMMISSION  
Washington, D. C. 20549

FORM 10-K/A

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

For the fiscal year ended April 30, 2000

Commission File No. 0-12781

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.)

101 S. Main St., High Point, North Carolina  
(Address of principal executive offices)

27261-2686  
(zip code)

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

Securities registered pursuant to Section 12(b) of the Act: NONE

Securities registered pursuant to Section 12(g) of the Act:

Common Stock, Par Value \$.05/Share

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 of the Securities Exchange Act of 1934 during the preceding 12 months and (2) has been subject to the filing requirements for at least the past 90 days. YES X NO \_\_\_\_

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation SK is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ ]

As of July 24, 2000, 11,208,720 shares of common stock were outstanding. The aggregate market value of the voting stock held by non-affiliates of the registrant on that date was \$43,400,750 based on the closing sales price of such stock as quoted on the New York Stock Exchange (NYSE), assuming, for purposes of this report, that all executive officers and directors of the registrant are affiliates.

DOCUMENTS INCORPORATED BY REFERENCE

Part III

Portions of the Company's Proxy Statement dated August 18, 2000 in connection with its Annual Meeting of Shareholders to be held on September 26, 2000 are incorporated by reference into Items 10, 11, 12 and 13.

# Edgar Filing: CULP INC - Form 10-K/A

Items 6, 7 and 8 to Registrant's Form 10-K for the fiscal year ended April 30, 2000 are hereby amended as follows:

This amendment reflects the restatement of the financial statements for the fiscal years ended April 30, 2000, May 2, 1999 and May 3, 1998 due to not properly recognizing certain gains that affect other expense, related balance sheet accounts and certain disclosures previously reported. See note 17 to the consolidated financial statements in Item 8 for a description of the restatement.

CULP, INC.  
FORM 10-K REPORT  
TABLE OF CONTENTS

| Item No. |   | Page |
|----------|---|------|
|          | PART I  |      |
| 1.       | Business  |      |
|          | Overview.....   | 3    |
|          | Segments.....   | 4    |
|          | Business Strategy.....  | 5    |
|          | Capital Expenditures.....   | 6    |
|          | Overview of Industry.....   | 6    |
|          | Overview of Residential Furniture Industry.....   | 6    |
|          | Overview of Commercial Furniture Industry.....  | 8    |
|          | Overview of Bedding Industry.....   | 8    |
|          | Products.....   | 8    |
|          | Manufacturing.....  | 10   |
|          | Product Design and Styling.....   | 11   |
|          | Distribution.....   | 11   |
|          | Sources and Availability of Raw Materials.....  | 12   |
|          | Competition.....  | 12   |
|          | Technology.....   | 12   |
|          | Environmental and Other Regulations.....  | 13   |
|          | Employees.....  | 14   |
|          | Customers and Sales.....  | 14   |
|          | Net Sales by Geographic Area.....   | 14   |
|          | Backlog.....  | 14   |
| 2.       | Properties.....   | 15   |
| 3.       | Legal Proceedings.....  | 16   |
| 4.       | Submission of Matters to a Vote of Security Holders.....                                      | 16   |
|          | PART II   |      |
| 5.       | Market for the Registrant's Common Stock<br>and Related Stockholder Matters.....              | 16   |
| 6.       | Selected Financial Data.....  | 17   |
| 7.       | Management's Discussion and Analysis of<br>Financial Condition and Results of Operations..... | 18   |
| 7A.      | Quantitative and Qualitative Disclosures<br>About Market Risk.....                            | 24   |
| 8.       | Consolidated Financial Statements and Supplementary Data.....                                 | 25   |

# Edgar Filing: CULP INC - Form 10-K/A

|    |  |    |
|----|--|----|
| 9. | Changes in and Disagreements with Accountants<br>on Accounting and Financial Disclosure..... | 44 |
|----|--|----|

## PART III

|     |  |    |
|-----|--|----|
| 10. | Directors and Executive Officers of the<br>Registrant.....             | 44 |
| 11. | Executive Compensation.....  | 44 |
| 12. | Security Ownership of Certain<br>Beneficial Owners and Management..... | 44 |
| 13. | Certain Relationships and Related<br>Transactions.....                 | 44 |

## PART IV

|     |   |    |
|-----|---|----|
| 14. | Exhibits, Financial Statement Schedules<br>and Reports on Form 8-K..... | 45 |
|     | Documents filed as part of this report.....                             | 45 |
|     | Exhibits.....   | 46 |
|     | Reports on Form 8-K.....  | 52 |
|     | Financial Statement Schedules.....                                      | 52 |
|     | Signatures .....  | 53 |

## PART I

### ITEM 1. BUSINESS

#### Overview

Culp, Inc. (the Company) manufactures and markets upholstery fabrics and mattress tickings primarily for use in the furniture (residential, commercial and juvenile) and bedding industries on a worldwide basis. The Company's executive offices are located in High Point, North Carolina. The Company was organized as a North Carolina corporation in 1972 and made its initial public offering in 1983. Since 1997, the Company has been listed on the New York Stock Exchange and traded under the symbol "CFI."

Culp is one of the largest integrated marketers of furniture upholstery fabrics in the world and is a leading global producer of mattress fabrics (known as mattress ticking). The Company's fabrics are used principally in the production of residential and commercial furniture and bedding products, including sofas, recliners, chairs, loveseats, sectionals, sofa-beds, office seating, panel systems and mattress sets. Culp markets one of the broadest product lines in its industry, with a wide range of fabric constructions, patterns, colors, textures and finishes. This breadth is made possible by Culp's extensive manufacturing capabilities that include a variety of weaving, printing and finishing operations and the ability to produce various yarns and unfinished base fabrics (known as greige goods) used in its

## Edgar Filing: CULP INC - Form 10-K/A

products. Although most of the Company's competitors emphasize one particular type of fabric, Culp competes in every major category except leather, which accounts for a relatively small portion of the residential furniture market. Culp's staff of over 75 designers and support personnel utilize Computer Aided Design (CAD) systems to develop the Company's own patterns and styles. Culp's product line currently includes more than 3,000 upholstery fabric patterns and 1,000 mattress-ticking styles. Although Culp markets fabrics at most price levels, the Company has emphasized fabrics that have a broad appeal in the "good" and "better" price categories of furniture and bedding.

Culp markets its products worldwide, with sales to customers in over 50 countries. Total sales have grown from \$351.7 million in fiscal 1996 to \$488.1 million in fiscal 2000, and the Company's international sales have increased from \$77.4 million to \$111.1 million during the same period. Shipments to U.S.-based customers continue to account for most of the Company's sales, but Culp's success in building a global presence has led to a significant proportion of sales to international accounts (23% of net sales for fiscal 2000). The Company's network of approximately 30 international sales agents represents Culp's products in major furniture and bedding markets outside the United States.

Culp has sixteen (16) manufacturing facilities, with a combined total of 2.7 million square feet, that are located in North Carolina (9), South Carolina (2), Pennsylvania (2), Tennessee (1), Alabama (1) and Quebec, Canada (1). The Company's distribution system is designed to offer customers fast, responsive delivery. Products are shipped directly to customers from the Company's manufacturing facilities, as well as from three regional distribution facilities strategically located in High Point, North Carolina, Los Angeles, California, and Tupelo, Mississippi, which are areas of high concentration of furniture manufacturing. Additionally, the Company maintains an inventory of upholstery fabrics at a warehouse facility in Grand Rapids, Michigan to supply large commercial furniture manufacturers in that area.

Culp's position as a leading global marketer of upholstery fabrics and mattress ticking has been achieved through internal expansion and strategic acquisitions. The most recent acquisitions include Phillips Mills, Wetumpka Yarn and Artee Industries in fiscal 1998.

### Segments

The Company's operating segments are upholstery fabrics and mattress ticking, with related divisions organized within those segments. The divisions within upholstery fabrics are Culp Decorative Fabrics, Culp Velvets/Prints and Culp Yarn. The division within mattress ticking is Culp Home Fashions. Each division is accorded considerable autonomy and is responsible for designing, manufacturing and marketing its respective product lines. Considerable synergies exist among the divisions, including the sharing of common raw materials made internally, such as polypropylene yarns, certain dyed and spun yarns, greige goods and printed heat-transfer paper. Products manufactured at one division's facility are commonly transferred to another division's facility for additional value-added processing steps. The following table sets forth certain information for each of the Company's segments/divisions.

| Culp's Segments/Divisions |          |   |   |
|---------------------------|----------|---|---|
| SEGMENT                   | DIVISION | FISCAL 2000<br>NET SALES<br>(in millions) | PRODUCT LINES<br>(BASE CLOTH, IF<br>APPLICABLE) |
|                           |          |   |   |

Edgar Filing: CULP INC - Form 10-K/A

|                    |                         |         |   |
|--------------------|-------------------------|---------|---|
| -----              | -----                   | -----   | -----   |
| Upholstery Fabrics | Culp Decorative Fabrics | \$213.2 | Woven jacquards<br>Woven dobbies  |
|                    | Culp Velvets/Prints     | \$151.5 | Wet prints (flocks)<br>Heat-transfer prints<br>(jacquard, flock)<br>Cotton prints<br>Woven velvets<br>Tufted velvets<br>(woven polyester) |
|                    | Culp Yarn               | \$ 17.6 | Pre-dyed spun yarns<br>Chenille yarns   |
| Mattress Ticking   | Culp Home Fashions      | \$105.8 | Woven jacquards<br>Heat-transfer prints<br>(jacquard, knit,<br>sheeting)<br>Pigment prints<br>(jacquard, knit,<br>sheeting, non-woven)    |

Culp Decorative Fabrics. Culp Decorative Fabrics manufactures and markets jacquard and dobby woven fabrics used primarily for residential and commercial furniture. Culp Decorative Fabrics' manufacturing facilities are located in Burlington, Graham and Monroe, North Carolina, Pageland, South Carolina, Chattanooga, Tennessee and West Hazleton, Pennsylvania. Culp Decorative Fabrics has become increasingly vertically integrated, complementing its extensive weaving capabilities with the ability to extrude, dye and texturize yarn. The designs marketed by Culp Decorative Fabrics range from intricate, complicated patterns such as floral and abstract designs to patterns associated with casual living styles that are popular with motion furniture. Culp Decorative Fabrics accounts for the majority of the Company's sales to the commercial furniture market. The Company maintains an inventory at a third-party warehouse in Grand Rapids, Michigan to supply fabrics marketed by Culp Decorative Fabrics to large commercial furniture manufacturers on a "just in time" basis.

Culp Velvets/Prints. Culp Velvets/Prints manufactures and markets a broad range of printed and velvet fabrics. These include wet-printed designs on flock base fabrics, heat-transfer prints on jacquard and flock base fabrics, cotton prints, woven velvets and tufted velvets. These fabrics typically offer manufacturers richly colored patterns and textured surfaces. Recent product development improvements in manufacturing processes have significantly enhanced the quality of printed flock fabrics which are principally used for residential furniture. These fabrics are also used for other upholstered products such as baby car seats. These fabrics are manufactured at Burlington, North Carolina, Anderson, South Carolina, and Lumberton, North Carolina.

Culp Yarn. Culp Yarn manufactures and markets a variety of pre-dyed spun yarns, including WrapSpun(tm), open-end spun, ring spun and chenille yarns. Culp Yarn operates manufacturing facilities in Shelby, Cherryville, and Lincolnton, North Carolina and Wetumpka, Alabama. The Wetumpka facility was acquired in December 1997 and the other Culp Yarn plants were purchased in February 1998. Over half of the production of Culp Yarn is used internally by other Culp divisions. The external sales are directed to the upholstery fabric, carpet and apparel markets, and a portion of these shipments are to competitors of Culp. Culp Yarn has provided Culp more

## Edgar Filing: CULP INC - Form 10-K/A

control over its supply of spun and chenille yarns and complemented the Company's increased emphasis on developing new designs.

Culp Home Fashions. Culp Home Fashions principally markets mattress ticking to bedding manufacturers. These fabrics encompass woven jacquard ticking as well as heat-transfer and pigment-printed ticking on a variety of base fabrics, including jacquard, knit, poly/cotton sheeting and non-woven materials. Culp Home Fashions has successfully blended its diverse printing and finishing capabilities with its access to a variety of base fabrics to offer innovative designs to bedding manufacturers for mattress products. Printed jacquard fabrics offer customers better values with designs and textures of more expensive fabrics. Jacquard greige goods printed by Culp Home Fashions are primarily provided by the division's Rayonese facility. Culp Home Fashions' manufacturing facilities are located in Stokesdale, North Carolina and St. Jerome, Quebec.

### Business Strategy

The Company's plan to maintain leadership in the global upholstery fabric and mattress ticking segments is based on a business strategy that includes five main initiatives:

Customer Service and Vertical Integration - continuing to enhance the competitive value of its upholstery fabrics and mattress ticking through a company-wide initiative to raise efficiency and improve customer service. Important aspects of this program have included attaining more consistent product quality, improving delivery standards and offering more innovative designs. The Company's ability to realize progress in these areas in the past has been aided significantly by becoming more vertically integrated through capital expansion projects and strategic acquisitions. Representative steps have included adding capacity for producing unfinished jacquard greige goods, extruding polypropylene yarn and most recently, manufacturing spun and specialty yarn.

Broad Product Offering - continuing to market one of the broadest product lines in upholstery fabrics and mattress ticking. Through its extensive manufacturing capabilities, the Company competes in every major category except leather.

Diverse Global Customer Base - increasing its penetration into other end-use markets in addition to U.S. residential furniture, such as bedding, international, commercial furniture and juvenile furniture.

Design Innovation - continuing to invest in personnel and other resources for the design of upholstery fabrics and ticking with appealing patterns and textures. An integral component of the value Culp provides to customers is supplying fabrics that are fashionable and meet current consumer preferences. The Company's principal design resources are now consolidated in a single facility that provides advanced CAD systems and promotes a sharing of innovative designs among the divisions.

Additional Acquisitions - investing in selective acquisitions complementary to existing segments.

### Capital Expenditures

Since fiscal 1995, the Company has invested \$110.5 million in capital expenditures to expand its manufacturing capacity, install more efficient production equipment and vertically integrate its operations. These expenditures have included, among other things, the installation of narrow and wide-width weaving machines and additional printing equipment to support the growth in woven and printed upholstery fabrics and mattress ticking. The

## Edgar Filing: CULP INC - Form 10-K/A

Company spent approximately \$22.6 million in capital expenditures during fiscal 2000 for vertical integration and modernization. This level of capital spending was above the \$10.7 million in capital expenditures during fiscal 1999. During 2000, the key projects relating to vertical integration included expanding wide loom capacity at St. Jerome, Quebec, Canada and carding capacity at Wetumpka, Alabama. Projects to modernize existing facilities encompassed several investments in looms throughout the Company's operations. The Company is currently planning on capital expenditures for fiscal 2001 of approximately \$16 million.

### Overview of Industry

Culp markets products worldwide to a broad array of manufacturers that operate in three principal markets and several specialty markets:

Residential furniture. This market includes upholstered furniture sold to consumers. Products include sofas, sleep sofas, chairs, motion/recliners, sectionals and occasional furniture items.

Commercial furniture. This market includes upholstered office seating and modular office systems sold primarily for use in offices (including home offices) and other institutional settings.

Bedding. This market includes mattress sets as well as other related home furnishings.

Specialty markets. These markets include juvenile furniture (baby car seats and other baby items), hospitality (furniture used in hotels and other lodging establishments), "top of the bed" (comforters and bedspreads), outdoor furniture, recreational vehicle seating, automotive aftermarket (slip-on seat covers), retail fabric stores and specialty yarn.

### Overview of Residential Furniture Industry

The upholstery fabric industry is highly competitive, particularly among manufacturers in similar market niches. American Furniture Manufacturers Association, a trade association, reports that manufacturers of residential furniture in the United States shipped products valued at approximately \$25 billion (wholesale) during 1999. Approximately 40% of this furniture is believed to consist of upholstered products. The upholstered furniture market has grown from \$5.4 billion in 1991 to \$10 billion in 1999.

Trends in demand for upholstery fabric and mattress ticking generally parallel changes in consumer purchases of furniture and bedding. Factors influencing consumer purchases of home furnishings include the number of household formations, growth in the general population, the demographic profile of the population, consumer confidence, employment levels, the amount of disposable income, geographic mobility, housing starts and existing home sales. The long-term trend in demand for furniture and bedding has been one of moderate growth, although there have been some occasional periods of a modest downturn in sales due principally to changes in economic conditions.

The Company believes that demographic trends support the outlook for continued long-term growth in the U.S. residential furniture and bedding industries. In particular, as "baby boomers" (people born between 1946 and 1964) mature to the 35-to-64 year age range over the next decade, they will be reaching their highest earning power. Consumers in these age groups tend to spend more on home furnishings, and the increasing number of these individuals favors higher demand for furniture and related home furnishings. Statistics also show that the average size of new homes has increased in recent years, and that is believed to have resulted in increased purchases of

furniture per home.

There is an established trend toward consolidation at all levels within the home furnishings industry. Furniture/Today has reported that the ten largest residential furniture manufacturers accounted for over 40% of the industry's total shipments in 1999, up from a 23% share in 1985. This trend is expected to continue, particularly because of the need to invest increasing capital to maintain modern manufacturing and distribution facilities as well as to provide the sophisticated computer-based systems and processes necessary to interface in the supply chain between retailers and suppliers. This trend toward consolidation is resulting in fewer, but larger, customers for upholstery fabric manufacturers. The Company believes that this environment favors larger upholstery fabric manufacturers capable of supplying a broad range of product choices at the volumes required by major furniture manufacturers on a timely basis.

Today's furniture customers prefer more casual and comfortable furniture, including motion furniture, than did consumers ten years ago. In addition, customers are placing increasing emphasis on product quality. The increasing importance of product quality has allowed fabric manufacturers with effective quality control systems to gain a competitive advantage. Modern furniture buyers are also demanding faster delivery. To meet this demand, the furniture industry as a whole has increased its focus on just-in-time manufacturing methods and shorter delivery lead times.

Culp's international sales declined 2% in 2000 to \$111.1 million. The Company does not believe that this decline suggests any structural shift in the competitive position of Culp or in the long-term opportunities that are presented by rising demand for furniture in developing countries. Consumers in these areas are often attracted to those designs and fashions that mirror American tastes, and U.S.-based manufacturers such as Culp have been able to capitalize on this preference. Production costs of fabrics involve a relatively low labor component, which provides an advantage for a company with modern, efficient manufacturing equipment and systems. The large size of the furniture market within the United States has helped establish an upholstery fabrics industry that features ready access to a variety of raw materials, larger manufacturers with lower costs resulting from economies of scale and the availability of new designs and patterns. The Company believes that these characteristics assist Culp in competing effectively in international markets.

#### Overview of Commercial Furniture Industry

The commercial furniture market in the United States represents annual shipments by manufacturers valued at approximately \$12 billion. Seating and office systems, which represent the primary uses of upholstery in this industry, represented annual sales of approximately \$7 billion annually. At the manufacturing level, the industry is highly concentrated. The top five manufacturers of commercial furniture account for an estimated 65% of total industry shipments. Although demand for commercial furniture can be affected by general economic trends, the historical pattern has been one of generally steady growth.

Dealers aligned with specific furniture brands account for over half of industry shipments of commercial furniture. Some shift in the distribution of commercial furniture has occurred in recent years in conjunction with the growth in national and regional chains featuring office supplies.

#### Overview of Bedding Industry

According to data compiled by the International Sleep Products Association ("ISPA"), the domestic conventional bedding market, which



## Edgar Filing: CULP INC - Form 10-K/A

generated estimated wholesale revenues of \$4.1 billion during calendar year 1999, includes approximately 800 manufacturers of mattress sets. The conventional bedding market accounts for approximately 90% of the domestic bedding market. Approximately 71% of the conventional bedding manufactured in the U.S. is sold to furniture stores and specialty sleep shops. Most of the remaining 29% is sold to department stores, national mass merchandisers, membership clubs and factory direct stores. Approximately 70% of conventional bedding is sold for replacement purposes and the average time lapse between mattress purchases is approximately 11 years.

### Products

As described above, the Company's products include upholstery fabrics and mattress ticking.

**UPHOLSTERY FABRICS.** The Company derives the majority of its revenues from the sale of upholstery fabrics primarily to the residential and commercial (contract) furniture markets. Sales of upholstery fabrics totaled 78% of sales for fiscal 2000. The Company has emphasized fabrics and patterns that have broad appeal at promotional to medium prices, generally ranging from \$2.20 per yard to \$9.50 per yard.

**MATTRESS TICKING.** The Company also manufactures mattress ticking (fabric used for covering mattresses and box springs) for sale to bedding manufacturers. Sales of mattress ticking constituted 22% of sales in fiscal 2000. The Company has emphasized fabrics and patterns which have broad appeal at prices generally ranging from \$1.20 to \$8.00 per yard.

The Company's upholstery fabrics and mattress ticking can each be broadly grouped under the three main categories of wovens, prints and velvets. The following table indicates the product lines within each of these categories, a brief description of their characteristics and identification of their principal end-use markets.

| Culp Fabric Categories |   |   |
|------------------------|---|---|
| Upholstery Fabrics     | Characteristics   | Principal Markets                             |
| <b>Wovens:</b>         |   |   |
| Jacquards              | Elaborate, complex designs such as florals and tapestries in traditional, transitional and contemporary styles. Woven on intricate looms using a wide variety of synthetic and natural yarns.   | Residential furniture<br>Commercial furniture |
| Dobbies                | Geometric designs such as plaids, stripes and solids in traditional and country styles. Woven on less complicated looms using a variety of weaving constructions and primarily synthetic yarns. | Residential furniture<br>Commercial furniture |
| <b>Prints:</b>         |   |   |
| Wet prints             | Contemporary patterns with deep, rich colors on a nylon flock base fabric for a very soft texture and excellent wearability. Produced by screen printing directly onto the base fabric.         | Residential furniture<br>Juvenile furniture   |
| Heat-transfer          | Sharp, intricate designs on flock or  | Residential                                   |

Edgar Filing: CULP INC - Form 10-K/A

|                      |   |                                 |
|----------------------|---|---------------------------------|
| prints               | jacquard base fabrics. Plush feel (flocks), deep colors (jacquards) and excellent wearability. Produced by using heat and pressure to transfer color from printed paper onto base fabric. | furniture<br>Juvenile furniture |
| Cotton prints        | A broad variety of designs featuring deep, rich colors printed on woven cotton base fabrics with excellent wearability. Produced by screen printing directly onto the base fabric.        | Residential furniture           |
| Velvets:             |   |                                 |
| Woven velvets        | Basic designs such as plaids and semi-plains in traditional and contemporary styles with a plush feel. Woven with a short-cut pile using various weaving methods and synthetic yarns.     | Residential furniture           |
| Tufted velvets       | Lower cost production process of velvets in which synthetic yarns are punched into a base polyester fabric for texture. Similar designs as woven velvets.                                 | Residential furniture           |
| Mattress Ticking     | Characteristics   | Principal Markets               |
| -----                | -----   | -----                           |
| Wovens:              |   |                                 |
| Jacquards            | Florals and other intricate designs. Woven on complex looms using a wide variety of synthetic and natural yarns.  | Bedding                         |
| Prints:              |   |                                 |
| Heat-transfer prints | Sharp, detailed designs. Produced by using heat and pressure to transfer color from printed paper onto base fabrics, including woven jacquards, knits and poly/cotton sheetings.          | Bedding                         |
| Pigment prints       | Variety of designs produced economically by screen printing pigments onto a variety of base fabrics, including jacquards, knits, poly/cotton sheeting and non-wovens.                     | Bedding                         |

Although fabrics marketed for upholstery applications and those used for mattress ticking may have similar appearances, mattress ticking must be manufactured on weaving and printing equipment in wider widths to accommodate the physical size of box springs and mattresses. The Company's products include all major types of coverings, except for leather, that manufacturers use today for furniture and bedding. The Company also markets fabrics for certain specialty markets, but these do not currently represent a material portion of the Company's business.

Manufacturing

Substantially all of the upholstery fabric and mattress ticking currently marketed by Culp is produced at the Company's sixteen (16) manufacturing facilities. These plants encompass a total of 2.7-million square feet and include yarn extrusion, spinning, dyeing and texturizing equipment, narrow and wide-width jacquard looms, dobbie and woven velvet looms, tufting machines, printing equipment for pigment, heat-transfer and wet printing, fabric finishing equipment and various types of surface finishing equipment (such as washing, softening and embossing). Culp is actively pursuing ISO certification for its manufacturing facilities. ISO

## Edgar Filing: CULP INC - Form 10-K/A

certification is an international recognition of a company's ability to deliver high quality products and services. Culp's facilities at Stokesdale, North Carolina, which produces mattress ticking, and at Anderson, South Carolina, which produces woven velvet upholstery fabric, were awarded ISO-9002 certification during fiscal 1997. Additionally, the Company's facility at Pageland, South Carolina, which produces jacquard and dobby upholstery fabric, and the finishing facility in Burlington, North Carolina were awarded ISO-9002 certification in fiscal 1998. During fiscal 1999, the Company's weaving facility in Graham, North Carolina and the Culp Velvets/Prints plant in Burlington, North Carolina successfully completed ISO-9002 registration. The Company is planning to complete the ISO certification process at its other facilities over the next several years.

The Company's woven fabrics are made from various types of synthetic and natural yarn, such as polypropylene, polyester, acrylic, rayon, nylon or cotton. Yarn is woven into various fabrics on jacquard, dobby or velvet weaving equipment. Once the weaving is completed, the fabric can be printed or finished using a variety of processes. The Company currently extrudes and spins a portion of its own needs for yarn and purchases the remainder from outside suppliers. As a result of the acquisition of the Culp Yarn plants during fiscal 1998, Culp produces internally a substantial amount of its needs for spun and chenille yarns. The Company also supplies other fabric manufacturers with spun yarns manufactured by Culp Yarn. Culp purchases a significant amount of greige goods (unfinished, uncolored base fabrics) from other suppliers to be printed at the Company's plants, but has increased its internal production capability for jacquard greige goods. The acquisition of Rayonese in fiscal 1995 increased the Company's capacity to produce its own jacquard greige goods. Culp has installed additional airjet weaving machines at Rayonese to significantly increase its capacity for jacquard greige goods.

During the fourth quarter of fiscal 1997, the Company installed its first flock coating line to produce flock greige goods to be used primarily as the base cloth for wet and heat-transfer-printed flock products. Flock fabrics are produced by the application of very short nylon fibers onto a poly/cotton woven base fabric to create a velvet effect. During the flock coating process, the fibers are bonded onto the base fabric with an adhesive substance by utilizing an electrostatic charging procedure which causes the fibers to vertically align with the base fabric.

Tufted velvet fabrics are produced by tufting machines which insert an acrylic or polypropylene yarn through a polyester woven base fabric creating loop pile surface material which is then sheared to create a velvet surface. Tufted velvet fabrics are typically lower-cost fabrics utilized in the Company's lower-priced product mix.

The Company's printing operations include pigment and heat-transfer methods, as well as wet printing. The Company also produces its own printed heat-transfer paper, another component of vertical integration. Wet printing is the most recent addition to the Company's printing capabilities.

### Product Design and Styling

Consumer tastes and preferences related to upholstered furniture and bedding change, albeit gradually, over time. The use of new fabrics and designs remains an important consideration for manufacturers to distinguish their products at retail and to capitalize on even small changes in preferred colors, patterns and textures. Culp's success is largely dependent on the Company's ability to market fabrics with appealing designs and patterns. Culp has a staff of over 75 designers and support personnel involved in the design and development of new patterns and styles, including designers with experience in designing products for specific international markets. Culp uses computer aided design (CAD) systems in the development of new fabrics

## Edgar Filing: CULP INC - Form 10-K/A

which assists the Company in providing a very flexible design program. These systems have enabled the Company's designers to experiment with new ideas and involve customers more actively in the process. The use of CAD systems also has supported the Company's emphasis on integrating manufacturing considerations into the early phase of a new design. The completion of the Howard L. Dunn, Jr. design center in January 1998 has enabled most of the Company's designers to be located in the same facility to support the sharing of design ideas and CAD and other technologies. The design center has enhanced the Company's merchandising and marketing efforts by providing an environment in which customers can be shown new products as well as participate in product development initiatives.

The process of developing new designs involves maintaining an awareness of broad fashion and color trends both in the United States and internationally. These concepts are blended with input from the Company's customers to develop new fabric designs and styles. Most of these designs are introduced by Culp at major trade conferences that occur twice a year in the United States (January and July) and annually in several major international markets.

### Distribution

The majority of the Company's products are shipped directly from its distribution centers at or near manufacturing facilities. This "direct ship" program is primarily utilized by large manufacturers. Generally, small and medium-size residential furniture manufacturers use one of the Company's three regional distribution facilities which have been strategically positioned in areas which have a high concentration of residential furniture manufacturers - High Point, North Carolina, Los Angeles, California and Tupelo, Mississippi. In addition, the Company maintains an inventory of upholstery fabric at a warehouse in Grand Rapids, Michigan to supply large commercial furniture manufacturers in that area on a "just in time" basis. The Company closely monitors demand in each distribution territory to decide which patterns and styles to hold in inventory. These products are available on demand by customers and are usually shipped within 48 hours of receipt of an order. Substantially all of the Company's shipments of mattress ticking are made from its manufacturing facilities in Stokesdale, North Carolina and St. Jerome, Quebec, Canada.

In international markets, Culp sells primarily to distributors that maintain inventories of upholstery fabrics for resale to furniture manufacturers. The Company plans to explore the establishment of distribution facilities in certain areas outside the United States to support international sales.

### Sources and Availability of Raw Materials

Raw materials account for more than half of the Company's total production costs. The Company purchases various types of synthetic and natural yarns (polypropylene, polyester, acrylic, nylon, rayon and cotton), synthetic staple fibers (acrylic, rayon, polypropylene, polyester), various types of greige goods (poly/cotton wovens and flocks, polyester wovens, poly/rayon and poly/cotton jacquard wovens, polyester knits, poly/cotton sheeting and non-wovens), polypropylene resins, nylon flock fibers, rayon staple, latex adhesives, dyes and chemicals from a variety of suppliers. The Company has made a significant investment in becoming more vertically integrated and producing more of its jacquard greige goods, polypropylene yarns, package dyed yarns and printed heat-transfer paper internally. As a result, a larger portion of its raw materials are comprised of more basic commodities such as rayon staple, undyed yarns, polypropylene resin chips, certain polyester warp yarns, unprinted heat-transfer paper and unflocked

## Edgar Filing: CULP INC - Form 10-K/A

poly/cotton base fabric. Although the Company is dependent upon one supplier for all of its nylon flock fibers and upon one supplier of acrylic staple, most of the Company's raw materials are available from more than one primary source. The prices of such materials fluctuate depending upon current supply and demand conditions and the general rate of inflation. Many of the Company's basic raw materials are petrochemical products or are produced from such products, and therefore the Company's raw material costs are particularly sensitive to changes in petrochemical prices. Generally, the Company has not had significant difficulty in obtaining raw materials.

### Competition

In spite of the trend toward consolidation in the upholstery fabric market, the Company competes against a large number of producers, ranging from large manufacturers comparable in size to the Company to small producers and marketers of specialty fabrics. The Company believes its principal upholstery fabric competitors are the Burlington House Fabrics division of Burlington Industries, Inc., Joan Fabrics Corporation (including its Mastercraft division), Microfibres, Inc., and Quaker Fabric Corporation.

Conversely, the mattress ticking market is concentrated in a few relatively large suppliers. The Company believes its principal mattress ticking competitors are Bekaert Textiles B.V., Blumenthal Print Works, Inc., Burlington House Fabrics division of Burlington Industries, Inc. and Tietex, Inc. Although the Company is one of the largest suppliers of furniture upholstery fabrics and a leading supplier of mattress ticking to the bedding industry, some of the Company's competitors are larger overall and have greater financial resources than the Company. Competition for the Company's products is based primarily on price, design, quality, timing of delivery and service.

### Technology

Culp views the use of technology as a very important element in the Company's efforts to achieve higher levels of service to its customers and to produce and deliver its products in an efficient and cost-effective manner. Some of Culp's key initiatives in this area include:

- The Company has created a home page on the Internet ([www.Culpinc.com](http://www.Culpinc.com)). Through the Internet and the Culp home page, customers can use a system known as CulpLink to view their current order status, shipping and invoice information, and twelve months of sales history. The CulpLink system was developed internally by the Company's MIS department and provides superior communication with customers throughout the world.
- Culp has implemented significant upgrades to its design technology and has opened the state-of-the-art Howard L. Dunn, Jr. Design Center. The Company has used computer aided design (CAD) technology for many years, and recent upgrades in hardware and software in the CAD department have made the process of moving from design to a finished project both faster and simpler. The Company also has implemented an image archiving system that will allow electronic storage of all artwork and easy access to artwork for designers.
- Local Area Networks (LANs) have been installed at individual plants, and all of these are combined into one Wide Area Network (WAN), allowing easy information exchange among various Culp locations and communication with customers and suppliers through the Internet. Culp has installed fiber optic cable networks as the communication backbone throughout the Company, placing the Company in position to easily expand the user base and to take advantage of this faster data transfer

## Edgar Filing: CULP INC - Form 10-K/A

medium for potential future uses such as video conferencing and transferring large files like those required for digital images.

- The Company has recently completed the installation of new shop floor data collection systems to track inventory movement. This initiative includes the use of fixed laser scanners, hand-held radio frequency devices, and industrialized keyboards and display stations at key points throughout the manufacturing process to record the movement of goods through production and shipping. The Company makes extensive use of bar-coding to track products throughout its manufacturing and distribution systems, and the Company has recently installed new thermal transfer printers for high quality printing of bar-coded labels and work orders.

### Environmental and Other Regulations

The Company is subject to various federal and state laws and regulations, including the Occupational Safety and Health Act and federal and state environmental laws, as well as similar laws governing its Rayonese facility in Canada. The Company periodically reviews its compliance with such laws and regulations in an attempt to minimize the risk of material violations.

The Company's operations involve a variety of materials and processes that are subject to environmental regulation. Under current law, environmental liability can arise from previously owned properties, leased properties and properties owned by third parties, as well as from properties currently owned and leased by the Company. Environmental liabilities can also be asserted by adjacent landowners or other third parties in toxic tort litigation.

In addition, under the Comprehensive Environmental Response, Compensation, and Liability Act of 1980, as amended ("CERCLA"), and analogous state statutes, liability can be imposed for the disposal of waste at sites targeted for cleanup by federal and state regulatory authorities. Liability under CERCLA is strict as well as joint and several. The Company has accrued reserves for environmental matters based on information presently available. Based on this information and the Company's established reserves, the Company does not believe that environmental matters will have a material adverse effect on either the Company's financial condition or results of operations. However, there can be no assurance that the costs associated with environmental matters will not increase in the future.

### Employees

As of April 30, 2000, the Company had approximately 3,800 employees. All of the hourly employees at the Company's facility in West Hazleton, Pennsylvania and all of the hourly employees at the Rayonese facility in Canada (approximately 14% of the Company's workforce) are represented by a union. The collective bargaining agreement with respect to the hourly employees at the Pennsylvania plant expires in December 2002, while the collective bargaining agreement with respect to the Rayonese hourly employees expires in February 2002. The Company is not aware of any efforts to organize any more of its employees and believes its relations with its employees are good.

### Customers and Sales

Culp's size, broad product line, diverse manufacturing base and effective distribution system enable it to market products to over 2,000 customers. Major customers are leading manufacturers of upholstered furniture, including Bassett, Furniture Brands International (Broyhill, Thomasville and Lane), Lifestyles International (Berklene, Universal,

## Edgar Filing: CULP INC - Form 10-K/A

Benchcraft, Drexel, Henredon and others), Flexsteel and La-Z-Boy (Bauhaus, England/Corsair, LADD Furniture and others). Representative customers for the Company's fabrics for commercial furniture include Herman Miller, HON Industries and Steelcase. In the mattress ticking area, Culp's customer base includes leading bedding manufacturers such as Sealy, Serta, Simmons and Spring Air. Culp's customers also include many small and medium-size furniture and bedding manufacturers. In international markets, Culp sells upholstery fabrics primarily to distributors that maintain inventories for resale to furniture manufacturers.

The following table sets forth the Company's net sales by geographic area by amount and percentage of total net sales for the three most recent fiscal years.

| Net Sales by Geographic Area<br>(dollars in thousands) |             |        |             |        |             |        |
|--|-------------|--------|-------------|--------|-------------|--------|
|  | Fiscal 2000 |        | Fiscal 1999 |        | Fiscal 1998 |        |
|  | -----       |        | -----       |        | -----       |        |
| United States  | \$376,975   | 77.2%  | \$369,730   | 76.5%  | \$339,492   | 71.2%  |
| North America<br>(excluding U.S.)                      | 36,032      | 7.4    | 31,102      | 6.5    | 31,160      | 6.5    |
| Europe   | 16,351      | 3.4    | 19,578      | 4.1    | 30,775      | 6.5    |
| Middle East  | 32,929      | 6.7    | 33,996      | 7.0    | 34,412      | 7.2    |
| Asia and Pacific Rim                                   | 19,102      | 3.9    | 21,371      | 4.4    | 32,344      | 6.8    |
| South America  | 2,343       | 0.5    | 3,484       | 0.7    | 5,158       | 1.1    |
| All other areas  | 4,347       | 0.9    | 3,823       | 0.8    | 3,374       | 0.7    |
|  | -----       | -----  | -----       | -----  | -----       | -----  |
| Subtotal   | 111,104     | 22.8   | 113,354     | 23.5   | 137,223     | 28.8   |
| Total  | \$488,079   | 100.0% | \$483,084   | 100.0% | \$476,715   | 100.0% |
|  | =====       | =====  | =====       | =====  | =====       | =====  |

### Backlog

Because a large portion of the Company's customers have an opportunity to cancel orders, it is difficult to predict the amount of the backlog that is "firm." Many customers may cancel orders before goods are placed into production, and some may cancel at a later time. In addition, the Company markets a significant portion of its sales through its Regional Warehouse System from in-stock order positions. On April 30, 2000, the portion of the backlog with confirmed shipping dates prior to June 4, 2000 was \$39.1 million, and on May 2, 1999, the portion of the backlog with confirmed shipping dates prior to June 6, 1999 was \$38.6 million.

## ITEM 2. PROPERTIES

The Company's headquarters are located in High Point, North Carolina, and the Company currently operates sixteen (16) manufacturing facilities and three (3) regional distribution facilities. The following is a summary of the Company's principal administrative, manufacturing and distribution facilities. The manufacturing facilities are organized by segment.

| Location | Principal Use | Approx.<br>Total Area<br>(Sq. Ft.) | Expiration<br>of Lease (2) |
|----------|---------------|------------------------------------|----------------------------|
| -----    | -----         | -----                              | -----                      |
|          |               |                                    |                            |

## Edgar Filing: CULP INC - Form 10-K/A

### Headquarters and Distribution

#### Centers: (1)

|                            |                        |        |       |
|----------------------------|------------------------|--------|-------|
| High Point, North Carolina | Corporate headquarters | 40,000 | 2015  |
| Burlington, North Carolina | Design Center          | 30,000 | Owned |
| Los Angeles, California    | Regional distribution  | 33,000 | 2007  |

#### Upholstery Fabrics:

|                             |                                 |         |       |
|-----------------------------|---------------------------------|---------|-------|
| Graham, North Carolina      | Manufacturing                   | 341,000 | Owned |
| Burlington, North Carolina  | Manufacturing and distribution  | 302,000 | Owned |
| Pageland, South Carolina    | Manufacturing                   | 96,000  | Owned |
| Burlington, North Carolina  | Distribution and Yarn Warehouse | 112,500 | Owned |
| Chattanooga, Tennessee      | Manufacturing and distribution  | 290,000 | 2018  |
| West Hazleton, Pennsylvania | Manufacturing                   | 110,000 | 2013  |
| West Hazleton, Pennsylvania | Manufacturing and distribution  | 100,000 | 2008  |
| Monroe, North Carolina      | Manufacturing                   | 70,000  | 2004  |
| Burlington, North Carolina  | Manufacturing and distribution  | 275,000 | 2021  |
| Lumberton, North Carolina   | Manufacturing                   | 107,000 | Owned |
| Anderson, South Carolina    | Manufacturing                   | 99,000  | Owned |
| High Point, North Carolina  | Regional distribution           | 65,000  | 2008  |
| Tupelo, Mississippi         | Regional distribution           | 57,000  | 2018  |
| Shelby, North Carolina      | Manufacturing                   | 101,000 | Owned |
| Lincolnton, North Carolina  | Manufacturing                   | 78,000  | Owned |
| Cherryville, North Carolina | Manufacturing                   | 135,000 | Owned |
| Wetumpka, Alabama           | Manufacturing                   | 145,000 | Owned |

#### Mattress Ticking:

|                            |                                |         |       |
|----------------------------|--------------------------------|---------|-------|
| Stokesdale, North Carolina | Manufacturing and distribution | 220,000 | Owned |
| St. Jerome, Quebec, Canada | Manufacturing and distribution | 202,000 | Owned |

---

(1) Properties are used jointly by Upholstery Fabrics and Mattress Ticking

(2) Includes all options to renew

### ITEM 3. LEGAL PROCEEDINGS

There are no legal proceedings to which the Company, or its subsidiaries, is a party or of which any of their property is the subject that are required to be disclosed under this item.

### ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

There were no matters submitted to a vote of shareholders during the fourth quarter ended April 30, 2000.

## PART II

### ITEM 5. MARKET FOR THE REGISTRANT'S COMMON STOCK AND RELATED STOCKHOLDER MATTERS

Registrar and Transfer Agent  
EquiServe  
150 Royall Street  
Canton, MA 02021  
(781) 575-3951



## Edgar Filing: CULP INC - Form 10-K/A

Written shareholder correspondence and transfers should be sent to:  
 EquiServe  
 P.O. Box 8217  
 Boston, MA 02266-8217

### Stock Listing

Culp, Inc. common stock is traded on the New York Stock Exchange under the symbol CFI. As of April 30, 2000, Culp, Inc. had approximately 2,500 shareholders based on the number of holders of record and an estimate of individual participants represented by security position listings.

### Analyst Coverage

These analysts cover Culp, Inc.:

First Union Capital Markets - John Baugh, CFA  
 C.L. King & Associates - Tom Lewis  
 Raymond, James & Associates - Budd Bugatch, CFA  
 Wachovia Securities, Inc. - Kay Norwood, CFA  
 Value Line - Noah Goldner

See Item 6, Selected Financial Data, for market and dividend information regarding the Company's common stock.

-17-

### ITEM 6. SELECTED FINANCIAL DATA (SELECTED ANNUAL DATA)

| (amounts in thousands,<br>except per share amounts)       | fiscal<br>2000<br>(restated) | fiscal<br>1999<br>(restated) | fiscal<br>1998<br>(restated) | fiscal<br>1997 | fiscal<br>1996 | percent<br>change<br>2000/199<br>(restate |
|---|------------------------------|------------------------------|------------------------------|----------------|----------------|---|
| <b>INCOME STATEMENT DATA (5)</b>                          |                              |                              |                              |                |                |   |
| net sales   | \$488,079                    | 483,084                      | 476,715                      | 398,879        | 351,667        | 1.0%                                      |
| cost of sales   | 403,414                      | 406,976                      | 393,154                      | 326,394        | 289,129        | (0.9)                                     |
| gross profit  | 84,665                       | 76,108                       | 83,561                       | 72,485         | 62,538         | 11.2                                      |
| S G & A expenses  | 59,935                       | 59,968                       | 52,987                       | 45,058         | 39,068         | (0.1)                                     |
| income from operations                                    | 24,730                       | 16,140                       | 30,574                       | 27,427         | 23,470         | 53.2                                      |
| interest expense  | 9,521                        | 9,615                        | 7,117                        | 4,671          | 5,316          | (1.0)                                     |
| interest income   | (51)                         | (195)                        | (304)                        | (280)          | (92)           | (73.8)                                    |
| other expense (6)   | 1,566                        | 1,864                        | 1,358                        | 1,521          | 956            | (16.0)                                    |
| income before income taxes (6)                            | 13,694                       | 4,856                        | 22,403                       | 21,515         | 17,290         | 182.0                                     |
| income taxes  | 4,314                        | 1,206                        | 6,336                        | 7,745          | 6,310          | 257.7                                     |
| net income (6)  | 9,380                        | 3,650                        | 16,067                       | 13,770         | 10,980         | 157.0                                     |
| EBITDA (3) (6)  | \$44,222                     | 34,395                       | 45,395                       | 39,404         | 35,610         | 28.6                                      |
| depreciation  | 19,462                       | 18,549                       | 14,808                       | 12,688         | 12,348         | 4.9                                       |
| cash dividends  | 1,611                        | 1,788                        | 1,786                        | 1,513          | 1,236          | (9.9)                                     |
| weighted average shares outstanding                       | 11,580                       | 12,909                       | 12,744                       | 11,624         | 11,234         | (10.3)                                    |
| weighted average shares outstanding,<br>assuming dilution | 11,681                       | 13,064                       | 13,042                       | 11,929         | 11,886         | (10.6)                                    |
| <b>PER SHARE DATA (5)</b>                                 |                              |                              |                              |                |                |   |
| net income (6)  | \$ 0.81                      | 0.28                         | 1.26                         | 1.18           | 0.98           | 189.3%                                    |
| net income, assuming dilution (6)                         | 0.80                         | 0.28                         | 1.23                         | 1.15           | 0.94           | 185.7                                     |

Edgar Filing: CULP INC - Form 10-K/A

|  |          |         |         |         |         |       |
|--|----------|---------|---------|---------|---------|-------|
| cash dividends                             | 0.14     | 0.14    | 0.14    | 0.13    | 0.11    | 0.0   |
| book value (6)                             | 11.57    | 10.63   | 10.15   | 8.79    | 7.21    | 8.8   |
| <hr/>                                      |          |         |         |         |         |       |
| BALANCE SHEET DATA (5)                     |          |         |         |         |         |       |
| working capital                            | \$99,977 | 99,324  | 102,730 | 69,777  | 56,953  | 0.7%  |
| property, plant and equipment, net         | 126,407  | 123,310 | 128,805 | 91,231  | 76,961  | 2.5   |
| total assets (6)                           | 343,980  | 331,714 | 355,369 | 243,952 | 211,644 | 3.7   |
| capital expenditures                       | 22,559   | 10,689  | 35,879  | 26,958  | 14,385  | 111.0 |
| businesses acquired                        | 0        | 0       | 58,816  | 0       | 0       | 0.0   |
| long-term debt                             | 135,808  | 140,312 | 152,312 | 76,541  | 74,941  | (3.2) |
| funded debt (1)                            | 137,486  | 138,650 | 151,616 | 65,623  | 76,791  | (0.8) |
| shareholders' equity (6)                   | 129,640  | 128,428 | 132,073 | 110,789 | 81,446  | 0.9   |
| capital employed (4) (6)                   | 267,126  | 267,078 | 283,689 | 176,412 | 158,237 | 0.0   |
| <hr/>                                      |          |         |         |         |         |       |
| RATIOS & OTHER DATA (5)                    |          |         |         |         |         |       |
| gross profit margin                        | 17.3%    | 15.8%   | 17.5%   | 18.2%   | 17.8%   |       |
| operating income margin                    | 5.1      | 3.3     | 6.4     | 6.9     | 6.7     |       |
| net income margin (6)                      | 1.9      | 0.8     | 3.4     | 3.5     | 3.1     |       |
| EBITDA margin (6)                          | 9.1      | 7.1     | 9.5     | 9.9     | 10.1    |       |
| effective income tax rate (6)              | 31.5     | 24.8    | 28.3    | 36.0    | 36.5    |       |
| funded debt-to-total capital ratio (1) (6) | 51.5     | 51.9    | 53.4    | 37.2    | 48.5    |       |
| return on average total capital (6)        | 6.0      | 3.6     | 8.6     | 10.1    | 9.5     |       |
| return on average equity (6)               | 7.3      | 2.8     | 13.5    | 15.2    | 14.4    |       |
| working capital turnover                   | 4.4      | 4.3     | 4.7     | 5.3     | 5.3     |       |
| days sales in receivables                  | 49       | 49      | 49      | 49      | 46      |       |
| inventory turnover                         | 5.4      | 5.6     | 5.8     | 6.4     | 6.0     |       |
| <hr/>                                      |          |         |         |         |         |       |
| STOCK DATA                                 |          |         |         |         |         |       |
| stock price                                |          |         |         |         |         |       |
| high                                       | \$11.06  | 19.13   | 22.19   | 19.63   | 13.25   |       |
| low  | 5.00     | 5.13    | 16.50   | 11.50   | 7.75    |       |
| close                                      | 5.81     | 8.25    | 18.88   | 16.63   | 13.00   |       |
| P/E ratio (2)                              |          |         |         |         |         |       |
| high (6)                                   | 13.7     | 67.6    | 17.6    | 16.6    | 13.5    |       |
| low (6)                                    | 6.2      | 18.1    | 13.1    | 9.7     | 7.9     |       |
| daily average trading volume (shares)      | 15.8     | 30.4    | 16.0    | 19.7    | 19.3    |       |

- (1) Funded debt includes long- and short-term debt, less restricted investments.  
(2) P/E ratios based on trailing 12-month net income per share.  
(3) EBITDA represents earnings before interest, income taxes, depreciation and amortization.  
(4) Capital employed includes funded debt and shareholders' equity.  
(5) Phillips, Wetumpka and Artee included in consolidated results from their August 5, 1997, December 30, 1997 and February 2, 1998 acquisitions by Culp, respectively.  
(6) As restated (see note 17 to the consolidated financial statements)

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following analysis of the financial condition and results of operations should be read in conjunction with the Financial Statements and Notes thereto. As discussed in Note 17 to the Consolidated Financial Statements, the company has restated its previously issued 2000, 1999 and 1998 Consolidated Financial Statements. As a result, certain disclosures in item 7 (Management's Discussion and Analysis of Financial Condition and Results of Operations) have been restated as well.

Overview

## Edgar Filing: CULP INC - Form 10-K/A

Culp is one of the largest integrated marketers in the world for upholstery fabrics for furniture and is one of the leading global producers of mattress fabrics (ticking). The company's fabrics are used primarily in the production of residential and commercial upholstered furniture and bedding products, including sofas, recliners, chairs, love seats, sectionals, sofa-beds, office seating and mattress sets. Although Culp markets fabrics at most price levels, the company emphasizes fabrics that have broad appeal in the promotional and popular-priced categories of furniture and bedding.

Culp's worldwide leadership as a marketer of upholstery fabrics and mattress ticking has been achieved through internal expansion and the integration of strategic acquisitions.

The company's operating segments are upholstery fabrics and mattress ticking, with related divisions organized within those segments. In upholstery fabrics, Culp Decorative Fabrics markets jacquard and dobby woven fabrics for residential and commercial furniture. Culp Velvets/Prints markets a broad range of printed and velvet fabrics used primarily for residential and juvenile furniture. Culp Yarn manufactures specialty filling yarn that is used by Culp and also marketed to outside customers. In mattress ticking, Culp Home Fashions markets a broad array of fabrics used by bedding manufacturers.

### Results of Operations

The following table sets forth certain items in the company's consolidated statements of income as a percentage of net sales.

|  | 2000   | (2) 1999 | (2) 1998 |
|--|--------|----------|----------|
|  | -----  | -----    | -----    |
| Net sales                                    | 100.0% | 100.0%   | 100.0%   |
| Cost of sales                                | 82.7   | 84.2     | 82.5     |
|  | -----  | -----    | -----    |
| Gross profit                                 | 17.3   | 15.8     | 17.5     |
| Selling, general and administrative expenses | 12.3   | 12.4     | 11.1     |
|  | -----  | -----    | -----    |
| Income from operations                       | 5.1    | 3.3      | 6.4      |
| Interest expense                             | 2.0    | 2.0      | 1.5      |
| Interest income                              | (0.0)  | (0.0)    | (0.1)    |
| Other expense                                | 0.3    | 0.4      | 0.3      |
|  | -----  | -----    | -----    |
| Income before income taxes                   | 2.8    | 1.0      | 4.7      |
| Income taxes (1)                             | 31.5   | 24.8     | 28.3     |
| Net income                                   | 1.9%   | 0.8%     | 3.4%     |
|  | =====  | =====    | =====    |

(1) Calculated as a percent of income before income taxes.

(2) As restated (see note 17 to the consolidated financial statements)

The following table sets forth the company's sales by segment and division for each of the company's three most recent years. The table sets forth the change in net sales for the segments and divisions as a percentage for comparative periods included in the table.

| (dollars in thousands)     | Amounts   |           |           | Percent change |        |
|----------------------------|-----------|-----------|-----------|----------------|--------|
|                            | 2000      | 1999      | 1998      | 1999-          | 1998-  |
| segment/division           | -----     | -----     | -----     | 2000           | 1999   |
| <b>Upholstery Fabrics:</b> |           |           |           |                |        |
| Culp Decorative Fabrics    | \$213,197 | \$222,058 | \$210,165 | (4.0)%         | 5.7%   |
| Culp Velvets/Prints        | 151,543   | 144,073   | 171,389   | 5.2            | (15.9) |
| Culp Yarn                  | 17,570    | 21,513    | 7,876     | (18.3)         | 173.1  |
|                            | -----     | -----     | -----     | -----          | -----  |
|                            | 382,310   | 387,644   | 389,430   | (1.4)          | (0.5)  |
| <b>Mattress Ticking:</b>   |           |           |           |                |        |

## Edgar Filing: CULP INC - Form 10-K/A

|                    |           |           |           |       |       |
|--------------------|-----------|-----------|-----------|-------|-------|
| Culp Home Fashions | 105,769   | 95,440    | 87,285    | 10.8  | 9.3   |
|                    | -----     | -----     | -----     | ----- | ----- |
|                    | \$488,079 | \$483,084 | \$476,715 | 1.0%  | 1.3%  |
|                    | -----     | -----     | -----     | ----- | ----- |

2000 Compared with 1999

Net Sales. Net sales for 2000 increased by \$5.0 million, or 1.0%, compared with 1999. The company's sales of upholstery fabrics decreased 1.4% to \$382.3 million and mattress ticking sales increased 10.8% to \$105.8 million. This was the first full year in which the company operated with its current structure of four divisions. This corporate organization, which evolved from one in which there were six business units, groups related operations together; and its adoption in 1999 was accompanied by several changes in managerial positions. The company believes that this new structure is yielding a number of benefits including improved customer service, more effective use of design resources and increased manufacturing efficiency. Culp believes that these factors aided its total net sales to U.S.-based accounts for 2000, which rose 2.0% for the year.

This growth was offset by a decline of 2.0% in international sales. After several years of above-average growth, Culp's international sales declined 17.4% in 1999, following an industry-wide trend. The company took steps to mitigate the impact of this trend by significantly curtailing production schedules for certain international-targeted fabrics, introducing a new line of printed cotton upholstery fabrics, and shifting its marketing focus to geographic areas where demand appeared more favorable. The company believes that the significantly smaller decline in international sales for 2000 reflects the results of these actions. The company has a diversified global base of customers and is seeking to broaden that further to minimize exposure to economic uncertainties in any geographic area.

The increased sales by Culp Home Fashions (primarily mattress ticking) during 2000 marked a continuation of the longer-term expansion that this division has experienced. The introduction of new designs and fabric constructions, and the advantages of the company's vertical integration, are driving Culp's growth in mattress ticking. In particular, the ability to manufacture the jacquard greige (unfinished) goods that are then printed to produce mattress ticking has aided Culp in meeting faster delivery schedules reliably and providing improved overall customer service.

Since the close of fiscal 2000, the company has experienced weakening demand for its products. The company believes the trends toward higher interest rates and the strength of the U.S. dollar against other currencies are factors contributing to this slowdown and will present a continuing challenge for fiscal 2001.

Gross Profit and Cost of Sales. Gross profit for 2000 increased 11.2% to \$84.7 million and increased as a percentage of net sales from 15.8% to 17.3%. The company has taken a number of actions to increase gross profit, including a shift of its production capacity toward more profitable fabric categories and substantial steps to reduce operating expenses and raise productivity.

Selling, General and Administrative Expenses. Selling, general and administrative expenses for 2000 decreased 0.1% and accounted for 12.3% of sales versus 12.4% in the prior year. The company has increased its resources for the design of new fabrics and for enhanced information systems.

Interest Expense. Net interest expense of \$9.5 million for 2000 compared with \$9.4 million in the prior year. Although the company generally had lower average borrowings during 2000, the reduced debt was offset by lower capitalized interest related to capital expenditures and higher average

## Edgar Filing: CULP INC - Form 10-K/A

interest rates.

Other Expense (restated). Other expense for 2000 totaled \$1.6 million compared with \$1.9 million in the prior year. The decrease is principally due to lower losses on disposal of fixed assets.

Income Taxes. The effective tax rate for 2000 was 31.5% compared with 24.8% in the prior year. The lower rates for 2000 and 1999 as compared with the federal statutory rate of 35% are due principally to tax benefits related to the company's international sales, on non-taxable gains related to life insurance contracts and to a higher proportion of earnings from the company's Canadian subsidiary that is taxed at a lower effective rate. The company expects the effective tax rate for 2001 to be approximately 34%.

Net Income Per Share (restated). Diluted net income per share for 2000 totaled \$0.80 compared with \$0.28 a year ago.

### 1999 Compared with 1998

Net Sales. Net sales for 1999 increased by \$6.4 million, or 1.3%, compared with 1998. The company's sales of upholstery fabrics decreased \$1.8 million, or 0.5% for 1999 compared with 1998. However, fiscal 1999 includes an incremental contribution of \$13.6 million from Culp Yarn (formerly Artee Industries), which was acquired on February 2, 1998. Excluding the incremental sales from Culp Yarn, sales of upholstery fabrics decreased \$15.4 million, or 4.0% for 1999 compared with 1998. The principal factor contributing to the lower sales was a pronounced slowdown in international sales of wet print and heat-transfer printed flock fabrics. This trend, which the company believes also affected other manufacturers of upholstery fabrics, became apparent after the close of 1998 and persisted throughout 1999. A large percentage of the company's sales of this product line were being shipped directly or indirectly to customers in the emerging consumer markets of Russia, other former Soviet countries and Eastern Europe. All of these areas encountered very weak economic conditions that, in turn, adversely affected demand for furniture and other home furnishings. During 1999, the company significantly curtailed production schedules for these fabrics and shifted its marketing focus for this product category to geographic areas where demand appears more favorable. The company also introduced a line of printed cotton upholstery fabrics utilizing some of the same manufacturing assets used to produce wet print and heat-transfer printed flock fabrics.

International sales, consisting primarily of upholstery fabrics, decreased to \$113.4 million, down 17.4% from 1998. International shipments accounted for 23.5% of the company's sales for 1999, down from 28.8% in 1998. The company continued to experience sluggish demand in some international markets during 1999, but broadened its marketing program in other geographic areas.

The increased sales by Culp Home Fashions (primarily mattress ticking) during 1999 were a continuation of the longer-term expansion that this division has experienced, which management believes is attributable to the same factors discussed above in the comparison of 2000 to 1999.

Gross Profit and Cost of Sales. Gross profit for 1999 decreased 8.9% to \$76.1 million. The decline was due principally to a sharp decline in international sales. Although the company took substantial steps to reduce operating expenses, it continued to be affected throughout 1999 by excess manufacturing capacity and lower absorption of fixed costs.

## Edgar Filing: CULP INC - Form 10-K/A

To help offset the pressure on gross margins, the company instituted a number of actions during 1999. A major change involved reorganization from six to four divisions during the first quarter. This new corporate alignment brought related operations together under common management and was accompanied by several changes in managerial positions. Subsequent steps to improve profitability that are related to this realignment included a significant reduction in the capacity for manufacturing printed flock fabrics, comprehensive programs to reduce inventories and an intense effort to reduce operating expenses and raise productivity. The cost of raw materials remained relatively stable in 1999.

**Selling, General and Administrative Expenses.** Selling, general and administrative expenses increased as a percentage of net sales for 1999 to 12.4% compared with 11.1% in 1998. The increase principally related to lower than expected sales for the year, higher marketing costs for new fabric designs, incremental costs from the Artee acquisition and increased costs for credit expenses, partially offset by lower accruals for incentive-based compensation plans.

**Interest Expense.** Net interest expense for 1999 of \$9.4 million rose 38.3% from \$6.8 million in 1998 due to higher average borrowings outstanding. The increased borrowings related principally to borrowings used to fund acquisitions during 1998 and the relatively high level of capital expenditures in 1998.

**Other Expense (restated).** Other expense increased 37.3% to \$1.9 million for 1999 compared with \$1.4 million for 1998, due primarily to the incremental goodwill amortization related to acquired operations in fiscal 1998 and losses on disposal of fixed assets.

**Income Taxes.** The effective tax rate for 1999 was 24.8% compared with 28.3% in 1998. The lower rates for 1999 and 1998 as compared with the federal statutory rate of 35% are due principally to tax benefits related to the company's international sales, on non-taxable gains related to life insurance contracts and to a higher proportion of earnings from the company's Canadian subsidiary that is taxed at a lower effective rate.

**Net Income Per Share (restated).** Diluted net income per share for 1999 totaled \$0.28 compared with \$1.23 a year ago.

### Liquidity and Capital Resources

**Liquidity.** Cash and cash investments were \$1.0 million as of April 30, 2000 compared with \$509,000 at the end of 1999. Funded debt (long-term debt, including current maturities, less restricted investments) amounted to \$137.5 million at the close of 2000 versus \$138.7 million at the end of 1999. As a percentage of total capital (funded debt plus total shareholders' equity), the company's borrowings amounted to 51.5% as of April 30, 2000 compared with 51.9% at the end of 1999. The company's working capital as of April 30, 2000 was \$100.0 million compared with \$99.3 million at the close of 1999.

The company's cash flow from operations was \$21.8 million for 2000, consisting of \$32.6 million from earnings (net income plus depreciation, amortization and deferred income taxes) offset by \$10.8 million from changes in working capital.

In separate authorizations in June 1998, March 1999, September 1999 and December 1999, the board of directors of the company authorized the use of a total of \$20.0 million to repurchase the company's common stock. Over the past two fiscal years, the company has invested \$12.2 million to repurchase a total of 1.8 million shares. This includes the repurchase during fiscal 2000

## Edgar Filing: CULP INC - Form 10-K/A

of 884,264 shares at an average price of \$7.50 per share under these authorizations.

**Financing Arrangements.** Culp has \$75 million of senior unsecured notes with a fixed coupon rate of 6.76% and an average remaining term of eight years.

Culp has an \$88 million syndicated, unsecured, multi-currency revolving credit facility. The facility, which expires in April 2002, requires quarterly payments of interest on all outstanding borrowings and a quarterly facility fee paid in advance. In April 2000, the company amended the credit facility to amend certain covenants. Additionally, the amendment increased the interest rate from LIBOR plus 0.55% to LIBOR plus 0.80% to 0.90%. The specified pricing matrix will be in effect for fiscal 2001 and is based on the company's debt to EBITDA and interest and leases coverage ratios, as defined by the facility. As of April 30, 2000, the company had outstanding balances of \$25 million under the credit facility.

The company also has a total of \$32.5 million in currently outstanding industrial revenue bonds ("IRBs") which have been used to finance capital expenditures. The IRBs bear interest at variable rates of approximately 71% of the prime rate (prime at April 30, 2000 was 9.0%). The IRBs are collateralized by letters of credit for the outstanding balance of the IRBs and certain interest payments due thereunder.

The company's loan agreements require, among other things, that the company maintain compliance with certain financial ratios. As of April 30, 2000, the company was in compliance with these financial covenants.

As of April 30, 2000, the company had two interest rate swap agreements to reduce its exposure to floating interest rates on a \$10 million notional amount. The effect of these contracts is to "fix" the interest rate payable on \$10 million of the company's variable rate borrowings at a weighted average rate of 6.8%. The company also enters into foreign exchange forward and option contracts to hedge against currency fluctuations with respect to firm commitments to purchase certain machinery, equipment and raw materials.

**Capital Expenditures.** The company maintains an ongoing program of capital expenditures designed to increase capacity as needed, enhance manufacturing efficiencies through modernization and increase the company's vertical integration. Capital expenditures totaled \$22.6 million for 2000 compared with \$10.7 million for 1999. The company anticipates capital spending of approximately \$16 million in 2001.

The company believes that cash flows from operations and funds available under existing credit facilities will be sufficient to fund capital expenditures and working capital requirements for the foreseeable future.

### Inflation

The cost of the company's raw materials remained generally stable during 2000 and 1999. Factors that reasonably can be expected to influence margins in the future include changes in raw material prices, trends in other operating costs and overall competitive conditions.

### Seasonality

The company's business is slightly seasonal, with increased sales during the second and fourth fiscal quarters. This seasonality results from one-week closings of the company's manufacturing facilities, and the facilities of most of its customers in the United States, during the first and third quarters for the holiday weeks including July 4th and Christmas.

## Edgar Filing: CULP INC - Form 10-K/A

### New Accounting Pronouncements

In June 1998, the Financial Accounting Standards Board issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." As amended, this new standard is effective for fiscal years beginning after June 15, 2000, which will be effective for the company's fiscal year 2002. This statement establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. The company has not determined the financial impact of adopting this SFAS and has not determined if it will adopt its provisions prior to its effective date.

### Forward-Looking Information

The company's annual report on Form 10-K contains 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. Such statements are inherently subject to risks and uncertainties. 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 characterized by qualifying words such as "expect," "believe," "estimate," "plan," and "project" and their derivatives. 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. Because of the significant percentage of the company's sales derived from international shipments, 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. Additionally, economic and political instability in international areas could affect the demand for the company's products.

#### ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company is exposed to market risk from changes in interest rates on debt and foreign currency exchange rates. See additional disclosures about interest rate swap agreements in the Management's Discussion and Analysis of Financial Condition and Results of Operations in item 7 above. The Company's market risk sensitive instruments are not entered into for trading purposes. The Company has not experienced any significant changes in market risk since April 30, 2000.

The Company's exposure to interest rate risk consists of floating rate debt based on the London Interbank Offered Rate plus an adjustable margin under the Company's revolving credit agreement and variable rate debt in connection with the industrial revenue bonds. To lower or limit overall borrowing costs, the Company enters into interest rate swap agreements to modify the interest characteristics of portions of its outstanding debt. The agreements entitle the Company to receive or pay to the counterparty (a major bank), on a quarterly basis, the amounts, if any, by which the Company's interest payments covered by swap agreements differ from those of the counterparty. These amounts are recorded as adjustments to interest expense. The fair value of the swap agreements and changes in fair value resulting from changes in market interest rates are not recognized in the consolidated financial statements. The annual impact on the Company's



## Edgar Filing: CULP INC - Form 10-K/A

results of operations of a 100 basis point interest rate change on the April 30, 2000 outstanding balance of the variable rate debt would be approximately \$560,000 irrespective of any swaps associated with this debt.

The Company's exposure to fluctuations in foreign currency exchange rates is due primarily to a foreign subsidiary domiciled in Canada and purchases of certain machinery, equipment and raw materials in foreign currencies. The Company's Canadian subsidiary uses the United States dollar as its functional currency. The Company generally does not use financial derivative instruments to hedge foreign currency exchange rate risks associated with the Canadian subsidiary. However, the Company generally enters into foreign exchange forward and option contracts as a hedge against its exposure to currency fluctuations on firm commitments to purchase certain machinery, equipment and raw materials. The Canadian subsidiary is not material to the Company's consolidated results of operations; therefore, the impact of a 10% change in the exchange rate at April 30, 2000 would not have a significant impact on the Company's results of operations or financial position. In addition, the Company had approximately \$4.8 million of outstanding foreign exchange forward contracts as of April 30, 2000. As a result, any change in exchange rates would not have a significant impact on the Company's results of operations or financial position as the foreign exchange forward contracts have "fixed" the exchange rate.

### ITEM 8. CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

#### Management's Statement of Responsibility

The management of Culp, Inc. is responsible for the accuracy and consistency of all the information contained in this annual report on Form 10-K, including the financial statements. These statements have been prepared to conform with accounting principles generally accepted in the United States of America. The preparation of financial statements and related data involves estimates and the use of judgment.

Culp, Inc. maintains internal accounting controls designed to provide reasonable assurance that the financial records are accurate, that the assets of the company are safeguarded, and that the financial statements present fairly the financial position and results of operations of the Company.

KPMG LLP, the Company's independent auditors, conducts an audit in accordance with auditing standards generally accepted in the United States of America and provides an opinion on the financial statements prepared by management. Their report for 2000 is presented below.

The Audit Committee of the Board of Directors reviews the scope of the audit and the findings of the independent auditors. The internal auditor and the independent auditors meet with the Audit Committee to discuss audit and financial reporting issues. The Committee also reviews the company's principal accounting policies, significant internal accounting controls, the Annual Report and annual SEC filings (Form 10-K and Proxy Statement).

Robert G. Culp, III  
Chairman and Chief Executive Officer  
May 31, 2000 except for note 17, as to  
which the date is February 19, 2001

Phillip W. Wilson  
Vice President and  
Chief Financial Officer  
May 31, 2000 except for note 17, as to  
which the date is February 19, 2001

REPORT OF INDEPENDENT AUDITORS

## Edgar Filing: CULP INC - Form 10-K/A

To the Board of Directors and Shareholders of Culp, Inc.:

We have audited the accompanying consolidated balance sheets of Culp, Inc. and subsidiary as of April 30, 2000 and May 2, 1999 (as restated), and the related consolidated statements of income, shareholders' equity, and cash flows for each of the years in the three-year period ended April 30, 2000 (as restated for the years ended May 2, 1999 and May 3, 1998). These consolidated financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Culp, Inc. and subsidiary as of April 30, 2000 and May 2, 1999, and the results of their operations and their cash flows for each of the years in the three-year period ended April 30, 2000, in conformity with accounting principles generally accepted in the United States of America.

As discussed in note 17 to the consolidated financial statements, the company has restated its previously issued 2000, 1999 and 1998 consolidated financial statements.

KPMG LLP  
 Charlotte, North Carolina  
 May 31, 2000 except for note 17, as  
 to which the date is February 19, 2001

### CONSOLIDATED BALANCE SHEETS

| April 30, 2000 and May 2, 1999 (dollars in thousands,<br>except share data) | 2000<br>(restated) | 1999<br>(restated) |
|---|--------------------|--------------------|
| <hr style="border-top: 1px dashed black;"/>                                 |                    |                    |
| ASSETS  |                    |                    |
| current assets:   |                    |                    |
| cash and cash investments   | \$ 1,007           | 509                |
| accounts receivable   | 75,223             | 70,503             |
| inventories   | 74,471             | 67,070             |
| other current assets  | 10,349             | 9,633              |
| <hr style="border-top: 1px dashed black;"/>                                 |                    |                    |
| total current assets  | 161,050            | 147,715            |
| restricted investments  | 0                  | 3,340              |
| property, plant and equipment, net  | 126,407            | 123,310            |
| goodwill  | 49,873             | 51,269             |
| other assets  | 6,650              | 6,080              |
| <hr style="border-top: 1px dashed black;"/>                                 |                    |                    |

Edgar Filing: CULP INC - Form 10-K/A

|  |           |         |
|--|-----------|---------|
| total assets   | \$343,980 | 331,714 |
| -----  |           |         |
| LIABILITIES AND SHAREHOLDERS' EQUITY   |           |         |
| current liabilities:   |           |         |
| current maturities of long-term debt   | \$ 1,678  | 1,678   |
| accounts payable   | 37,287    | 25,687  |
| accrued expenses   | 22,108    | 21,026  |
| -----  |           |         |
| total current liabilities  | 61,073    | 48,391  |
| long-term debt   | 135,808   | 140,312 |
| deferred income taxes  | 17,459    | 14,583  |
| -----  |           |         |
| total liabilities  | 214,340   | 203,286 |
| -----  |           |         |
| commitments and contingencies (notes 10 and 11)  |           |         |
| shareholders' equity:  |           |         |
| preferred stock, \$.05 par value, authorized 10,000,000 shares   | 0         | 0       |
| common stock, \$.05 par value, authorized 40,000,000 shares, issued and outstanding 11,208,720 at April 30, 2000 and 12,079,171 at May 2, 1999 | 560       | 604     |
| capital contributed in excess of par value   | 35,266    | 37,966  |
| retained earnings  | 93,814    | 89,858  |
| -----  |           |         |
| total shareholders' equity   | 129,640   | 128,428 |
| -----  |           |         |
| total liabilities and shareholders' equity   | \$343,980 | 331,714 |
| -----  |           |         |

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENTS OF INCOME

For the years ended April 30, 2000, May 2, 1999, and May 3, 1998 (dollars in thousands, except per share data)

|  | 2000       | 1999<br>(restated) | 1998<br>(restated) |
|--|------------|--------------------|--------------------|
| net sales                                    | \$ 488,079 | 483,084            | 476,715            |
| cost of sales                                | 403,414    | 406,976            | 393,154            |
| -----  |            |                    |                    |
| gross profit                                 | 84,665     | 76,108             | 83,561             |
| selling, general and administrative expenses | 59,935     | 59,968             | 52,987             |
| -----  |            |                    |                    |
| income from operations                       | 24,730     | 16,140             | 30,574             |
| interest expense                             | 9,521      | 9,615              | 7,117              |
| interest income                              | (51)       | (195)              | (304)              |
| other expense                                | 1,566      | 1,864              | 1,358              |
| -----  |            |                    |                    |
| income before income taxes                   | 13,694     | 4,856              | 22,403             |
| income taxes                                 | 4,314      | 1,206              | 6,336              |
| -----  |            |                    |                    |
| net income                                   | \$ 9,380   | 3,650              | 16,067             |
| -----  |            |                    |                    |
| net income per share                         | \$ 0.81    | 0.28               | 1.26               |
| -----  |            |                    |                    |
| net income per share, assuming dilution      | \$ 0.80    | 0.28               | 1.23               |
| -----  |            |                    |                    |

## Edgar Filing: CULP INC - Form 10-K/A

The accompanying notes are an integral part of the consolidated financial statements.

### CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

| For the years ended April 30, 2000,<br>May 2, 1999 and May 3, 1998<br>(dollars in thousands, except share data) | common<br>stock<br>shares | common<br>stock<br>amount | capital<br>contributed<br>in excess of<br>par value | retained<br>earnings | tot<br>shareho<br>equi |
|---|---------------------------|---------------------------|---|----------------------|------------------------|
| balance, April 27, 1997   | 12,608,759                | \$ 630                    | 33,899  | 76,260               | 110,                   |
| cash dividends (\$0.14 per share)   |                           |                           |   | (1,786)              | (1,                    |
| net income (restated)   |                           |                           |   | 16,067               | 16,                    |
| common stock issued in connection<br>with stock option plans  | 114,051                   | 6                         | 997   |                      | 1,                     |
| common stock issued in connection<br>with acquisition of Artee<br>Industries, Incorporated's assets             | 284,211                   | 14                        | 5,386   |                      | 5,                     |
| stock options issued in connection<br>with acquisition of Phillips' assets                                      |                           |                           | 600   |                      |                        |
| balance, May 3, 1998 (restated)   | 13,007,021                | 650                       | 40,882  | 90,541               | 132,                   |
| cash dividends (\$0.14 per share)   |                           |                           |   | (1,788)              | (1,                    |
| net income (restated)   |                           |                           |   | 3,650                | 3,                     |
| common stock issued in connection<br>with stock option plans  | 10,750                    | 1                         | 34  |                      |                        |
| common stock purchased  | (938,600)                 | (47)                      | (2,950)   | (2,545)              | (5,                    |
| balance, May 2, 1999 (restated)   | 12,079,171                | 604                       | 37,966  | 89,858               | 128,                   |
| cash dividends (\$0.14 per share)   |                           |                           |   | (1,611)              | (1,                    |
| net income  |                           |                           |   | 9,380                | 9,                     |
| common stock issued in connection<br>with stock option plans  | 13,813                    | 1                         | 78  |                      |                        |
| common stock purchased  | (884,264)                 | (45)                      | (2,778)   | (3,813)              | (6,                    |
| balance, April 30, 2000 (restated)  | 11,208,720                | \$ 560                    | 35,266  | 93,814               | 129,                   |

The accompanying notes are an integral part of the consolidated financial statements.

### CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended April 30, 2000, May 2, 1999,  
and May 3, 1998

| (dollars in thousands)                | 2000     | 1999<br>(restated) | (re |
|---------------------------------------|----------|--------------------|-----|
| cash flows from operating activities: |          |                    |     |
| net income                            | \$ 9,380 | 3,650              |     |

## Edgar Filing: CULP INC - Form 10-K/A

|   |          |          |
|---|----------|----------|
| adjustments to reconcile net income to net cash provided by operating activities: |          |          |
| depreciation  | 19,462   | 18,549   |
| amortization of intangible assets   | 1,596    | 1,570    |
| provision for deferred income taxes   | 2,176    | 1,064    |
| changes in assets and liabilities, net of effects of businesses acquired:         |          |          |
| accounts receivable   | (4,720)  | 3,133    |
| inventories   | (7,401)  | 12,124   |
| other current assets  | (16)     | 522      |
| other assets  | (770)    | (654)    |
| accounts payable  | 1,029    | (8,893)  |
| accrued expenses  | 1,082    | 2,736    |
| income taxes payable  | -        | (1,282)  |
| <hr/>   |          |          |
| net cash provided by operating activities   | 21,818   | 32,519   |
| <hr/>   |          |          |
| cash flows from investing activities:   |          |          |
| capital expenditures  | (22,559) | (10,689) |
| purchase of restricted investments  | (40)     | (119)    |
| purchase of investments to fund deferred compensation liability                   | -        | (735)    |
| sale of restricted investments  | 3,380    | 800      |
| payments for businesses acquired  | -        | -        |
| <hr/>   |          |          |
| net cash used in investing activities   | (19,219) | (10,743) |
| <hr/>   |          |          |
| cash flows from financing activities:   |          |          |
| proceeds from issuance of long-term debt  | 9,543    | 2,637    |
| principal payments on long-term debt  | (14,047) | (16,284) |
| cash dividends paid   | (1,611)  | (1,788)  |
| proceeds from common stock issued   | 79       | 35       |
| payments to acquire common stock  | (6,636)  | (5,542)  |
| change in accounts payable - capital expenditures                                 | 10,571   | (2,637)  |
| <hr/>   |          |          |
| net cash provided by (used in) financing activities                               | (2,101)  | (23,579) |
| <hr/>   |          |          |
| increase (decrease) in cash and cash investments                                  | 498      | (1,803)  |
| cash and cash investments, beginning of year                                      | 509      | 2,312    |
| <hr/>   |          |          |
| cash and cash investments, end of year  | \$ 1,007 | 509      |
| <hr/>   |          |          |

The accompanying notes are an integral part of the consolidated financial statements.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

#### 1. GENERAL AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation - The consolidated financial statements include the accounts of the company and its subsidiary, which is wholly-owned. All significant intercompany balances and transactions are eliminated in consolidation.

Description of Business - The company primarily manufactures and markets furniture upholstery fabrics and mattress ticking for the furniture, bedding, and related industries, with the majority of its business

## Edgar Filing: CULP INC - Form 10-K/A

conducted in the United States.

**Fiscal Year** - The company's fiscal year is the 52 or 53 week period ending on the Sunday closest to April 30. Fiscal years 2000 and 1999 included 52 weeks and fiscal year 1998 included 53 weeks.

**Statements of Cash Flows** - For purposes of reporting cash flows, the company considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash investments.

**Accounts Receivable** - Substantially all of the company's accounts receivable are due from manufacturers and distributors in the markets noted above. The company grants credit to customers, a substantial number of which are located in the United States. Management performs credit evaluations of the company's customers and generally does not require collateral.

**Inventories** - Principally all inventories are valued at the lower of last-in, first-out (LIFO) cost or market.

**Restricted Investments** - Restricted investments were purchased with proceeds from industrial revenue bond issues and are invested pending application of such proceeds to project costs or repayment of the bonds. The investments are stated at cost which approximates market value.

**Property, Plant and Equipment** - Property, plant and equipment is recorded at cost. Depreciation is generally computed using the straight-line method over the estimated useful lives of the respective assets. Major renewals and betterments are capitalized. Maintenance, repairs and minor renewals are expensed as incurred. When properties are retired or otherwise disposed of, the related cost and accumulated depreciation are removed from the accounts. Amounts received on disposal less the book value of assets sold are charged or credited to income.

Interest costs of \$146,000, \$365,000 and \$678,000 incurred during the years ended April 30, 2000, May 2, 1999 and May 3, 1998, respectively, for the purchase and construction of qualifying fixed assets were capitalized and are being amortized over the related assets' estimated useful lives.

**Foreign Currency Translation** - The United States dollar is the functional currency for the company's Canadian subsidiary. Translation gains or losses for this subsidiary are reflected in net income.

**Goodwill and Other Intangible Assets** - Goodwill, which represents the unamortized excess of the purchase price over the fair values of the net assets acquired, is being amortized using the straight-line method over 40 years. The company assesses the recoverability of goodwill by determining whether the amortization of the balance over its remaining life can be recovered through undiscounted future operating cash flows of the acquired businesses. The assessment of the recoverability of goodwill will be impacted if estimated cash flows are not achieved.

Other intangible assets are included in other assets and consist principally of debt issue costs. Amortization is computed using the straight-line method over the respective terms of the debt agreements.

**Income Taxes** - Deferred taxes are recognized for the temporary differences between the financial statement carrying amounts and the tax bases of the company's assets and liabilities and operating loss and tax

## Edgar Filing: CULP INC - Form 10-K/A

credit carryforwards at income tax rates expected to be in effect when such amounts are realized or settled. The effect on deferred taxes of a change in tax rates is recognized in income in the period that includes the enactment date.

No provision is made for income taxes which may be payable if undistributed income of the company's Canadian subsidiary were to be paid as dividends to the company, since the company intends that such earnings will continue to be invested. At April 30, 2000, the amount of such undistributed income was \$18.5 million. Foreign tax credits may be available as a reduction of United States income taxes in the event of such distributions.

Revenue Recognition - Revenue is recognized when products are shipped to customers. Provision is made currently for estimated product returns, claims and allowances.

Stock Option Plans - On April 29, 1996, the company adopted SFAS No. 123, Accounting for Stock-Based Compensation, which requires disclosure of the fair value and other characteristics of stock options (see note 12). The company has chosen under the provisions of SFAS No. 123 to continue using the intrinsic-value method of accounting for employee stock-based compensation in accordance with Accounting Principles Board ("APB") Opinion No. 25, Accounting for Stock Issued to Employees.

Fair Value of Financial Instruments - The carrying amount of cash and cash investments, 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. The fair value of the company's long-term debt approximates the carrying value of the debt at April 30, 2000.

Interest Rate Swap Agreements - Interest rate swap agreements generally involve the exchange of fixed and floating rate interest payment obligations without the exchange of the underlying principal amounts. These agreements are used to effectively fix the interest rates on certain variable rate borrowings. Net amounts paid or received are reflected as adjustments to interest expense.

Forward Contracts - Gains and losses related to qualifying hedges of firm commitments are deferred and included in the measurement of the related foreign currency transaction when the hedged transaction occurs.

Per Share Data - During fiscal 1998, the company adopted Statement of Financial Accounting Standards No. 128 that requires the reporting of both net income per share and net income per share, assuming dilution. The following table reconciles the numerators and denominators of net income per share and net income per share, assuming dilution:

|   | 2000               |                      |                  | 1999 (restated)    |                      |                  |
|---|--------------------|----------------------|------------------|--------------------|----------------------|------------------|
| (Amounts in thousands, except per share data) | Income (Numerator) | Shares (Denominator) | Per Share Amount | Income (Numerator) | Shares (Denominator) | Per Share Amount |
| Net income per share                          | \$ 9,380           | 11,580               | \$ 0.81          | \$3,650            | 12,909               | \$ 0.2           |

## Edgar Filing: CULP INC - Form 10-K/A

|  | =====    |        | =====   |         | =====  |        | ===== |
|--|----------|--------|---------|---------|--------|--------|-------|
| Effect of dilutive securities:             |          |        |         |         |        |        |       |
| Options                                    | 0        | 101    |         | 0       |        | 155    |       |
|  | -----    | -----  |         | -----   |        | -----  |       |
| Net income per share,<br>assuming dilution | \$ 9,380 | 11,681 | \$ 0.80 | \$3,650 | 13,064 | \$ 0.2 |       |
|  | =====    | =====  | =====   | =====   | =====  | =====  | ===== |

Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassification - Certain items in the 1999 consolidated financial statements have been reclassified to conform with the presentation adopted in the current year. The reclassifications did not impact net income as previously reported.

### 2. ACQUISITIONS

On August 5, 1997, the company purchased the operations and certain assets relating to an upholstery fabric business operating as Phillips Weaving Mills, Phillips Velvet Mills, Phillips Printing and Phillips Mills (Phillips). The transaction was valued at approximately \$39.5 million and involved the purchase of assets for cash, the assumption of certain notes, liabilities and contracts, the payments under the terms of certain obligations to Phillips and the issuance of an option for 100,000 shares of common stock. Goodwill on the transaction was approximately \$30.8 million, which is being amortized on the straight-line method over 40 years.

On December 30, 1997, the company purchased the operations and certain assets relating to the Wetumpka spun yarn operation of Dan River Inc. The transaction was valued at approximately \$1.4 million and involved the purchase of assets for cash.

On February 2, 1998, the company purchased the operations and certain assets relating to a yarn manufacturing business operating as Artee Industries, Incorporated (Artee). The transaction was valued at approximately \$17.9 million and involved the purchase of assets for cash, the assumption of certain liabilities and the issuance of a note payable and common stock of the company. Goodwill on the transaction was approximately \$800,000, which is being amortized on the straight-line method over 40 years.

The three acquisitions mentioned above were accounted for as purchases, and accordingly, the net assets and operations have been included in the company's consolidated financial statements since the dates of the acquisitions.

### 3. ACCOUNTS RECEIVABLE

A summary of accounts receivable follows:

|                        | 2000      | 1999   |
|------------------------|-----------|--------|
| (dollars in thousands) |           |        |
| customers              | \$ 77,981 | 73,089 |



Edgar Filing: CULP INC - Form 10-K/A

|                                    |           |         |
|------------------------------------|-----------|---------|
| allowance for doubtful accounts    | (1,477)   | (1,452) |
| reserve for returns and allowances | (1,281)   | (1,134) |
|                                    | \$ 75,223 | 70,503  |

4. INVENTORIES

A summary of inventories follows:

| (dollars in thousands)                                     | 2000      | 1999    |
|--|-----------|---------|
| inventories on the FIFO cost method                        |           |         |
| raw materials  | \$ 43,661 | 38,248  |
| work-in-process  | 5,970     | 6,418   |
| finished goods   | 25,733    | 23,882  |
| total inventories on the FIFO cost method                  | 75,364    | 68,548  |
| adjustments of certain inventories to the LIFO cost method | (893)     | (1,478) |
|  | \$ 74,471 | 67,070  |

5. PROPERTY, PLANT AND EQUIPMENT

A summary of property, plant and equipment follows:

| (dollars in thousands)         | depreciable lives<br>(in years) | 2000                 | 1999                 |
|--------------------------------|---------------------------------|----------------------|----------------------|
| land and improvements          | 10                              | \$ 2,325             | 2,227                |
| buildings and improvements     | 7-40                            | 31,065               | 30,098               |
| leasehold improvements         | 7-10                            | 2,659                | 2,511                |
| machinery and equipment        | 3-12                            | 195,387              | 182,189              |
| office furniture and equipment | 3-10                            | 11,583               | 15,548               |
| capital projects in progress   |                                 | 7,930                | 2,788                |
| accumulated depreciation       |                                 | 250,949<br>(124,542) | 235,361<br>(112,051) |
|                                |                                 | \$ 126,407           | 123,310              |

6. GOODWILL

A summary of goodwill follows:

| (dollars in thousands)   | 2000      | 1999    |
|--------------------------|-----------|---------|
| goodwill                 | \$ 55,547 | 55,547  |
| accumulated amortization | (5,674)   | (4,278) |
|                          | \$ 49,873 | 51,269  |

7. ACCOUNTS PAYABLE

A summary of accounts payable follows:

| (dollars in thousands)                  | 2000      | 1999   |
|---|-----------|--------|
| accounts payable - trade                | \$ 26,479 | 25,450 |
| accounts payable - capital expenditures | 10,808    | 237    |

Edgar Filing: CULP INC - Form 10-K/A

\$ 37,287 25,687

8. ACCRUED EXPENSES

A summary of accrued expenses follows:

| (dollars in thousands)    | 2000      | 1999   |
|---------------------------|-----------|--------|
| compensation and benefits | \$ 14,748 | 13,136 |
| other                     | 7,360     | 7,890  |
|                           | \$ 22,108 | 21,026 |

9. INCOME TAXES

A summary of income taxes follows:

| (dollars in thousands) | 2000    | 1999    | 1998  |
|------------------------|---------|---------|-------|
| current                |         |         |       |
| federal                | \$ 657  | (1,508) | 2,698 |
| state                  | 45      | (442)   | 493   |
| Canadian               | 1,436   | 2,092   | 1,729 |
|                        | 2,138   | 142     | 4,920 |
| deferred               |         |         |       |
| federal                | 1,514   | 612     | 563   |
| state                  | 378     | 279     | 102   |
| Canadian               | 284     | 173     | 751   |
|                        | 2,176   | 1,064   | 1,416 |
|                        | \$4,314 | 1,206   | 6,336 |

Income before income taxes related to the company's Canadian operation for the years ended April 30, 2000, May 2, 1999, and May 3, 1998 was \$4,900,000, \$6,900,000 and \$8,000,000, respectively.

The following schedule summarizes the principal differences between income taxes at the federal income tax rate and the effective income tax rate reflected in the consolidated financial statements:

|  | 2000  | 1999<br>(restated) | 1998<br>(restated) |
|--|-------|--------------------|--------------------|
| federal income tax rate                                  | 35.0% | 35.0%              | 35.0%              |
| state income taxes, net of federal<br>income tax benefit | 2.0   | (2.2)              | 1.7                |
| exempt income of foreign sales corporation               | (3.6) | (2.8)              | (6.2)              |
| gains on life insurance contracts                        | (1.5) | (3.9)              | (0.9)              |
| other  | (0.4) | (1.3)              | (1.3)              |
|  | 31.5% | 24.8%              | 28.3%              |

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and liabilities consist of the following:

| (dollars in thousands) | 2000 | 1999 |
|------------------------|------|------|
|------------------------|------|------|

## Edgar Filing: CULP INC - Form 10-K/A

|                                    |             |          |
|------------------------------------|-------------|----------|
| deferred tax liabilities:          |             |          |
| property, plant and equipment, net | \$ (14,987) | (13,038) |
| goodwill                           | (3,175)     | (2,431)  |
| other                              | (1,324)     | (108)    |
| -----                              |             |          |
| total deferred tax liabilities     | (19,486)    | (15,577) |
| deferred tax assets:               |             |          |
| accounts receivable                | 843         | 840      |
| inventories                        | 2,396       | 1,733    |
| compensation                       | 2,358       | 1,995    |
| liabilities and reserves           | 1,381       | 1,841    |
| alternative minimum tax            | 1,485       | 849      |
| net operating loss carryforwards   | 528         | 0        |
| -----                              |             |          |
| gross deferred tax assets          | 8,991       | 7,258    |
| valuation allowance                | 0           | 0        |
| -----                              |             |          |
| total deferred tax assets          | 8,991       | 7,258    |
| -----                              |             |          |
|                                    | \$ (10,495) | (8,319)  |
| -----                              |             |          |

Deferred taxes are classified in the accompanying consolidated balance sheet captions as follows:

|                        |             |          |
|------------------------|-------------|----------|
| (dollars in thousands) | 2000        | 1999     |
| -----                  |             |          |
| other current assets   | \$ 6,964    | 6,264    |
| deferred income taxes  | (17,459)    | (14,583) |
| -----                  |             |          |
|                        | \$ (10,495) | (8,319)  |
| -----                  |             |          |

At April 30, 2000, the company had an alternative minimum tax credit carryforward of approximately \$1,485,000 for federal income tax purposes. Federal and state net operating loss carryforwards with related tax benefits of \$528,000 at April 30, 2000 expire in varying amounts through fiscal 2020. The company believes that it is more likely than not that the results of future operations will generate sufficient taxable income to realize the existing deferred tax assets.

Income taxes paid, net of income tax refunds, were \$2,027,000 in 2000; \$2,217,000 in 1999; and \$5,218,000 in 1998.

### 10. LONG-TERM DEBT

A summary of long-term debt follows:

|  |            |         |
|--|------------|---------|
| (dollars in thousands)                         | 2000       | 1999    |
| -----  |            |         |
| senior unsecured notes                         | \$ 75,000  | 75,000  |
| industrial revenue bonds and other obligations | 32,452     | 35,278  |
| revolving credit facility                      | 25,000     | 25,000  |
| obligations to sellers                         | 5,034      | 6,712   |
| -----  |            |         |
|  | 137,486    | 141,990 |
| current maturities                             | (1,678)    | (1,678) |
| -----  |            |         |
|  | \$ 135,808 | 140,312 |
| -----  |            |         |

The senior unsecured notes have a fixed coupon rate of 6.76% and an average remaining term of 8 years. The principal payments become due

## Edgar Filing: CULP INC - Form 10-K/A

from March 2006 to March 2010 with interest payable semi-annually.

The company's revolving credit agreement (the "Credit Agreement") provides an unsecured multi-currency revolving credit facility, which expires in April 2002, with a syndicate of banks in the United States. The Credit Agreement provides for a revolving loan commitment of \$88,000,000. The agreement requires payment of a quarterly facility fee in advance. In April 2000, the company amended the Credit Agreement to amend certain covenants. Additionally, the amendment increased the interest rate from LIBOR plus 0.55% to LIBOR plus 0.80% to 0.90%. The specified pricing matrix will be in effect for fiscal 2001 and is based on the company's debt to EBITDA and interest and leases coverage ratios, as defined by the agreement. On borrowings outstanding at April 30, 2000, the interest rate was 6.69% (LIBOR plus 0.55%).

The company's \$6,000,000 revolving line of credit expires on May 31, 2001. However, the line of credit will automatically be extended for an additional three-month period on each August 31, November 30, February 28 and May 31 unless the bank notifies the company that the line of credit will not be extended. At April 30, 2000, no borrowings were outstanding under the revolving line of credit.

The industrial revenue bonds (IRB) are generally due in balloon maturities which occur at various dates from 2006 to 2013. All of the bonds bear interest at variable rates of approximately 71% of the prime rate (prime at April 30, 2000 was 9.0%). The IRBs are collateralized by letters of credit for the outstanding balance of the IRBs and certain interest payments due thereunder.

The company's loan agreements require, among other things, that the company maintain compliance with certain financial ratios. At April 30, 2000, the company was in compliance with these financial covenants.

At April 30, 2000, the company had two interest rate swap agreements with a bank in order to reduce its exposure to floating interest rates on a portion of its variable rate borrowings.

The following table summarizes certain data regarding the interest rate swaps:

| notional amount | interest rate | expiration date |
|-----------------|---------------|-----------------|
| \$5,000,000     | 6.9%          | June 2002       |
| \$5,000,000     | 6.6%          | July 2002       |

The company could terminate these agreements as of April 30, 2000 and receive approximately \$166,000. Net amounts paid under interest rate swap agreements increased interest expense by approximately \$262,000 in 2000; \$308,000 in 1999; and \$232,000 in 1998. Management believes the risk of incurring losses resulting from the inability of the bank to fulfill its obligation under the interest rate swap agreements to be remote and that any losses incurred would be immaterial.

The principal payment requirements of long-term debt during the next five years are: 2001 - \$1,678,000; 2002 - \$27,046,000; 2003 - \$2,046,000; 2004 - \$368,000; and 2005 - \$368,000.

Interest paid during 2000, 1999 and 1998 totaled \$9,920,000, \$9,579,000, and \$7,067,000, respectively.

## Edgar Filing: CULP INC - Form 10-K/A

### 11. COMMITMENTS AND CONTINGENCIES

The company leases certain office, manufacturing and warehouse facilities and equipment, primarily computer, and vehicles, under noncancellable operating leases. Lease terms related to real estate range from five to ten years with renewal options for additional periods ranging from five to fifteen years. The leases generally require the company to pay real estate taxes, maintenance, insurance and other expenses. Rental expense for operating leases, net of sublease income, was \$8,162,000 in 2000; \$7,440,000 in 1999; and \$6,065,000 in 1998. Future minimum rental commitments for noncancellable operating leases are \$6,560,000 in 2001; \$4,718,000 in 2002; \$3,495,000 in 2003; \$2,637,000 in 2004; \$2,357,000 in 2005; and \$3,800,000 in later years.

The company is involved in several legal proceedings and claims which have arisen in the ordinary course of its business. These actions, when ultimately concluded and settled, will not, in the opinion of management, have a material adverse effect upon the financial position, results of operations or liquidity of the company.

The company has outstanding capital expenditure commitments of approximately \$1,345,000 as of April 30, 2000.

### 12. STOCK OPTION PLANS

The company has a fixed stock option plan under which options to purchase common stock may be granted to officers, directors and key employees. At April 30, 2000, 782,614 shares of common stock were authorized for issuance under the plan. Options are generally exercisable one year after the date of grant and generally expire beginning ten years after the date of grant.

No compensation cost has been recognized for this stock option plan as options are granted under the plan at an option price not less than fair market value at the date of grant.

A summary of the status of the plan as of April 30, 2000, May 2, 1999 and May 3, 1998 and changes during the years ended on those dates is presented below:

|  | 2000    |                                 | 1999     |                                 | 1998     |                                 |
|--|---------|---------------------------------|----------|---------------------------------|----------|---------------------------------|
|  | Shares  | Weighted-Average Exercise Price | Shares   | Weighted-Average Exercise Price | Shares   | Weighted-Average Exercise Price |
| Outstanding at beginning of year                               | 622,052 | \$ 10.04                        | 429,427  | \$11.06                         | 407,228  | \$ 8.69                         |
| Granted  | 49,375  | 8.80                            | 209,375  | 7.62                            | 87,250   | 20.34                           |
| Exercised  | (7,313) | 2.82                            | (10,750) | 3.28                            | (65,051) | 8.63                            |
| Canceled/expired   | (3,000) | 20.25                           | (6,000)  | 10.56                           | -        | -                               |
| Outstanding at end of year                                     | 661,114 | 9.98                            | 622,052  | 10.04                           | 429,427  | 11.06                           |
| Options exercisable at year-end                                | 461,114 | 10.88                           | 422,052  | 11.18                           | 353,427  | 9.08                            |
| Weighted-average fair value of options granted during the year | \$3.54  |                                 | \$2.88   |                                 | \$7.53   |                                 |

Edgar Filing: CULP INC - Form 10-K/A

| Range of Exercise Prices | Options Outstanding           |  |                              | Options Exercisable           |                              |
|--------------------------|-------------------------------|--|------------------------------|-------------------------------|------------------------------|
|                          | Number Outstanding at 4/30/00 | Weighted-Avg. Remaining Contractual Life | Weighted-Avg. Exercise Price | Number Exercisable at 4/30/00 | Weighted-Avg. Exercise Price |
| \$ 2.82 - \$ 7.50        | 110,114                       | 3.3 years                                | \$4.96                       | 110,114                       | \$4.96                       |
| \$ 7.63 - \$ 7.63        | 200,000                       | 8.4                                      | 7.63                         | 40,000                        | 7.63                         |
| \$ 7.75 - \$12.13        | 192,375                       | 5.6                                      | 9.52                         | 152,375                       | 9.63                         |
| \$ 12.75 - \$20.94       | 158,625                       | 5.9                                      | 17.00                        | 158,625                       | 17.00                        |
|                          | -----                         | ---                                      | ----                         | -----                         | -----                        |
|                          | 661,114                       | 6.1                                      | 9.98                         | 461,114                       | 10.88                        |
|                          | -----                         | ---                                      | ----                         | -----                         | -----                        |

During fiscal 1995, the company adopted a stock option plan which provided for the one-time grant to officers and certain senior managers of options to purchase 121,000 shares of the company's common stock at \$.05 (par value) per share. Coincident with the adoption of this plan, the company's 1993 stock option plan was amended to reduce the number of shares issuable under that plan by 128,000 shares. The accelerated vesting provisions of this plan were achieved and all options vested 45 days after the end of fiscal 1997 and, as a result, the compensation expense recorded under APB Opinion No. 25 was approximately \$1,026,000 for the three-year period ended April 27, 1997. Since these options were granted in fiscal 1995, the provisions of SFAS No. 123 are not applicable. As of April 30, 2000, the 58,500 options outstanding under the plan have exercise prices of \$0.05 and a weighted-average remaining contractual life of 3.7 years. Options exercised during fiscal 2000, 1999 and 1998 were 6,500, 0 and 49,000, respectively.

During September 1997, the company's shareholders approved the 1997 performance-based option plan which provides for the one-time grant to certain officers and certain senior managers of options to purchase 106,000 shares of the company's common stock at \$1.00 per share. Options under the plan are exercisable on January 1, 2006 due to the company not achieving net income per share of \$1.50 for fiscal 1999. During fiscal 2000, 1999 and 1998, the compensation expense recorded under APB Opinion No. 25 was \$250,000 in each year.

As of April 30, 2000, the 106,000 options outstanding under the plan have exercise prices of \$1.00 and a weighted-average remaining contractual life of 6.7 years. The weighted-average fair value of the 106,000 options granted during 1998 was \$19.10. Had compensation cost for this stock-based compensation plan and the fixed stock option plan with 661,114 options outstanding at April 30, 2000 been determined consistent with SFAS No. 123, the company's net income, net income per share and net income per share, assuming dilution would have been reduced to the pro forma amounts indicated below:

| (in thousands, except per share data) | 2000        | 1999<br>(restated) | 1998<br>(restated) |
|---------------------------------------|-------------|--------------------|--------------------|
| Net income                            | As reported | \$9,380            | 3,650              |
|                                       | Pro forma   | 9,145              | 3,375              |
|                                       |             | 16,067             | 15,931             |

Edgar Filing: CULP INC - Form 10-K/A

|  |             |         |      |      |
|--|-------------|---------|------|------|
| Net income per share                       | As reported | \$ 0.81 | 0.28 | 1.26 |
|  | Pro forma   | 0.79    | 0.26 | 1.25 |
| Net income per share,<br>assuming dilution | As reported | \$ 0.80 | 0.28 | 1.23 |
|  | Pro forma   | 0.78    | 0.26 | 1.22 |

The fair value of each option grant is estimated on the date of grant using the Black Scholes option-pricing model with the following weighted-average assumptions used for grants in 2000, 1999 and 1998, respectively: dividend yield of 1.5%, 1.5% and 1%; risk-free interest rates of 5.7%, 5.4% and 5.5%; expected volatility of 49%, 47% and 42%; and expected lives of 4 years, 4 years and 5.3 years.

13. BENEFIT PLANS

The company has a defined contribution plan which covers substantially all employees and provides for participant contributions on a pre-tax basis and discretionary matching contributions by the company, which are determined annually. Company contributions to the plan were \$2,423,000 in 2000; \$1,612,000 in 1999; and \$1,103,000 in 1998.

In addition to the defined contribution plan, the company has a nonqualified deferred compensation plan covering officers and certain other associates. The company's nonqualified plan liability of \$4,788,000 and \$4,044,000 at April 30, 2000 and May 2, 1999, respectively, is included in accrued expenses in the accompanying consolidated balance sheets. As restated (see note 17 to the consolidated financial statements), the company also had assets related to the nonqualified plan of \$4,864,000 and \$4,193,000 at April 30, 2000 and May 2, 1999, respectively, which are included in other assets in the accompanying consolidated balance sheets.

14. SEGMENT INFORMATION

The company's operations are classified into two business segments: upholstery fabrics and mattress ticking. The upholstery fabrics segment principally manufactures and sells woven jacquards and dobbies, wet and heat-transfer prints, and woven and tufted velvets primarily to residential and commercial (contract) furniture manufacturers. The mattress ticking segment principally manufactures and sells woven jacquards, heat-transfer prints and pigment prints to bedding manufacturers.

International sales, of which 94% were denominated in U.S. dollars in 2000, 1999, and 1998, accounted for 23% of net sales in 2000 and 1999 and 29% in 1998, and are summarized by geographic area as follows:

| (dollars in thousands)        | 2000       | 1999    | 1998    |
|-------------------------------|------------|---------|---------|
| North America (excluding USA) | \$ 36,032  | 31,102  | 31,160  |
| Europe                        | 16,351     | 19,578  | 30,775  |
| Middle East                   | 32,929     | 33,996  | 34,412  |
| Asia and Pacific Rim          | 19,102     | 21,371  | 32,344  |
| South America                 | 2,343      | 3,484   | 5,158   |
| All other areas               | 4,347      | 3,823   | 3,374   |
|                               | \$ 111,104 | 113,354 | 137,223 |

In 2000, 1999 and 1998, no customer represented over 10% of consolidated net sales. In addition, company assets located outside the United States are not material for any of the three years presented.

## Edgar Filing: CULP INC - Form 10-K/A

The company internally manages and reports selling, general and administrative expenses, interest expense, interest income, other expense and income taxes on a total company basis. Thus, profit by business segment represents gross profit. In addition, the company internally manages and reports cash and cash investments, accounts receivable, other current assets, restricted investments, property, plant and equipment, goodwill and other assets on a total company basis. Thus, identifiable assets by business segment represent inventories.

Sales, gross profit and inventories for the company's operating segments are as follows:

| (dollars in thousands) | 2000       | 1999    | 1998    |
|------------------------|------------|---------|---------|
| <hr/>                  |            |         |         |
| Net sales              |            |         |         |
| Upholstery Fabrics     | \$ 382,310 | 387,644 | 389,430 |
| Mattress Ticking       | 105,769    | 95,440  | 87,285  |
|                        | <hr/>      |         |         |
|                        | \$ 488,079 | 483,084 | 476,715 |
| <hr/>                  |            |         |         |
| Gross profit           |            |         |         |
| Upholstery Fabrics     | \$ 58,547  | 52,286  | 61,922  |
| Mattress Ticking       | 26,118     | 23,822  | 21,639  |
|                        | <hr/>      |         |         |
|                        | \$ 84,665  | 76,108  | 83,561  |
| <hr/>                  |            |         |         |
| Inventories            |            |         |         |
| Upholstery Fabrics     | \$ 60,305  | 55,565  | 66,336  |
| Mattress Ticking       | 14,166     | 11,505  | 12,258  |
|                        | <hr/>      |         |         |
|                        | \$ 74,471  | 67,070  | 78,594  |
| <hr/>                  |            |         |         |

### 15. RELATED PARTY TRANSACTIONS

A director of the company is also an officer and director of a major customer of the company. The amount of sales to this customer was approximately \$39,479,000 in 2000; \$34,313,000 in 1999; and \$30,545,000 in 1998. The amount due from this customer at April 30, 2000 was approximately \$3,797,000 and at May 2, 1999 was approximately \$4,517,000.

A director of the company is also an officer and director of the lessor of the company's office facilities in High Point. Rent expense for the company's office facilities was approximately \$522,000 in 2000; \$555,000 in 1999; and \$482,000 in 1998.

Rents paid to entities owned by certain shareholders and officers of the company and their immediate families were \$695,000 in 2000; \$752,000 in 1999; and \$724,000 in 1998.

### 16. FOREIGN EXCHANGE FORWARD CONTRACTS

The company generally enters into foreign exchange forward and option contracts as a hedge against its exposure to currency fluctuations on firm commitments to purchase certain machinery and equipment and raw materials. The company had \$4,761,000 and \$0 of outstanding foreign exchange forward contracts as of April 30, 2000 and May 2, 1999, respectively (denominated in Euros, German deutsche marks and Swiss



## Edgar Filing: CULP INC - Form 10-K/A

francs at April 30, 2000). Due to the short maturity of these financial instruments, the fair values of these contracts approximate the contract amounts at April 30, 2000 and May 2, 1999, respectively.

### 17. RESTATEMENT

During January 2001, the company terminated the nonqualified deferred compensation plan covering officers and certain other associates. As a result, the company surrendered the life insurance contracts related to the nonqualified plan in order to pay the participants. The proceeds from those life insurance contracts resulted in an amount greater than had previously been recorded by the company attributable to gains that occurred in 1999 and 1998. In order to properly reflect these gains, the company is restating its financial statements and certain disclosures previously reported in its financial statements for the years ended April 30, 2000, May 2, 1999 and May 3, 1998. The effect of the correction for these gains was a reduction of other expense and, as a result, an increase in income before income taxes and net income by \$548,000 in 1999 and \$554,000 in 1998. The effect of the correction increased other assets and retained earnings in the consolidated balance sheets as of April 30, 2000, May 2, 1999 and May 3, 1998 by \$1,102,000, \$1,102,000 and \$554,000, respectively.

### SELECTED QUARTERLY DATA

| (amounts in thousands,<br>except per share amounts)       | fiscal<br>2000<br>4th quarter<br>(restated) | fiscal<br>2000<br>3rd quarter<br>(restated) | fiscal<br>2000<br>2nd quarter<br>(restated) | fiscal<br>2000<br>1st quarter<br>(restated) | fiscal<br>1999<br>4th quarter<br>(restated) |
|---|---|---|---|---|---|
| <b>INCOME STATEMENT DATA</b>                              |   |   |   |   |   |
| net sales   | \$129,419                                   | 113,181                                     | 129,542                                     | 115,937                                     | 132,165                                     |
| cost of sales   | 107,342                                     | 94,712                                      | 105,835                                     | 95,525                                      | 109,324                                     |
| gross profit  | 22,077                                      | 18,469                                      | 23,707                                      | 20,412                                      | 22,841                                      |
| SG & A expenses   | 14,913                                      | 13,949                                      | 16,035                                      | 15,038                                      | 15,921                                      |
| income (loss) from operations                             | 7,164                                       | 4,520                                       | 7,672                                       | 5,374                                       | 6,920                                       |
| interest expense  | 2,255                                       | 2,366                                       | 2,484                                       | 2,416                                       | 2,482                                       |
| interest income   | (10)  | (8)   | (16)  | (17)  | (113)                                       |
| other expense (income) (6)                                | 366   | 229   | 416   | 555   | 397   |
| income (loss) before income taxes (6)                     | 4,553                                       | 1,933                                       | 4,788                                       | 2,420                                       | 4,154                                       |
| income taxes  | 1,362                                       | 501   | 1,628                                       | 823   | 1,109                                       |
| net income (loss) (6)                                     | 3,191                                       | 1,432                                       | 3,160                                       | 1,597                                       | 3,045                                       |
| EBITDA (3) (6)  | \$ 12,178                                   | 9,655                                       | 12,412                                      | 9,977                                       | 11,683                                      |
| depreciation  | 4,981                                       | 4,965                                       | 4,757                                       | 4,759                                       | 4,764                                       |
| cash dividends  | 393   | 396   | 399   | 423   | 423   |
| weighted average shares outstanding                       | 11,213                                      | 11,296                                      | 11,749                                      | 12,063                                      | 12,645                                      |
| weighted average shares outstanding,<br>assuming dilution | 11,298                                      | 11,389                                      | 11,868                                      | 12,219                                      | 12,742                                      |
| <b>PER SHARE DATA</b>                                     |   |   |   |   |   |
| net income (loss) (6)                                     | \$ 0.28                                     | 0.13  | 0.27  | 0.13  | 0.24  |
| net income (loss), assuming dilution (6)                  | 0.28  | 0.13  | 0.27  | 0.13  | 0.24  |
| cash dividends  | 0.035                                       | 0.035                                       | 0.035                                       | 0.035                                       | 0.035                                       |

Edgar Filing: CULP INC - Form 10-K/A

| book value (6)                            | 11.57     | 11.31   | 11.17   | 10.73   | 10.63   |
|---|-----------|---------|---------|---------|---------|
| <b>BALANCE SHEET DATA</b>                 |           |         |         |         |         |
| working capital                           | \$ 99,977 | 97,440  | 92,800  | 100,394 | 99,324  |
| property, plant and equipment, net        | 126,407   | 123,303 | 124,318 | 120,971 | 123,310 |
| total assets (6)                          | 343,980   | 337,308 | 339,778 | 328,924 | 331,714 |
| capital expenditures                      | 8,085     | 3,950   | 8,104   | 2,420   | 2,189   |
| long-term debt                            | 135,808   | 137,052 | 133,875 | 136,228 | 140,312 |
| funded debt (1)                           | 137,486   | 137,683 | 134,468 | 136,222 | 138,650 |
| shareholders' equity (6)                  | 129,640   | 126,867 | 126,482 | 129,229 | 128,428 |
| capital employed (4) (6)                  | 267,126   | 264,550 | 260,950 | 265,451 | 267,078 |
| <b>RATIOS &amp; OTHER DATA</b>            |           |         |         |         |         |
| gross profit margin                       | 17.1%     | 16.3%   | 18.3%   | 17.6%   | 17.3%   |
| operating income (loss) margin            | 5.5       | 4.0     | 5.9     | 4.6     | 5.2     |
| net income (loss) margin (6)              | 2.5       | 1.3     | 2.4     | 1.4     | 2.3     |
| EBITDA margin (6)                         | 9.4       | 8.5     | 9.6     | 8.6     | 8.8     |
| effective income tax rate (6)             | 29.9      | 25.9    | 34.0    | 34.0    | 26.7    |
| funded debt-to-total capital ratio (1)(6) | 51.5      | 52.0    | 51.5    | 51.3    | 51.9    |
| working capital turnover                  | 4.4       | 4.5     | 4.4     | 4.4     | 4.3     |
| days sales in receivables                 | 53        | 49      | 49      | 45      | 49      |
| inventory turnover                        | 5.5       | 4.8     | 5.5     | 5.4     | 6.4     |
| <b>STOCK DATA</b>                         |           |         |         |         |         |
| stock price                               |           |         |         |         |         |
| high                                      | \$ 9.88   | 7.50    | 10.31   | 11.06   | 8.50    |
| low                                       | 5.00      | 5.88    | 6.69    | 7.25    | 5.13    |
| close                                     | 5.81      | 6.00    | 6.94    | 10.13   | 8.25    |
| P/E ratio (2)                             |           |         |         |         |         |
| high (6)                                  | 12.2      | 9.7     | 12.8    | 17.7    | 30.1    |
| low (6)                                   | 6.2       | 7.6     | 8.3     | 11.6    | 18.1    |
| daily average trading volume (shares)     | 12.0      | 10.0    | 18.8    | 21.9    | 34.9    |

- (1) Funded debt includes long- and short-term debt, less restricted investments.
- (2) P/E ratios based on trailing 12-month net income per share.
- (3) EBITDA represents earnings before interest, income taxes, depreciation and amortization.
- (4) Capital employed includes funded debt and shareholders' equity.
- (5) Phillips, Wetumpka and Artee included in consolidated results from their August 5, 1997, De and February 2, 1998 acquisitions by Culp, respectively.
- (6) As restated (see note 17 to the consolidated financial statements)

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS  
ON ACCOUNTING AND FINANCIAL DISCLOSURE

During the two years ended April 30, 2000 and any subsequent interim periods, there were no changes of accountants and/or disagreements on any matters of accounting principles or practices or financial statement disclosures.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Information with respect to executive officers and directors of the Company is included in the Company's definitive Proxy Statement filed within 120 days after the end of the Company's fiscal year pursuant to Regulation 14A of the Securities and Exchange Commission, under the caption "Nominees, Directors and Executive Officers," which information is herein

## Edgar Filing: CULP INC - Form 10-K/A

incorporated by reference.

### ITEM 11. EXECUTIVE COMPENSATION

Information with respect to executive compensation is included in the Company's definitive Proxy Statement filed within 120 days after the end of the Company's fiscal year pursuant to Regulation 14A of the Securities and Exchange Commission, under the caption "Executive Compensation," which information is herein incorporated by reference.

### ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Information with respect to the security ownership of certain beneficial owners and management is included in the Company's definitive Proxy Statement filed within 120 days after the end of the Company's fiscal year pursuant to Regulation 14A of the Securities and Exchange Commission, under the caption "Voting Securities," which information is herein incorporated by reference.

### ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Information with respect to certain relationships and related transactions is included in the Company's definitive Proxy Statement filed within 120 days after the end of the Company's fiscal year pursuant to Regulation 14A of the Securities and Exchange Commission, under the subcaption "Certain Relationships and Related Transactions," which information is herein incorporated by reference.

## PART IV

### ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

#### a) DOCUMENTS FILED AS PART OF THIS REPORT:

##### 1. Consolidated Financial Statements

The following consolidated financial statements of Culp, Inc. and subsidiary are filed as part of this report.

| Item  | Page of Annual Report on Form 10-K |
|---|------------------------------------|
| ----  | -----                              |
| Consolidated Balance Sheets - April 30, 2000 and.....<br>May 2, 1999  | 27                                 |
| Consolidated Statements of Income -<br>for the years ended April 30, 2000,<br>May 2, 1999, and May 3, 1998 .....              | 28                                 |
| Consolidated Statements of Shareholders' Equity -<br>for the years ended April 30, 2000,<br>May 2, 1999 and May 3, 1998 ..... | 29                                 |
| Consolidated Statements of Cash Flows -<br>for the years ended April 30, 2000,  |                                    |

## Edgar Filing: CULP INC - Form 10-K/A

|   |    |
|---|----|
| May 2, 1999, and May 3, 1998 .....              | 30 |
| Consolidated Notes to Financial Statements..... | 31 |
| Report of Independent Auditors .....            | 26 |

### 2. Financial Statement Schedules

All financial statement schedules are omitted because they are not applicable, or not required, or because the required information is included in the consolidated financial statements or notes thereto.

### 3. Exhibits

The following exhibits are attached at the end of this report, or incorporated by reference herein. Management contracts, compensatory plans, and arrangements are marked with an asterisk (\*).

- 3(i) Articles of Incorporation of the Company, as amended, were filed as Exhibit 3(i) to the Company's Form 10-Q for the quarter ended January 29, 1995, filed March 15, 1995, and are incorporated herein by reference.
- 3(ii) Restated and Amended Bylaws of the Company, as amended, were filed as Exhibit 3(b) to the Company's Form 10-K for the year ended April 28, 1991, filed July 25, 1991, and are incorporated herein by reference.
- 3(iii) Articles of Amendment of Culp, Inc. dated October 5, 1999 for the purpose of amending its Restated Charter to fix the designation, preferences, limitations and relative rights of a series of its Preferred Stock. The Articles of Amendment of Culp, Inc. were filed as Exhibit 3(iii) to the Company's Form 10-Q for the quarter ended October 31, 1999, filed December 15, 1999, and are incorporated herein by reference.
- 10(a) Loan Agreement dated December 1, 1988 with Chesterfield County, South Carolina relating to Series 1988 Industrial Revenue Bonds in the principal amount of \$3,377,000 was filed as Exhibit 10(n) to the Company's Form 10-K for the year ended April 29, 1989, and is incorporated herein by reference.
- 10(b) Loan Agreement dated November 1, 1988 with the Alamance County Industrial Facilities and Pollution Control Financing Authority relating to Series A and B Industrial Revenue Refunding Bonds in the principal amount of \$7,900,000, was filed as exhibit 10(o) to the Company's Form 10-K for the year ended April 29, 1990, and is incorporated herein by reference.
- 10(c) Loan Agreement dated January 5, 1990 with the Guilford County Industrial Facilities and Pollution Control

## Edgar Filing: CULP INC - Form 10-K/A

Financing Authority, North Carolina, relating to Series 1989 Industrial Revenue Bonds in the principal amount of \$4,500,000, was filed as Exhibit 10(d) to the Company's Form 10-K for the year ended April 29, 1990, filed on July 25, 1990, and is incorporated herein by reference.

- 10(d) Loan Agreement dated as of December 1, 1993 between Anderson County, South Carolina and the Company relating to \$6,580,000 Anderson County, South Carolina Industrial Revenue Bonds (Culp, Inc. Project) Series 1993, was filed as Exhibit 10(o) to the Company's Form 10-Q for the quarter ended January 30, 1994, filed March 16, 1994, and is incorporated herein by reference.
- 10(e) Form of Severance Protection Agreement, dated September 21, 1989, was filed as Exhibit 10(f) to the Company's Form 10-K for the year ended April 29, 1990, filed on July 25, 1990, and is incorporated herein by reference. (\*)
- 10(f) Lease Agreement, dated January 19, 1990, with Phillips Interests, Inc. was filed as Exhibit 10(g) to the Company's Form 10-K for the year ended April 29, 1990, filed on July 25, 1990, and is incorporated herein by reference.
- 10(g) Management Incentive Plan of the Company, dated August 1986 and amended July 1989, filed as Exhibit 10(o) to the Company's Form 10-K for the year ended May 3, 1992, filed on August 4, 1992, and is incorporated herein by reference. (\*)
- 10(h) Lease Agreement, dated September 6, 1988, with Partnership 74 was filed as Exhibit 10(h) to the Company's Form 10-K for the year ended April 28, 1991, filed on July 25, 1990, and is incorporated herein by reference.
- 10(i) Amendment and Restatement of the Employee's Retirement Builder Plan of the Company dated May 1, 1981 with amendments dated January 1, 1990 and January 8, 1990 were filed as Exhibit 10(p) to the Company's Form 10-K for the year ended May 3, 1992, filed on August 4, 1992, and is incorporated herein by reference. (\*)
- 10(j) First Amendment of Lease Agreement dated July 27, 1992 with Partnership 74 Associates was filed as Exhibit 10(n) to the Company's Form 10-K for the year ended May 2, 1993, filed on July 29, 1993, and is incorporated herein by reference.
- 10(k) Second Amendment of Lease Agreement dated April 16, 1993, with Partnership 52 Associates was filed as Exhibit 10(l) to the Company's Form 10-K for the year ended May 2, 1993, filed on July 29, 1993, and is incorporated herein by reference.
- 10(l) 1993 Stock Option Plan was filed as Exhibit 10(o) to the Company's Form 10-K for the year ended May 2, 1993, filed on July 29, 1993, and is incorporated herein by reference. (\*)

## Edgar Filing: CULP INC - Form 10-K/A

- 10 (m) First Amendment to Loan Agreement dated as of December 1, 1993 by and between The Guilford County Industrial Facilities and Pollution Control Financing Authority and the Company was filed as Exhibit 10(p) to the Company's Form 10-Q, filed on March 15, 1994, and is incorporated herein by reference.
- 10 (n) First Amendment to Loan Agreement dated as of December 16, 1993 by and between The Alamance County Industrial Facilities and Pollution Control Financing Authority and the Company was filed as Exhibit 10(q) to the Company's Form 10-Q, filed on March 15, 1994, and is incorporated herein by reference.
- 10 (o) First Amendment to Loan Agreement dated as of December 16, 1993 by and between Chesterfield County, South Carolina and the Company was filed as Exhibit 10(r) to the Company's Form 10-Q, filed on March 15, 1994, and is incorporated herein by reference.
- 10 (p) Amendment to Lease dated as of November 4, 1994, by and between the Company and RDC, Inc. was filed as Exhibit 10(w) to the Company's Form 10-Q, for the quarter ended January 29, 1995, filed on March 15, 1995, and is incorporated herein by reference.
- 10 (q) Amendment to Lease Agreement dated as of December 14, 1994, by and between the Company and Rossville Investments, Inc. (formerly known as A & E Leasing, Inc.), was filed as Exhibit 10(y) to the Company's Form 10-Q, for the quarter ended January 29, 1995, filed on March 15, 1995, and is incorporated herein by reference.
- 10 (r) Interest Rate Swap Agreement between Company and First Union National Bank of North Carolina dated April 17, 1995, was filed as Exhibit 10(aa) to the Company's Form 10-K for the year ended April 30, 1995, filed on July 26, 1995, and is incorporated herein by reference.
- 10 (s) Performance-Based Stock Option Plan, dated June 21, 1994, was filed as Exhibit 10(bb) to the Company's Form 10-K for the year ended April 30, 1995, filed on July 26, 1995, and is incorporated herein by reference. (\*)
- 10 (t) Interest Rate Swap Agreement between Company and First Union National Bank of North Carolina, dated May 31, 1995 was filed as exhibit 10(w) to the Company's Form 10-Q for the quarter ended July 30, 1995, filed on September 12, 1995, and is incorporated herein by reference.
- 10 (u) Interest Rate Swap Agreement between Company and First Union National Bank of North Carolina, dated July 7, 1995 was filed as exhibit 10(x) to the Company's Form 10-Q for the quarter ended July 30, 1995, filed on September 12, 1995, and is incorporated herein by reference.
- 10 (v) Second Amendment of Lease Agreement dated June 15, 1994 with Partnership 74 Associates was filed as Exhibit

## Edgar Filing: CULP INC - Form 10-K/A

- 10(v) to the Company's Form 10-Q for the quarter ended October 29, 1995, filed on December 12, 1995, and is incorporated herein by reference.
- 10(w) Lease Agreement dated November 1, 1993 by and between the Company and Chromatex, Inc. was filed as Exhibit 10(w) to the Company's Form 10-Q for the quarter ended October 29, 1995, filed on December 12, 1995, and is incorporated herein by reference.
- 10(x) Lease Agreement dated November 1, 1993 by and between the Company and Chromatex Properties, Inc. was filed as Exhibit 10(x) to the Company's Form 10-Q for the quarter ended October 29, 1995, filed on December 12, 1995, and is incorporated herein by reference.
- 10(y) Amendment to Lease Agreement dated May 1, 1994 by and between the Company and Chromatex Properties, Inc. was filed as Exhibit 10(y) to the Company's Form 10-Q for the quarter ended October 29, 1995, filed on December 12, 1995, and is incorporated herein by reference.
- 10(z) Canada-Quebec Subsidiary Agreement on Industrial Development (1991), dated January 4, 1995, was filed as Exhibit 10(z) to the Company's Form 10-Q for the quarter ended October 29, 1995, filed on December 12, 1995, and is incorporated herein by reference.
- 10(aa) Loan Agreement between Chesterfield County, South Carolina and the Company dated as of April 1, 1996 relating to Tax Exempt Adjustable Mode Industrial Development Bonds (Culp, Inc. Project) Series 1996 in the aggregate principal amount of \$6,000,000 was filed as Exhibit 10(aa) to the Company's Form 10-K for the year ended April 28, 1996, and is incorporated herein by reference.
- 10(bb) Loan Agreement between the Alamance County Industrial Facilities and Pollution Control Financing Authority, North Carolina and the Company, dated December 1, 1996, relating to Tax Exempt Adjustable Mode Industrial Development Revenue Bonds, (Culp, Inc. Project Series 1996) in the aggregate amount of \$6,000,000 was filed as Exhibit 10(cc) to the Company's Form 10-Q for the quarter ended January 26, 1997, and is incorporated herein by reference.
- 10(cc) Loan Agreement between Luzerne County, Pennsylvania and the Company, dated as of December 1, 1996, relating to Tax-Exempt Adjustable Mode Industrial Development Revenue Bonds (Culp, Inc. Project) Series 1996 in the aggregate principal amount of \$3,500,000 was filed as Exhibit 10(dd) to the Company's Form 10-Q for the quarter ended January 26, 1997, and is incorporated herein by reference.
- 10(dd) Second Amendment to Lease Agreement between Chromatex Properties, Inc. and the Company, dated April 17, 1997 was filed as Exhibit 10(dd) to the Company's Form 10-K for the year ended April 27, 1997, and is incorporated herein by reference.

## Edgar Filing: CULP INC - Form 10-K/A

- 10 (ee) Lease Agreement between Joseph E. Proctor (doing business as JEPCO) and the Company, dated April 21, 1997 was filed as Exhibit 10(ee) to the Company's Form 10-K for the year ended April 27, 1997, and is incorporated herein by reference.
- 10 (ff) \$125,000,000 Revolving Loan Facility dated April 23, 1997 by and among the Company and Wachovia Bank of Georgia, N.A., as agent, and First Union National Bank of North Carolina, as documentation agent was filed as Exhibit 10(ff) to the Company's Form 10-K for the year ended April 27, 1997, and is incorporated herein by reference.
- 10 (gg) Revolving Line of Credit for \$4,000,000 dated April 23, 1997 by and between the Company and Wachovia Bank of North Carolina, N.A. was filed as Exhibit 10(gg) to the Company's Form 10-K for the year ended April 27, 1997, and is incorporated herein by reference.
- 10 (hh) Reimbursement and Security Agreement between Culp, Inc. and Wachovia Bank of North Carolina, N.A., dated as of April 1, 1997, relating to \$3,337,000 Principal Amount, Chesterfield County, South Carolina Industrial Revenue Bonds (Culp, Inc. Project) Series 1988 was filed as Exhibit 10(hh) to the Company's Form 10-K for the year ended April 27, 1997, and is incorporated herein by reference.

Additionally, there are Reimbursement and Security Agreements between Culp, Inc. and Wachovia Bank of North Carolina, N.A., dated as of April 1, 1997 in the following amounts and with the following facilities:

\$7,900,000 Principal Amount, Alamance County Industrial Facilities and Pollution Control Financing Authority Industrial Revenue Refunding Bonds (Culp, Inc. Project) Series A and B.

\$4,500,000 Principal Amount, Guilford County Industrial Facilities and Pollution Control Financing Authority Industrial Development Revenue Bonds (Culp, Inc. Project) Series 1989.

\$6,580,000 Principal Amount, Anderson County South Carolina Industrial Revenue Bonds (Culp, Inc. Project) Series 1993.

\$6,000,000 Principal Amount, Chesterfield County, South Carolina Tax-Exempt Adjustable Mode Industrial Development Revenue Bonds (Culp, Inc. Project) Series 1996.

\$6,000,000 Principal Amount, The Alamance County Industrial Facilities and Pollution Control Financing Authority Tax-exempt Adjustable Mode Industrial Development Revenue Bonds (Culp, Inc. Project) Series 1996.

\$3,500,000 Principal Amount, Luzerne County Industrial Development Authority Tax-Exempt Adjustable Mode Industrial Development Revenue Bonds (Culp, Inc.



## Edgar Filing: CULP INC - Form 10-K/A

Project) Series 1996.

- 10(ii) Loan Agreement and Reimbursement and Security Agreement dated July 1, 1997 with the Robeson County Industrial Facilities and Pollution Control Financing Authority relating to the issuance of Tax-Exempt Adjustable Mode Industrial Development Revenue Bonds (Culp, Inc. Project), Series 1997 in the aggregate principal amount of \$8,500,000 was filed as Exhibit 10(ii) to the Company's Form 10-Q for the quarter ended August 3, 1997, and is incorporated herein by reference.
- 10(jj) Asset Purchase Agreement dated as of August 4, 1997 by and between Culp, Inc., Phillips Weaving Mills, Inc., Phillips Printing Mills, Inc., Phillips Velvet Mills, Inc., Phillips Mills, Inc., Phillips Property Company, LLC, Phillips Industries, Inc. and S. Davis Phillips was filed as Exhibit (10jj) to the Company's Form 10-Q for the quarter ended November 2, 1997, and is incorporated herein by reference.
- 10(kk) Asset Purchase Agreement dated as of October 14, 1997 among Culp, Inc., Artee Industries, Incorporated, Robert T. Davis, Robert L. Davis, Trustee u/a dated 8/25/94, Robert L. Davis, Louis W. Davis, Kelly D. England, J. Marshall Bradley, Frankie S. Bradley and Mickey R. Bradley was filed as Exhibit 10(kk) to the Company's Form 10-Q for the quarter ended November 2, 1997, and is incorporated herein by reference.
- 10(ll) Form of Note Purchase Agreement (providing for the issuance by Culp, Inc. of its \$20 million 6.76% Series A Senior Notes due 3/15/08 and its \$55 million 6.76% Series B Senior Notes due 3/15/10), each dated March 4, 1998, between Culp, Inc. and each of the following:
1. Connecticut General Life Insurance Company;
  2. The Mutual Life Insurance Company of New York;
  3. United of Omaha Life Insurance Company;
  4. Mutual of Omaha Insurance Company;
  5. The Prudential Insurance Company of America;
  6. Allstate Life Insurance Company;
  7. Life Insurance Company of North America; and
  8. CIGNA Property and Casualty Insurance Company
- This agreement was filed as Exhibit 10(ll) to the Company's Form 10-K for the year ended May 3, 1998, and is incorporated herein by reference.
- 10(mm) First Amendment to Credit Agreement dated July 22, 1998 among Culp, Inc., Wachovia Bank, N.A., as agent, First Union National Bank, as documentation agent, and Wachovia Bank, N.A., First Union National Bank, SunTrust Bank, Atlanta, and Cooperatieve Centrale Raiffeisen-Boerenleenbank B.A., Rabobank Nederland, New York Branch, as lenders. This amendment was filed as Exhibit 10(mm) to the Company's Form 10-Q for the quarter ended August 2, 1998, and is incorporated herein by reference.
- 10(nn) Second Amendment to Credit Agreement dated October 26, 1998, among Culp, Inc., Wachovia Bank, N.A., as agent,

## Edgar Filing: CULP INC - Form 10-K/A

First Union National Bank, as documentation agent, and Wachovia Bank, N.A., First Union National Bank, and SunTrust Bank, Atlanta, as lenders. This amendment was filed as Exhibit 10(nn) to the Company's Form 10-Q for the quarter ended November 1, 1998, and is incorporated herein by reference.

- 10(oo) Rights Agreement, dated as of October 8, 1999, between Culp, Inc. and EquiServe Trust Company, N.A., as Rights Agent, including the form of Articles of Amendment with respect to the Series A Participating Preferred Stock included as Exhibit A to the Rights Agreement, the forms of Rights Certificate included as Exhibit B to the Rights Agreement, and the form of Summary of Rights included as Exhibit C to the Rights Agreement. The Rights Agreement was filed as Exhibit 99.1 to the Company's Form 8-K dated October 12, 1999, and is incorporated herein by reference.
- 10(pp) Third Amendment to Credit Agreement dated April 28, 2000, among Culp, Inc., Wachovia Bank, N.A., as agent, First Union National Bank, as documentation agent, and Wachovia Bank, N.A., First Union National Bank, and Suntrust Bank, as lenders. This amendment was filed as Exhibit 10(pp) to the Company's Form 10-K for the year ended April 30, 2000, and is incorporated herein by reference.
- 22 List of subsidiaries of the Company.
- 24(a) Consent of Independent Public Auditors in connection with the registration statements of Culp, Inc. on Form S-8 (File Nos. 33-13310, 33-37027, 33-80206, 33-62843, and 333-27519), dated March 20, 1987, September 18, 1990, June 13, 1994, September 22, 1995, and May 21, 1997.
- 25(a) Power of Attorney of Robert T. Davis, dated June 22, 2000
- 25(b) Power of Attorney of Howard L. Dunn, Jr., dated June 21, 2000
- 25(c) Power of Attorney of Patrick B. Flavin, dated June 27, 2000
- 25(d) Power of Attorney of Patrick H. Norton, dated June 29, 2000
- 25(e) Power of Attorney of Earl N. Phillips, Jr., dated June 22, 2000
- 25(f) Power of Attorney of Franklin N. Saxon, dated July 7, 2000
- 25(g) Power of Attorney of Judith C. Walker, dated June 23, 2000
- 27 Financial Data Schedule

### b) Reports on Form 8-K:

The Company filed the following report on Form 8-K during the quarter ended April 30, 2000:

- (1) Form 8-K dated February 14, 2000, included under Item 5, Other Events, included The Company's press release for quarterly earnings and the Financial Information Release relating to certain

## Edgar Filing: CULP INC - Form 10-K/A

financial information for the quarter ended January 30, 2000.

c) Exhibits:

The exhibits to this Form 10-K are filed at the end of this Form 10-K immediately preceded by an index. A list of the exhibits begins on page 54 under the subheading "Exhibits Index".

d) Financial Statement Schedules:

See Item 14(a) (2)

### SIGNATURES

Pursuant to the requirements of Section 13 of the Securities Exchange Act of 1934, CULP, INC. has caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on the 25th day of April 2001.

CULP, INC.

By /s/ Robert G. Culp, III  
Robert G. Culp, III  
(Chairman and Chief Executive Officer)

By: /s/ Phillip W. Wilson  
Phillip W. Wilson  
(Vice President and Chief Financial and  
Accounting Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated on the 25th day of April 2001.

|   |  |
|---|--|
| /s/ Robert G. Culp, III<br>Robert G. Culp, III<br>(Chairman of the<br>Board of Directors) | /s/ Franklin N. Saxon *<br>Franklin N. Saxon<br>(Director) |
|---|--|

|   |  |
|---|--|
| /s/ Earl N. Phillips, Jr.*<br>Earl N. Phillips, Jr.<br>(Director) | /s/ Judith C. Walker *<br>Judith C. Walker<br>(Director) |
|---|--|

|   |  |
|---|--|
| /s/ Howard L. Dunn, Jr.*<br>Howard L. Dunn, Jr.<br>(Director) | /s/ Robert T. Davis *<br>Robert T. Davis<br>(Director) |
|---|--|

/s/ Patrick B. Flavin\*  
Patrick B. Flavin  
(Director)

/s/ Patrick H. Norton\*  
Patrick H. Norton  
(Director)

\* By Phillip W. Wilson, Attorney-in-Fact, pursuant to Powers of Attorney filed with the Securities and Exchange Commission.

# Edgar Filing: CULP INC - Form 10-K/A

## EXHIBITS INDEX

Exhibit Number Exhibit

24(a) Consent of Independent Public Auditors in connection with the registration statements of Culp, Inc. on Form S-8 (File Nos. 33-13310, 33-37027, 33-80206, 33-62843, and 333-27519), dated March 20, 1987, September 18, 1990, June 13, 1994, September 22, 1995, and May 21, 1997.