CULP INC
Form 8-K
November 19, 2001

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 8-K

CURRENT REPORT

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

Date of Report (Date of earliest event reported) November 19, 2001

CULP, INC.

(Exact name of registrant as specified in its charter)

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

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

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

Item 5. Other Events

See attached Press Release (3 pages) and Financial Information Release (9 pages), both dated November 19, 2001, related to the fiscal 2002 second quarter ended October 28, 2001.

Forward Looking Information. This Report 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.

SIGNATURE

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

CULP, INC.
(Registrant)

By: Franklin N. Saxon

Executive Vice President and
Chief Financial Officer

Dated: November 19, 2001

FOR IMMEDIATE RELEASE

CULP REPORTS IMPROVED SECOND QUARTER EARNINGS

STRONGER CASH POSITION REFLECTS BENEFITS
OF BALANCE SHEET MANAGEMENT AND RESTRUCTURING ACTIONS

HIGH POINT, N. C. (Nov. 19, 2001) - Culp, Inc. (NYSE: CFI) today reported improved earnings compared with a year ago and a significant strengthening in its cash position for the second quarter of its 2002 fiscal year. The company said that excluding restructuring-related charges, net income for the second quarter was $1.0 million, or $0.09 per share diluted, up from net income a year ago of $342,000, or $0.03 per share. Culp said that net income for the second quarter included bad debt expense of $1.4-million ($0.08 per share after taxes), up from $112,000 a year ago. Culp indicated that it continues to expect to operate profitably for fiscal 2002 as a whole, excluding restructuring and related charges.

For the three months ended October 28, 2001, Culp reported net sales of $96.4 million compared with $111.0 million a year ago. Including restructuring-related charges, the company reported net income for the second quarter of $857,000 or $0.08 per share diluted.

The results for the second quarter brought net sales for the first half of fiscal 2002 to $182.9-million compared with $212.9 million a year ago. Excluding restructuring and related charges, Culp reported a loss for the first half of fiscal 2002 of $375,000, or $0.03 per share diluted, compared with a net loss of $1.4 million, or $0.13 per share diluted, in the year-earlier period. Including restructuring and related charges, the Company reported a loss for the first half of fiscal 2002 of $2.0-million, or $0.18 per share diluted. Culp indicated that bad debt expense for the first half of fiscal 2002 totaled $2.2 million ($0.13 per share after taxes) versus $157,000 in the year-earlier period.

"In an especially challenging business environment, Culp is demonstrating the value of the actions we have taken to reduce costs and strengthen our balance sheet," remarked Robert G. Culp, III, chief executive officer. Although sales for the second quarter were 13% lower than a year ago, we still reported a meaningful improvement in profitability. We also achieved sufficient cash flow from operations to increase our cash position to $8.6 million at the close of the second quarter, up significantly from $1.2 million at the end of fiscal 2001. Our strategic goal remains to continue enhancing the value and service we provide customers, which ultimately is the key to driving a long-term recovery in our profitability. Although there is considerable uncertainty about the immediate trend in demand, we remain optimistic about operating profitably for fiscal 2002 as a whole, excluding restructuring and related charges.

"This is proving to be a period of significant change in the home furnishings industry. Several of the largest retail chains have not had sufficient financial liquidity to survive and have had to close. This, in turn, has affected the furniture and bedding manufacturers that we serve. We have been working hard to minimize the impact of this industry-wide slowdown on Culp but have still had to recognize considerably higher credit losses in fiscal 2002 due principally to specific problems that two residential furniture customers and one bedding manufacturer have experienced. Culp's overall receivable position does not mirror our experience with these three customers; and based on current facts and trends, we believe our bad debt reserves are adequate."

Culp added, "One of the structural benefits of the capacity consolidations that we completed during the first half is a more cohesive organization. Linking our design resources more closely with our manufacturing and distribution facilities is helping us adjust to changes in styles and market needs faster with more reliable service. This extends throughout our entire product line of upholstery fabrics and mattress ticking.

"As we started fiscal 2002, we knew that it would be imperative to manage our working capital and other key components of our balance sheet even more closely to minimize the impact of the industry-wide slowdown on our financial position. Our performance in terms of building liquidity for the second quarter extended the momentum from the first period. Our debt of $110.6 million at the close of the quarter was down $16.0 million from a year ago and was $27.0 million below our long-term borrowings of $137.5 million at the close of fiscal

2000, 18 months ago. Our capital expenditures for fiscal 2002 remain targeted at approximately $4 million, compared with $8.1 million in fiscal 2001."

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

This release 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.

CULP, INC.
Condensed Financial Highlights
(Unaudited)

	Three Months Ended	
	October 28, 2001	October 29, 2000
Net sales	$ 96,400,000	$ 110,981,000
Net income	$ 857,000	$ 342,000
Net income per share:		
Basic	$ 0.08	$ 0.03
Diluted	$ 0.08	$ 0.03
Net income per diluted share, excluding restructuring and related charges*	$ 0.09	$ 0.03
Average shares outstanding:		
Basic	11,221,000	11,209,000
Diluted	11,281,000	11,270,000

	Six Months Ended	
	October 28, 2001	October 29, 2000
Net sales	$ 182,863,000	$ 212,859,000
Net (loss)	$ (2,025,000)	$ (1,414,000)
Net (loss) per share:		

Basic	$ (0.18)	$ (0.13)
Diluted	$ (0.18)	$ (0.13)
Net (loss) per diluted share, excluding restructuring and related charges*	$ (0.03)	$ (0.13)
Average shares outstanding:		
Basic	11,221,000	11,209,000
Diluted	11,221,000	11,209,000

* Excludes restructuring and related charges of $0.2 million ($0.1 million, or $0.01 per share diluted, after taxes) in the second quarter of fiscal 2002 and $2.5 million ($1.6 million or $0.15 per share diluted, after taxes) for the first half of fiscal 2002.

\- END -

CULP, INC. FINANCIAL INFORMATION RELEASE
CONSOLIDATED STATEMENTS OF INCOME (LOSS)
FOR THE THREE MONTHS AND SIX MONTHS ENDED OCTOBER 28, 2001 AND OCTOBER 29, 2000
(Amounts in Thousands, Except for Per Share Data)

	THREE MONTHS ENDED (UNAUDITED)			
	Amounts			Perce
	October 28, 2001	October 29, 2000	% Over (Under)	2002
Net sales	$ 96,400	110,981	(13.1) %	100.
Cost of sales	80,858	94,094	(14.1) %	83.
Gross profit	15,542	16,887	(8.0) %	16.
Selling, general and administrative expenses	11,550	13,491	(14.4) %	12.
Restructuring expense	0	0	0.0 %	0.
Income from operations	3,992	3,396	17.6 %	4.
Interest expense	1,963	2,285	(14.1) %	2.
Interest income	(34)	(15)	126.7 %	(0.
Other expense (income), net	765	575	33.0 %	0.
Income before income taxes	1,298	551	135.6 %	1.
Income taxes *	441	209	111.0 %	34.
Net income	$ 857	342	150.6 %	0.
Net income per share	$0.08	$0.03	166.7 %	
Net income per share, assuming dilution	$0.08	$0.03	166.7 %	
Net income per share, excluding restructuring and related charges **	$0.09	$0.03	200.0 %	
Average shares outstanding	11,221	11,209	0.1 %	
Average shares outstanding, assuming dilution	11,281	11,270	0.1 %	

		SIX MONTHS ENDED (UNAUDITED)			
		Amounts			Perce
		October 28, 2001	October 29, 2000	% Over (Under)	2002
Net sales	$	182,863	212,859	(14.1) %	100.0
Cost of sales		156,532	181,798	(13.9) %	85.6
Gross profit		26,331	31,061	(15.2) %	14.4
Selling, general and administrative expenses		22,785	27,269	(16.4) %	12.5
Restructuring expense		1,303	0	100.0 %	0.7
Income from operations		2,243	3,792	(40.8) %	1.2
Interest expense		4,031	4,608	(12.5) %	2.2
Interest income		(57)	(22)	159.1 %	(0.0
Other expense (income), net		1,337	1,316	1.6 %	0.7
Loss before income taxes		(3,068)	(2,110)	(45.4) %	(1.7
Income taxes *		(1,043)	(696)	(49.9) %	34.0
Net loss	$	(2,025)	(1,414)	(43.2) %	(1.1
Net loss per share		($0.18)	($0.13)	(38.5) %	
Net loss per share, assuming dilution		($0.18)	($0.13)	(38.5) %	
Net (loss) per share, excluding restructuring and related charges **		($0.03)	($0.13)	76.9 %	
Average shares outstanding		11,221	11,209	0.1 %	
Average shares outstanding, assuming dilution		11,221	11,209	0.1 %	

* Percent of sales column is calculated as a % of income (loss) before income taxes.
** Excludes restructuring and related charges of $0.2 million ($0.1 million or $.01 per share
in the second quarter of 2002, and $2.5 million ($1.6 million or $.15 per share diluted, after

CULP, INC. FINANCIAL INFORMATION RELEASE
CONSOLIDATED BALANCE SHEETS
OCTOBER 28, 2001, OCTOBER 29, 2000, APRIL 29, 2001
Unaudited
(Amounts in Thousands)

		Amounts		(
		October 28, 2001	October 29, 2000	Amount
Current assets				
Cash and cash investments	$	8,590	744	7,

Accounts receivable		49,402	63,991	(14,
Inventories		60,814	72,967	(12,
Other current assets		9,851	11,003	(1,
Total current assets		128,657	148,705	(20,
Property, plant & equipment, net		105,697	120,023	(14,
Goodwill		47,781	49,176	(1,
Other assets		1,682	6,508	(4,
Total assets	$	283,817	324,412	(40,
Current liabilities				
Current maturities of long-term debt	$	3,136	1,678	1,
Accounts payable		25,870	30,351	(4,
Accrued expenses		17,196	22,404	(5,
Income taxes payable		0	0	
Total current liabilities		46,202	54,433	(8,
Long-term debt		107,447	125,079	(17,
Deferred income taxes		10,330	17,459	(7,
Total liabilities		163,979	196,971	(32,
Shareholders' equity		119,838	127,441	(7,
Total liabilities and shareholders' equity	$	283,817	324,412	(40,
Shares outstanding		11,221	11,209	

* Derived from audited financial statements.

CULP, INC. FINANCIAL INFORMATION RELEASE
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE SIX MONTHS ENDED OCTOBER 28, 2001 AND OCTOBER 29, 2000
Unaudited
(Amounts in Thousands)

		SIX MONTHS ENDED	
		Amounts	
		October 28, 2001	Octobe 200
Cash flows from operating activities:			
Net loss	$	(2,025)	

Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation	8,871	
Amortization of intangible assets	785	
Amortization of deferred compensation	39	
Restructuring expense	1,303	
Changes in assets and liabilities:		
Accounts receivable	8,447	
Inventories	(817)	
Other current assets	(2,006)	
Other assets	(17)	
Accounts payable	2,522	
Accrued expenses	(1,067)	
Income taxes payable	(1,268)	
Net cash provided by operating activities	14,767	
Cash flows from investing activities:		
Capital expenditures	(2,288)	
Purchase of investments to fund deferred compensation liability	0	
Net cash used in investing activities	(2,288)	
Cash flows from financing activities:		
Principal payments on long-term debt	(1,073)	(
Change in accounts payable-capital expenditures	(4,023)	
Dividends paid	0	
Net cash used in financing activities	(5,096)	(
Increase (decrease) in cash and cash investments	7,383	
Cash and cash investments at beginning of period	1,207	
Cash and cash investments at end of period	$ 8,590	

CULP, INC. FINANCIAL INFORMATION RELEASE
FINANCIAL ANALYSIS
OCTOBER 28, 2001

	FISCAL 01	FISCAL 02	
	Q2	Q1	Q2
INVENTORIES			
Inventory turns	5.1	5.1	5.4
RECEIVABLES			
Days sales in receivables	52	51	47
Percent current & less than 30 days past due	94.7%	91.9%	92.7%
WORKING CAPITAL			

Current ratio	2.7	2.8	2.8
Working capital turnover (2)	4.2	4.1	4.1
Operating working capital (2)	$106,607	$86,586	$84,346
PROPERTY, PLANT & EQUIPMENT			
Depreciation rate	7.9%	7.2%	7.1%
Percent property, plant & equipment are depreciated	52.6%	56.2%	58.1%
Capital expenditures	$8,050 (1)	$1,602	$686
PROFITABILITY			
Return on average total capital	2.7%	(2.7%)	3.7%
Return on average equity	1.1%	(9.6%)	2.9%
Net income (loss) per share	$0.03	($0.26)	$0.08
Net income (loss) per share (diluted)	$0.03	($0.26)	$0.08
Net income (loss) per share, excluding restructuring and related charges (5)	$0.03	($0.12)	$0.09
LEVERAGE			
Total liabilities/equity	155.9%	136.6%	136.8%
Funded debt/equity	100.3%	93.1%	92.3%
Funded debt/capital employed	50.1%	48.2%	48.0%
Funded debt	$126,757	$110,652	$110,583
Funded debt/EBITDA (LTM) (4)	3.59	4.26	4.26
OTHER			
Book value per share	$11.27	$10.59	$10.68
Employees at quarter end	3,623	3,018	3,000
Sales per employee (annualized)	$121,000	$113,000	$128,000
Capital employed	$253,096	$229,461	$230,421
Effective income tax rate	37.9%	34.0%	34.0%
EBITDA (4)	$8,203	$4,731	$8,315
EBITDA/net sales (4)	7.4%	5.5%	8.6%

(1) Expenditures for entire year
(2) Working capital for this calculation is accounts receivable, inventories and accounts payab
(3) LTM represents "Latest Twelve Months"
(4) EBITDA includes earnings before interest, income taxes, depreciation, amortization, all re charges and certain non-cash charges, as defined by the company's credit agreement.
(5) Excludes restructuring and related charges in the second quarter of 2002 of $0.2 million ($ diluted, after taxes) and $9.9 million ($6.6 million or $0.60 per share diluted, after taxe

CULP, INC. FINANCIAL INFORMATION RELEASE
SALES BY PRODUCT GROUP
FOR THE THREE MONTHS AND SIX MONTHS ENDED OCTOBER 28, 2001 AND OCTOBER 29, 2000
(Amounts in thousands)

	THREE MONTHS ENDED (UNAUDITED)				
	Amounts			Percent of Tota	
Product Group	October 28, 2001	October 29, 2000	% Over (Under)	2002	
Upholstery Fabrics					
Culp Decorative Fabrics	$ 38,492	46,792	(17.7) %	39.9 %	
Culp Velvets/Prints	30,354	32,073	(5.4) %	31.5 %	

Culp Yarn		1,532	4,134	(62.9) %	1.6 %	
		70,378	82,999	(15.2) %	73.0 %	
Mattress Ticking						
Culp Home Fashions		26,022	27,982	(7.0) %	27.0 %	
	* $	96,400	110,981	(13.1) %	100.0 %	1

		SIX MONTHS ENDED (UNAUDITED)				
		Amounts			Percent of Tota	
Product Group		October 28, 2001	October 29, 2000	% Over (Under)	2002	2
Upholstery Fabrics						
Culp Decorative Fabrics	$	73,652	88,325	(16.6) %	40.3 %	
Culp Velvets/Prints		55,875	62,147	(10.1) %	30.5 %	
Culp Yarn		2,498	7,453	(66.5) %	1.4 %	
		132,025	157,925	(16.4) %	72.2 %	
Mattress Ticking						
Culp Home Fashions		50,838	54,934	(7.5) %	27.8 %	
	* $	182,863	212,859	(14.1) %	100.0 %	1

* U.S. sales were $82,280 and $87,022 for the second quarter of fiscal 2002 and fiscal 2001, respectively; and $154,079 and $169,312 for the six months of fiscal 2002 and 2001, respectively. The percentage decrease in U.S. sales was 5.4% for the second quarter and a decrease of 9.0% for the six months.

CULP, INC. FINANCIAL INFORMATION RELEASE
INTERNATIONAL SALES BY GEOGRAPHIC AREA
FOR THE THREE MONTHS AND SIX MONTHS ENDED OCTOBER 28, 2001 AND OCTOBER 29, 2000
(Amounts in thousands)

	THREE MONTHS ENDED (UNAUDITED)				
	Amounts			Percent of Total	
Geographic Area	October 28, 2001	October 29, 2000	% Over Under)	2002	

North America (Excluding USA)	$	8,379	9,556	(12.3) %	59.3 %	3
Europe		938	1,807	(48.1) %	6.6 %	
Middle East		1,311	5,489	(76.1) %	9.3 %	2
Far East & Asia		2,891	5,590	(48.3) %	20.5 %	2
South America		177	279	(36.6) %	1.3 %	
All other areas		424	1,238	(65.8) %	3.0 %	
	$	14,120	23,959	(41.1) %	100.0 %	10

		SIX MONTHS ENDED (UNAUDITED)				
		Amounts			Percent of Total	
Geographic Area		October 28, 2001	October 29, 2000	% Over (Under)	2002	
North America (Excluding USA)	$	16,410	17,951	(8.6) %	57.1 %	4
Europe		1,643	3,259	(49.6) %	5.7 %	
Middle East		4,214	10,532	(60.0) %	14.6 %	2
Far East & Asia		5,483	8,826	(37.9) %	19.0 %	2
South America		336	585	(42.6) %	1.2 %	
All other areas		698	2,394	(70.8) %	2.4 %	
	$	28,784	43,547	(33.9) %	100.0 %	10

International sales, and the percentage of total sales, for each of the last five fiscal years follows: fiscal 1997-$101,571 (25%); fiscal 1998-$137,223 (29%); fiscal 1999-$113,354 (23%); fiscal 2000-$111,104 (23%); and fiscal 2001-$77,824 (19%). International sales for the second quarter represented 14.6% and 21.6% for 2002 and 2001, respectively. Year-to-date international sales represented 15.7% and 20.5% of total sales for 2002 and 2001, respectively.

CULP, INC. FINANCIAL INFORMATION RELEASE
FINANCIAL NARRATIVE
for the three months ended October 28, 2001 and October 29, 2000

INCOME STATEMENT COMMENTS

GENERAL - For the second quarter, net sales decreased 13.1% to $96.4 million; and the company reported net income of $857,000, or $0.08 per share diluted, (based on 11,281,000 average shares outstanding) versus net income of $342,000, or $0.03 per share diluted, (based on 11,270,000 average shares outstanding) in the second quarter of fiscal 2001. For the first six months of fiscal 2002, net sales decreased 14.1% to $182.9 million, and the company reported a net loss $2.0 million, or $0.18 per share diluted (based on 11,221,000 average shares outstanding), versus a net loss of $1.4 million, or $0.13 per share diluted (based on 11,209,000 average share outstanding during the period), a year ago. As described below in "SG&A EXPENSES," a significant factor affecting the second quarter and first half was bad debt expense of $1.4 million and $2.2 million, respectively ($0.08 and $0.13 per share, respectively, on an after-tax basis). This compares with bad debt expense of $112,000 and

$157,000 for the second quarter and first half of 2001, respectively. Excluding restructuring and related charges, earnings would have been $1.0 million, or $0.09 per share diluted, for the second quarter, and the loss for the first six months of fiscal 2002 would have been $375,000, or ($0.03) per share diluted.

The company's long-term, strategic plan encompasses several competitive initiatives:

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 most major categories except leather;

Diverse Customer Base - maintaining a diverse customer base. The company has long-standing relationships with most major upholstery furniture manufacturers. Ownership of resources in the home furnishings industry is becoming increasingly concentrated, and the company has successfully been able to capitalize on its size and product breadth to supply more of the needs of existing customers. Culp is pursuing opportunities in other end-use markets in addition to U.S. residential furniture and bedding, such as international, commercial furniture and juvenile furniture;

Design Innovation - supplying fabrics that are fashionable and match current consumer preferences. The company's principal design resources are consolidated in a single facility that has advanced computer-assisted design systems and promotes sharing of innovative designs across product lines. Culp encourages active customer involvement in the entire design process; and

Vertical Integration - operating as a vertically integrated manufacturer and taking advantage of economies, quality, supply availability and efficiencies that can be gained by producing the raw material components that are used in the manufacture of its products.

RESTRUCTURING ACTIONS - During fiscal 2001, the company initiated a restructuring plan intended to lower operating expenses, increase manufacturing utilization, raise productivity and position the company to operate profitably within the current environment of reduced demand. The plan involved the consolidation of certain fabric manufacturing capacity within the Culp Decorative Fabrics division, closing one of the company's four yarn manufacturing plants within Culp Yarn, and an extensive reduction in selling, general and administrative expenses. The company also recognized certain inventory write-downs related to the closed facilities as part of this initiative. The total charge from the restructuring, cost reduction and inventory write-down initiatives was $9.9 million, about $3.6 million of which represented non-cash items. The company recognized $7.4 million of restructuring and related charges during fiscal 2001, and $2.5 million in the first half of fiscal 2002. For the second quarter, restructuring- related charges totaled $0.2 million and were recorded in "Cost of sales." For the first six months of fiscal 2002, restructuring and related charges were recorded as $1.3 million in the line item "Restructuring expense" and $1.2 million in "Cost of sales." The costs reflected in "Cost of sales" are principally related to the relocation of manufacturing equipment. The company plans to realize annualized cost reductions of at least $14 million when the full benefit of this program is realized. Management believes the company now has a sound footprint of efficient, world-class facilities utilizing state-of-the-art equipment that position Culp well to meet the demands by manufacturers for shorter lead times, reliable delivery schedules and appealing designs.

NET SALES - Compared with fiscal 2001, upholstery fabric sales for the second quarter of fiscal 2002 decreased 15.2% to $70.4 million, and decreased 16.4% to $132 million for the first six months of fiscal 2002 (See Sales by

Product Group schedule on Page 5). Reflecting a continuation of the trends identified in the first quarter, the upholstery fabric sales decrease in the second quarter represents: (1) a sharp reduction (44.2%, or $8.4 million) in international sales, principally reflecting the high value of the U.S. dollar relative to international currencies; (2) a decrease in external yarn sales (62.9% or $2.6 million) due to the company's internal consumption of more of the yarn division's output and exit from certain yarn businesses as part of the restructuring plan; and (3) a decrease in sales to contract furniture customers ($1.4 million). Sales to U.S. residential furniture manufacturers in the second quarter of fiscal 2002 decreased only $0.2 million compared with the second quarter of fiscal 2001. The company believes that it is improving its market share in the U.S. residential market because of well-received fabric placements in the Culp Decorative Fabrics and Culp Velvets/Prints product groups.

Compared with fiscal 2001, mattress ticking sales for the second quarter of fiscal 2002 decreased 7.0% to $26 million, and decreased 7.5% to $50.8 million for the first six months of fiscal 2002. The sales decrease in mattress ticking reflects an overall slowdown in industry-wide demand for bedding in the U.S.

GROSS PROFIT - Gross profit included restructuring-related charges of $0.2 million. Excluding these charges, gross profit declined 7.0% for the second quarter of fiscal 2002 compared with the year-earlier period but increased as a percentage of net sales from 15.2% to 16.3%. The increase in gross profit percentage reflects the benefit of the restructuring steps and other actions that have been taken to reduce expenses. The company achieved higher gross margins in each of its product groups except for Culp Decorative Fabrics ("CDF"). The principal factors affecting CDF have been higher cost variances due to lower sales volume and lower manufacturing productivity due to the consolidation activities that have been concentrated within CDF. The productivity of CDF during the second quarter improved from the first quarter, and Culp expects that positive trend to continue during the second fiscal half.

SG&A EXPENSES - Reflecting the impact of the company's actions to reduce expenses, SG&A expenses for the second quarter declined 14.4% from the prior year. SG&A expenses in the second quarter included bad debt expense of $1.4 million compared with $112,000 in the year-earlier period. Without the additional bad debt expense, SG &A expenses were reduced by $3.3 million, or 24.8%, and were 10.5% of net sales. For the first six months of fiscal 2002, bad debt expense totaled $2.2 million. Without the additional bad debt expense, SG&A expenses for the first six months were reduced by $6.7 million, or 24.5%, and were 11.3% of net sales. The increase in bad debt expense from a year ago reflects primarily write-offs of one bedding and two residential furniture customers.

INTEREST EXPENSE - Interest expense for the second quarter declined 14.1% from $2.3 million to $2.0 million due to significantly lower borrowings outstanding, offset somewhat by a substantial increase in interest rates.

OTHER EXPENSE (INCOME), NET - Other expense (income) for the second quarter of fiscal 2002 totaled $765,000 compared with $575,000 in the prior year. The increase reflects the accrual for certain litigation expenses, offset by the elimination of the nonqualified deferred compensation plan terminated in January 2001 as a part of the company's cost reduction initiatives.

INCOME TAXES - The effective tax rate for the first half of fiscal 2002 was 34.0% compared with 33.0% for the year-earlier period.

EBITDA - EBITDA for the second quarter of fiscal 2002 was $8.3 million compared with $8.2 million for the second quarter of last year, and was $13.0 million for the first half of fiscal 2002 compared with $13.3 million in the year-earlier period. EBITDA includes earnings before interest, income taxes, depreciation, amortization, all restructuring and related charges and certain non-cash charges, as defined by the company's credit agreement.

BALANCE SHEET COMMENTS

CASH AND CASH INVESTMENTS - Cash and cash investments as of October 28, 2001 increased to $8.6 million from $1.2 million at fiscal year end, reflecting cash flow from operations of $14.8 million for the first half of fiscal 2002, which exceeded capital expenditures of $2.3 million and debt repayment of $5.1 million.

WORKING CAPITAL - Accounts receivable as of October 28, 2001 decreased 22.8% from the year-earlier level, due principally to the decline in sales and the company's focus on sustaining a liquid working capital position. Days sales outstanding totaled 47 days at October 28, 2001 compared with 52 a year ago. The aging of accounts receivable was 92.7% current and less than 30 days past due versus 94.7% a year ago. Inventories at the close of the second quarter decreased 16.7% from a year ago. Inventory turns for the second quarter were 5.4 versus 5.1 for the year-earlier period. Operating working capital (comprised of accounts receivable, inventory and accounts payable) was $84.3 million at October 28, 2001, down from $106.6 million a year ago.

PROPERTY, PLANT AND EQUIPMENT - Capital spending for the six months of fiscal 2002 decreased to $2.3 million. The company's budget for capital spending for fiscal 2002 is $4.0 million, compared with $8.1 million in fiscal 2001. Depreciation for the second quarter of fiscal 2002 totaled $4.4 million.

LONG-TERM DEBT - The company has reduced funded debt by $16.2 million or 12.8% from the second quarter of last year. Funded debt equals long-term debt plus current maturities. Funded debt was $110.6 million at October 28, 2001, compared with $126.8 million a year ago and $111.7 million at fiscal year end. Compared with 50.1% a year ago, the company's funded debt-to-capital ratio was 48% at October 28, 2001, its lowest level since July 1997. During fiscal 2001, the company amended its credit facility to include terms that restrict the payment of cash dividends and share repurchases at this time, limit capital expenditures, increase the interest rate on its revolving credit facility from LIBOR plus 1.60% to LIBOR plus 4.00% and increase the letter of credit fees on IRBs from 1.10% to 4.00%. The amended credit facility lowered the amount of funds available under the facility from $88 million to $20 million. The company had outstanding borrowings of approximately $1 million under the facility at the end of the second quarter of fiscal 2002. The company was in compliance with its loan agreements as of October 28, 2001. Other than the credit facility, required principal payments under the respective loan agreements during the remainder of fiscal 2002 and during fiscal 2003 total $1.5 million and $2.2 million, respectively.