

CULP INC
Form 10-Q
March 13, 2015

UNITED STATES

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

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

For the quarterly period ended February 1, 2015
Commission File No. 1-12597

CULP, INC.

(Exact name of registrant as specified in its charter)

NORTH CAROLINA
(State or other jurisdiction of
incorporation or other organization)

56-1001967
(I.R.S. Employer Identification No.)

1823 Eastchester Drive
High Point, North Carolina
(Address of principal executive offices)

27265-1402
(zip code)

(336) 889-5161

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period after the registrant was required to submit and post such files). YES NO

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "accelerated filer, large accelerated filer, and smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one);

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller Reporting Company

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

Edgar Filing: CULP INC - Form 10-Q

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date:

Common shares outstanding at February 1, 2015: 12,219,121
Par Value: \$0.05 per share

INDEX TO FORM 10-Q
For the period ended February 1, 2015

	Page
<u>Part I - Financial Statements</u>	
<u>Item 1. Financial Statements: (Unaudited)</u>	
<u>Consolidated Statements of Net Income -- Three and Nine Months Ended February 1, 2015 and January 26, 2014</u>	I-1
<u>Consolidated Statements of Comprehensive Income - Three and Nine Months Ended February 1, 2015 and January 26, 2014</u>	I-2
<u>Consolidated Balance Sheets -- February 1, 2015, January 26, 2014, and April 27, 2014</u>	I-3
<u>Consolidated Statements of Cash Flows -- Nine Months Ended February 1, 2015 and January 26, 2014</u>	I-4
<u>Consolidated Statements of Shareholders' Equity</u>	I-5
<u>Notes to Consolidated Financial Statements</u>	I-6
<u>Cautionary Statement Concerning Forward-Looking Information</u>	I-27
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	I-28
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	I-47
<u>Item 4. Controls and Procedures</u>	I-47
<u>Part II - Other Information</u>	
<u>Item 1. Legal Proceedings</u>	II-1
<u>Item 1A. Risk Factors</u>	II-1
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	II-1
<u>Item 6. Exhibits</u>	II-2
<u>Signatures</u>	II-3

Item 1: Financial Statements

CULP, INC.
 CONSOLIDATED STATEMENTS OF NET INCOME
 FOR THE THREE AND NINE MONTHS ENDED FEBRUARY 1, 2015, AND JANUARY 26, 2014
 UNAUDITED
 (Amounts in Thousands, Except for Per Share Data)

		THREE MONTHS ENDED	
		February 1, 2015	January 26, 2014
Net sales	\$	81,269	72,389
Cost of sales		66,867	60,552
Gross profit		14,402	11,837
Selling, general and administrative expenses		8,375	7,041
Income from operations		6,027	4,796
Interest expense		-	91
Interest income		(202)	(148)
Other expense		307	279
Income before income taxes		5,922	4,574
Income taxes		2,110	(3,807)
Net income	\$	3,812	8,381
Net income per share, basic	\$	0.31	0.69
Net income per share, diluted		0.31	0.68
Average shares outstanding, basic		12,219	12,188
Average shares outstanding, diluted		12,417	12,405

		NINE MONTHS ENDED	
		February 1, 2015	January 26, 2014
Net sales	\$	231,320	213,119
Cost of sales		191,925	175,974
Gross profit		39,395	37,145
Selling, general and administrative expenses		23,173	21,340

Edgar Filing: CULP INC - Form 10-Q

	Income from operations	16,222	15,805
Interest expense		50	330
Interest income		(478)	(343)
Other expense		380	895
	Income before income taxes	16,270	14,923
Income taxes		6,113	216
	Net income	\$ 10,157	14,707
	Net income per share, basic	\$ 0.83	1.21
	Net income per share, diluted	0.82	1.19
	Average shares outstanding, basic	12,216	12,173
	Average shares outstanding, diluted	12,410	12,405

See accompanying notes to consolidated financial statements.

I-1

CULP, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE THREE AND NINE MONTHS ENDED FEBRUARY 1, 2015, AND JANUARY 26, 2014
(UNAUDITED)

	THREE MONTHS ENDED	
	February 1, 2015	January 26, 2014
Net income	\$3,812	\$8,381
Other comprehensive gain (loss)		
Unrealized gains (losses) on investments	22	(14)
Total other comprehensive gain (loss)	22	(14)
Comprehensive income	\$3,834	\$8,367
	NINE MONTHS ENDED	
	February 1, 2015	January 26, 2014
Net income	\$10,157	\$14,707
Other comprehensive loss		
Unrealized losses on investments	(6)	(128)
Total other comprehensive loss	(6)	(128)
Comprehensive income	\$10,151	\$14,579

See accompanying notes to consolidated financial statements.

CULP, INC.
CONSOLIDATED BALANCE SHEETS
FEBRUARY 1, 2015, JANUARY 26, 2014, AND APRIL 27, 2014
UNAUDITED
(Amounts in Thousands)

	February 1, 2015	January 26, 2014	* April 27, 2014
Current assets:			
Cash and cash equivalents	\$28,772	23,293	29,303
Short-term investments	8,384	7,077	6,294
Accounts receivable, net	30,774	26,392	27,409
Inventories	38,013	43,687	40,674
Deferred income taxes	6,995	7,503	6,230
Income taxes receivable	104	-	121
Other current assets	2,992	2,999	2,344
Total current assets	116,034	110,951	112,375
Property, plant and equipment, net			
Goodwill	35,269	30,115	31,376
Deferred income taxes	11,462	11,462	11,462
Long-term investments	482	1,227	2,040
Other assets	2,063	-	765
	2,505	2,923	2,917
Total assets	\$167,815	156,678	160,935
Current liabilities:			
Current maturities of long-term debt	\$2,200	2,200	2,200
Accounts payable-trade	28,644	25,187	26,686
Accounts payable - capital expenditures	772	235	277
Accrued expenses	9,954	11,812	9,181
Income taxes payable - current	325	130	442
Total current liabilities	41,895	39,564	38,786
Income taxes payable - long-term	3,630	3,953	3,962
Deferred income taxes	3,384	945	1,013
Line of credit	-	573	586
Deferred compensation	3,934	-	2,644
Long-term debt, less current maturities	-	2,200	2,200
Total liabilities	52,843	47,235	49,191

Commitments and Contingencies (Note 16)

Edgar Filing: CULP INC - Form 10-Q

Shareholders' equity			
Preferred stock, \$0.05 par value, authorized 10,000,000	-	-	-
Common stock, \$0.05 par value, authorized 40,000,000 shares, issued and outstanding 12,219,121 at February 1, 2015; 12,250,030 at January 26, 2014; and 12,250,030 at April 27, 2014	611	612	612
Capital contributed in excess of par value	42,856	42,773	42,932
Accumulated earnings	71,571	66,132	68,260
Accumulated other comprehensive loss	(66)	(74)	(60)
Total shareholders' equity	114,972	109,443	111,744
 Total liabilities and shareholders' equity	 \$ 167,815	 156,678	 160,935

* Derived from audited financial statements.

See accompanying notes to consolidated financial statements.

I-3

CULP, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS ENDED FEBRUARY 1, 2015, AND JANUARY 26, 2014
UNAUDITED
(Amounts in Thousands)

	NINE MONTHS ENDED	
	February 1, 2015	January 26, 2014
Cash flows from operating activities:		
Net income	\$ 10,157	14,707
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	4,244	3,964
Amortization of other assets	140	123
Stock-based compensation	482	551
Excess tax benefit related to stock-based compensation	(110)	(143)
Deferred income taxes	3,274	(2,255)
Gain on sale of equipment	(74)	(108)
Foreign currency exchange (gains) losses	(6)	353
Changes in assets and liabilities, net of effects of acquisition of assets:		
Accounts receivable	(3,455)	(2,844)
Inventories	2,536	(5,081)
Other current assets	(739)	(882)
Other assets	(30)	(53)
Accounts payable - trade	2,267	2,487
Accrued expenses and deferred compensation	2,121	13
Income taxes	(108)	162
Net cash provided by operating activities	20,699	10,994
Cash flows from investing activities:		
Capital expenditures	(8,185)	(2,656)
Net cash paid for acquisition of assets	-	(2,640)
Proceeds from the sale of equipment	625	188
Proceeds from life insurance policies	320	-
Payments on life insurance policies	(18)	(30)
Proceeds from the sale of short-term investments	1,628	-
Purchase of short-term investments	(3,719)	(1,916)
Purchase of long-term investments	(1,298)	-
Net cash used in investing activities	(10,647)	(7,054)
Cash flows from financing activities:		
Payments on lines of credit	(538)	-
Payments on long-term debt	(2,200)	(2,200)
Proceeds from common stock issued	94	194

Edgar Filing: CULP INC - Form 10-Q

Common stock shares repurchased	(745)	-
Dividends paid	(6,846)	(1,592)
Debt issuance costs	-		(62)
Excess tax benefit related to stock-based compensation	110		143
Net cash used in financing activities	(10,125)	(3,517)
Effect of exchange rate changes on cash and cash equivalents	(458)	(660)
Decrease in cash and cash equivalents	(531)	(237)
Cash and cash equivalents at beginning of period	29,303		23,530
Cash and cash equivalents at end of period	\$28,772		23,293

See accompanying notes to consolidated financial statements.

I-4

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

	Common Stock		Capital Contributed	Accumulated	Accumulated	Total
	Shares	Amount	in Excess of Par Value	Earnings	Other Comprehensive Income (Loss)	Shareholders' Equity
Balance, April 28, 2013	12,224,894	\$611	41,901	53,017	54	\$95,583
Net income	-	-	-	17,447	-	17,447
Stock-based compensation	-	-	710	-	-	710
Unrealized loss on investments	-	-	-	-	(114)	(114)
Excess tax benefit related to stock based compensation	-	-	143	-	-	143
Fully vested common stock award	3,000	-	-	-	-	-
Common stock issued in connection with exercise of stock options	23,125	1	193	-	-	194
Common stock surrendered for withholding taxes payable	(989)	-	(15)	-	-	(15)
Dividends paid	-	-	-	(2,204)	-	(2,204)
Balance, April 27, 2014 *	12,250,030	612	42,932	68,260	(60)	111,744
Net income	-	-	-	10,157	-	10,157
Stock-based compensation	-	-	482	-	-	482
Unrealized loss on investments	-	-	-	-	(6)	(6)
Excess tax benefit related to stock based compensation	-	-	110	-	-	110
Common stock repurchased	(43,014)	(2)	(743)	-	-	(745)
Fully vested common stock award	3,000	-	-	-	-	-
Common stock issued in connection with exercise of stock options	10,100	1	93	-	-	94
Common stock surrendered for withholding taxes payable	(995)	-	(18)	-	-	(18)
Dividends paid	-	-	-	(6,846)	-	(6,846)
Balance, February 1, 2015	12,219,121	\$611	42,856	71,571	(66)	\$114,972

* Derived from audited financial statements.

See accompanying notes to consolidated financial statements.

I-5

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

1. Basis of Presentation

The accompanying unaudited consolidated financial statements of Culp, Inc. and subsidiaries (the “company”) include all adjustments, which are, in the opinion of management, necessary for fair presentation of the results of operations and financial position. All of these adjustments are of a normal recurring nature. Results of operations for interim periods may not be indicative of future results. The unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements, which are included in the company’s annual report on Form 10-K filed with the Securities and Exchange Commission on July 11, 2014 for the fiscal year ended April 27, 2014.

The company’s nine months ended February 1, 2015 and January 26, 2014, represent 40 and 39 week periods, respectively.

2. Significant Accounting Policies

As of February 1, 2015, there were no changes in the nature of our significant accounting policies or the application of those policies from those reported in our annual report on Form 10-K for the year then ended April 27, 2014.

Recently Adopted Accounting Pronouncements

None

Recently Issued Accounting Pronouncements

In June 2014, the Financial Accounting Standards Board (“FASB”) amended its authoritative guidance on accounting for certain share-based payment awards. The amended guidance requires that share-based compensation awards with terms of a performance target that affects vesting, and that could be achieved after the requisite service period, be treated as a performance condition. As such, the performance target should not be reflected in estimating the grant-date fair value of the award and compensation cost should be recognized in the period in which it becomes probable that the performance target will be achieved. The guidance will be effective in our fiscal 2017 first quarter. The guidance will permit an entity to apply the amendments in the update either (a) prospectively to all awards granted or modified after the effective date or (b) retrospectively to all awards with performance targets that are outstanding as of the beginning of the earliest annual period presented in the consolidated financial statements and to all new or modified awards thereafter. Currently, we do not have any share-based payment awards with terms of a performance target that affects vesting and could be achieved after the requisite service period. We will apply this new guidance when it becomes effective, and we will evaluate the impact of adoption on our consolidated financial statements.

In May 2014, the FASB issued accounting guidance on revenue recognition. The amended guidance will enhance the comparability of revenue recognition practices and will be applied to all contracts with customers. Improved disclosures related to the nature, amount, timing, and uncertainty of revenue that is recognized are requirements under the amended guidance. This guidance will be effective in our fiscal 2018 first quarter and will be required to be applied retrospectively. We are currently assessing the impact that this guidance will have on our consolidated financial statements at this time.

I-6

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

3. Business Combinations – Mattress Fabric Segment

On May 8, 2013, we entered into an asset purchase and consulting agreement with Bodet & Horst GMBH & Co. KG and certain affiliates (“Bodet & Horst”) that provided for, among other things, the purchase of equipment and certain other assets from Bodet & Horst and the restructuring of prior consulting and non-compete agreements pursuant to an earlier asset purchase and consulting agreement with Bodet & Horst dated August 11, 2008. This agreement was accounted for as a business combination in accordance with ASC Topic 805, Business Combinations. We agreed with Bodet & Horst to replace the prior non-compete agreement that prevented us from selling certain mattress fabrics and products to a leading manufacturer, which now allows us to make such sales. In addition, the prior consulting and non-compete agreement, under which Bodet & Horst agreed not to sell most mattress fabrics in North America, was replaced, expanded, and extended pursuant to the new asset purchase and consulting agreement.

The purchase price for the equipment and the other certain assets noted below was \$2.6 million in cash.

Direct acquisition costs related to this business combination totaled \$83,000.

The following table presents the allocation of the acquisition cost to the assets acquired based on their fair values:

(dollars in thousands)	Fair Value
Equipment (Note 10)	\$ 890
Non-compete agreement (Notes 7 and 10)	882
Customer relationships (Notes 7 and 10)	868
	\$ 2,640

The company recorded its non-compete at its fair value based on a discounted cash flow valuation model. The company recorded its customer relationships at its fair value based on a multi-period excess earnings valuation model. This non-compete agreement will be amortized on a straight line basis over the fifteen year life of the agreement. The customer relationships will be amortized on a straight line basis over their useful life of seventeen years. The equipment will be amortized on a straight line basis over its useful life of seven years.

4. Stock-Based Compensation

Incentive Stock Option Awards

We did not grant any incentive stock option awards through the third quarter of fiscal 2015.

At February 1, 2015, options to purchase 140,100 shares of common stock were outstanding and exercisable, had a weighted average exercise price of \$6.49 per share, and a weighted average contractual term of 3.0 years. At February 1, 2015, the aggregate intrinsic value for options outstanding and exercisable was \$1.9 million.

The aggregate intrinsic value for options exercised for the nine months ending February 1, 2015 and January 26, 2014, was \$87,000 and \$224,000, respectively.

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

At February 1, 2015, there were no unvested incentive stock option awards. Therefore, there was no unrecognized compensation cost related to incentive stock option awards at February 1, 2015.

No compensation expense was recorded on incentive stock options for the nine months ended February 1, 2015. We recorded \$10,000 of compensation expense on incentive stock option grants within selling, general, and administrative expense for the nine months ended January 26, 2014.

Common Stock Awards

On October 1, 2014, we granted a total of 3,000 shares of common stock to our outside directors. These shares of common stock vested immediately and were measured at \$17.95 per share, which represents the closing price of the company's common stock at the date of grant.

On October 1, 2013, we granted a total of 3,000 shares of common stock to our outside directors. These shares of common stock vested immediately and were measured at \$18.84 per share, which represents the closing price of the company's common stock at the date of grant.

We recorded \$54,000 and \$57,000 of compensation expense within selling, general, and administrative expense for these common stock awards for the nine month periods ending February 1, 2015, and January 26, 2014, respectively.

Time Vested Restricted Stock Awards

We did not grant any time vested restricted stock awards through the third quarter of fiscal 2015.

We recorded \$4,000 and \$52,000 of compensation expense within selling, general, and administrative expense for time vested restricted stock awards for the nine month periods ending February 1, 2015, and January 26, 2014, respectively.

At February 1, 2015, there were no outstanding and unvested shares of time vested restricted stock. Therefore, there was no unrecognized compensation cost related to time vested restricted stock awards at February 1, 2015.

During the nine month period ended February 1, 2015, 61,667 shares of time vested restricted stock vested and had a weighted average fair value of \$257,000 or \$4.17 per share. During the nine month period ended January 26, 2014, 61,667 shares of time vested restricted stock vested and had a weighted average fair value of \$249,000 or \$4.04 per share.

Performance Based Restricted Stock Units

Fiscal 2015 Grant

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

date of grant. The vesting of these awards is over the requisite service period of three years.

I-8

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

Fiscal 2014 Grant

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

Fiscal 2013 Grant

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

Overall

The company recorded compensation expense of \$424,000 and \$432,000 within selling, general, and administrative expense for performance based restricted stock units for the nine month periods ending February 1, 2015 and January 26, 2014, respectively. Compensation cost is recorded based on an assessment each reporting period of the probability if certain performance goals will be met during the vesting period. If performance goals are not probable of occurrence, no compensation cost will be recognized and any recognized compensation cost would be reversed.

As of February 1, 2015, the remaining unrecognized compensation cost related to the performance based restricted stock units was \$946,000, which is expected to be recognized over a weighted average vesting period of 1.9 years.

5. Accounts Receivable

A summary of accounts receivable follows:

(dollars in thousands)	February 1, 2015	January 26, 2014	April 27, 2014
Customers	\$31,952	\$27,424	\$28,461
Allowance for doubtful accounts	(449)	(484)	(573)
Reserve for returns and allowances and discounts	(729)	(548)	(479)
	\$30,774	\$26,392	\$27,409

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

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

(dollars in thousands)	Nine months ended	
	February 1, 2015	January 26, 2014
Beginning balance	\$(573)	\$(780)
Provision for bad debts	(20)	235
Net write-offs, net of recoveries	144	61
Ending balance	\$(449)	\$(484)

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

(dollars in thousands)	Nine months ended	
	February 1, 2015	January 26, 2014
Beginning balance	\$ (479)	\$ (543)
Provision for returns, allowances and discounts	(2,065)	(1,579)
Credits issued	1,815	1,574
Ending balance	\$ (729)	\$ (548)

6. Inventories

Inventories are carried at the lower of cost or market. Cost is determined using the FIFO (first-in, first-out) method.

A summary of inventories follows:

(dollars in thousands)	February 1, 2015	January 26, 2014	April 27, 2014
Raw materials	\$5,787	\$6,177	\$6,707
Work-in-process	2,227	2,177	2,263
Finished goods	29,999	35,333	31,704
	\$38,013	\$43,687	\$40,674

7. Other Assets

A summary of other assets follows:

(dollars in thousands)	February 1, 2015	January 26, 2014	April 27, 2014
Cash surrender value - life insurance	\$338	\$647	\$644
Non-compete agreement	998	1,047	1,041
Customer relationships	779	830	817
Other	390	399	415
	\$2,505	\$2,923	\$2,917

Non-Compete Agreement

In connection with the asset purchase and consulting agreement with Bodet & Horst on May 8, 2013 (see Note 3), we restructured our prior non-compete agreement pursuant to our asset purchase and consulting agreement dated August 11, 2008. We have agreed with Bodet & Horst to replace the prior non-compete agreement that prevented us from selling certain mattress fabrics and products to a leading manufacturer, that will now allow us to make such sales. In addition, the prior consulting and non-compete agreement, under which Bodet & Horst agreed not to sell mattress fabrics in North America, was replaced, expanded, and extended pursuant to the new asset purchase consulting agreement. We recorded this non-compete agreement at its fair value based on a discounted cash flow valuation model. This non-compete agreement is amortized on a straight-line basis over the fifteen year life of the agreement.

I-10

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

The gross carrying amount of this non-compete agreement was \$2.0 million at February 1, 2015, January 26, 2014 and April 27, 2014, respectively. At February 1, 2015, January 26, 2014, and April 27, 2014, accumulated amortization for the non-compete agreement was \$1.0 million.

Of the \$1.0 million non-compete agreement carrying amount at February 1, 2015, \$219,000 pertains to the non-compete agreement that was in place as part of the asset purchase agreement dated August 11, 2008, and \$779,000 pertains to the non-compete agreement pursuant to the asset purchase agreement dated May 8, 2013 that was restructured to expand the non-compete agreement in place effective August 11, 2008.

Amortization expense for the non-compete agreement was \$56,000 for the nine month periods ended February 1, 2015 and January 26, 2014. The remaining amortization expense for the next five fiscal years and thereafter follows: FY 2015 - \$19,000; FY 2016 - \$75,000; FY 2017 - \$75,000; FY 2018- \$75,000; FY 2019 - \$75,000; and Thereafter - \$679,000.

The weighted average amortization period for the non-compete agreement is 13.3 years as of February 1, 2015.

Customer Relationships

In connection with the asset purchase and consulting agreement with Bodet & Horst noted above, we purchased certain customer relationships. We recorded the customer relationships at its fair value based on a multi-period excess earnings valuation model. The customer relationships are amortized on a straight-line basis over its seventeen year useful life.

The gross carrying amount of these customer relationships was \$868,000 at February 1, 2015, January 26, 2014, and April 27, 2014, respectively. Accumulated amortization for these customer relationships was \$89,000, \$38,000, and \$51,000 at February 1, 2015, January 26, 2014, and April 27, 2014, respectively.

Amortization expense for the customer relationships was \$38,000 for the nine months ending February 1, 2015 and January 26, 2014. The remaining amortization expense for the next five fiscal years and thereafter follows: FY 2015 - \$13,000; FY 2016 - \$51,000; FY 2017 - \$51,000; FY 2018 - \$51,000; FY 2019 - \$51,000; and Thereafter - \$562,000.

The weighted average amortization period for the non-compete agreement is 15.3 years as of February 1, 2015.

Cash Surrender Value – Life Insurance

On May 16, 2014, we entered into an agreement with a former employee and his irrevocable trust (the “Trust”) dated September 7, 1995. As a result of this agreement, a previous split dollar life insurance agreement in which we purchased a policy on the life of this former employee and his spouse, in which we retained ownership of the policy, paid premiums to support the policy, had the right to receive cash surrender value of the policy upon the second to die of the former employee and his spouse, with the Trust receiving the remainder of the policy’s death benefit (\$2.5 million), was terminated. In connection with the termination of the previous split dollar life insurance agreement, we transferred the life insurance policy to the Trust and received cash proceeds in the amount of the cash surrender value policy totaling \$320,000 during the second quarter of fiscal 2015.

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

At February 1, 2015, we had one life insurance contract with a death benefit of \$1.4 million. At January 26, 2014 and April 27, 2014, we had two life insurance contracts with death benefits to the respective insured totaling \$3.9 million. Our cash surrender value – life insurance balances totaling \$338,000, \$647,000 and \$644,000 at February 1, 2015, January 26, 2014, and April 27, 2014, respectively, are collectible upon death of the respective insured.

8. Accrued Expenses

A summary of accrued expenses follows:

(dollars in thousands)	February 1, 2015	January 26, 2014	April 27, 2014
Compensation, commissions and related benefits	\$6,399	\$8,747	\$7,388
Interest	81	158	71
Other accrued expenses	3,474	2,907	1,722
	\$9,954	\$11,812	\$9,181

9. Long-Term Debt and Lines of Credit

A summary of long-term debt follows:

(dollars in thousands)	February 1, 2015	January 26, 2014	April 27, 2014
Unsecured senior term notes	\$2,200	\$4,400	\$4,400
Current maturities of long-term debt	(2,200)	(2,200)	(2,200)