CULP

2003

ANNUAL REPORT TO SHAREHOLDERS

Company Profile

Culp, Inc. ranks as one of the world's largest marketers of upholstery fabrics for furniture and mattress fabrics for bedding. The Culp team of approximately 2,400 associates markets over 3,000 patterns of upholstery fabrics and over 1,000 styles of mattress fabrics. The company is a fully integrated marketer with manufacturing plants in North and South Carolina and Canada.

Shares in Culp, Inc. are traded on the New York Stock Exchange under the symbol CFI.

2003 Highlights

- Significant improvement in earnings over fiscal 2002 (excluding cumulative effect of accounting change and restructuring and related charges)
- Gross profit margin of 17.0% compared with 16.4% in fiscal 2002
- Cash flow from operations of $31.1 million in fiscal 2003 and $42.2 million in fiscal 2002
- Long-term debt reduced to $76.5 million, down $32.0 million from $108.5 million at the end of fiscal 2002

Financial Highlights

(dollars in thousands, except per share data)	2003	2002	% Change
STATEMENTS OF INCOME			
Net sales	$ 339,646	$ 382,574	(11.2)%
Loss before cumulative effect of accounting change	(736)	(3,440)	
Pro forma net income (Table 1)	8,978	4,916	82.6
PER SHARE			
Loss before cumulative effect of accounting change	$ (0.06)	$ (0.31)	80.6%
Pro forma net income (Table 2)	0.77	0.44	75.0
Book value	8.33	10.52	(20.8)
BALANCE SHEET			
Cash, cash equivalents and short-term investments	$ 24,398	$ 31,993	(23.7)%
Long-term debt	76,500	108,484	(29.5)
Long-term debt to capital	44.4%	47.7%	

Table 1:
Reconciliation of Net Income (Loss) as Reported to Pro Forma Net Income

	2003	2002
Net income (loss), as reported	$ (24,887)	$ (3,440)
Cumulative effect of accounting change, net of income taxes	24,151	–
Loss before cumulative effect of accounting change	(736)	(3,440)
Restructuring and related charges, net of income taxes (note 2)	9,714	7,435
Goodwill amortization, net of income taxes (note 19)	–	921
Pro forma net income	$ 8,978	$ 4,916

Table 2:
Reconciliation of Net Income (Loss) Per Share as Reported to Pro Forma Net Income Per Share

	2003	2002
Diluted net income (loss) per share, as reported	$ (2.17)	$ (0.31)
Cumulative effect of accounting change, net of income taxes	2.11	–
Loss before cumulative effect of accounting change	(0.06)	(0.31)
Restructuring and related charges, net of income taxes (note 2)	0.85	0.66
Goodwill amortization, net of income taxes (note 19)	–	0.09
Effect of dilutive stock options	(0.02)	–
Pro forma diluted net income per share	$ 0.77	$ 0.44

(Throughout this annual report, 2003, 2002, 2001, 2000 and 1999 are used to refer, respectively, to the company's fiscal years that ended in those same calendar periods.)

Without question, 2003 was a challenging year for Culp and most companies associated with the furniture industry. Our sales performance reflects a consumer marketplace that has been weighed down by the ongoing economic uncertainties created by rising unemployment, weak consumer confidence and distractions over the war in Iraq. As a result, the company experienced a significant decline in demand for home furnishings. While we acknowledge these challenges, we believe we have strategically positioned Culp for a brighter future. The extraordinary events of the past year have demonstrated that companies with sound business models move forward even during challenging times. Against the most difficult industry landscape we have experienced in over 30 years in business, Culp has continued to consistently execute a strategy that has produced a record of long-term success. Our sense of confidence derives from the knowledge that we have taken – and continue to take – the actions necessary to right-size the company and position Culp to benefit from the market share opportunities that we believe will exist after this business cycle ends.

Our ability to enhance our overall results and achieve higher margins during the past year affirms our strategic plan. We believe that the design creativity and quality we put into our fabrics and our commitment to superior customer service will continue to differentiate Culp in the marketplace.

Solid Execution in Meeting Key Objectives

For the year we reported net sales of $339.6 million, compared with net sales of $382.6 million for fiscal 2002. This decline in sales reflects the slowdown in the economy and soft consumer spending for home furnishings. In addition, the discontinuation of the wet printed flock upholstery fabric business at the end of 2002, and our initiatives to eliminate unprofitable or low margin product lines, contributed to the overall decline in sales. However, even with the disappointing trends on our top line, we are pleased that fiscal 2003 as a whole showed meaningful improvement over fiscal 2002 in several key areas. Recognizing there are many things in this economic environment we cannot control, our strategy for 2003 was to focus on the aspects of our business we can control and identify what we believed would be Culp's key drivers for success:

- Achieving excellence in design creativity
- Providing superior customer service and delivery performance
- Improving the profitability of our sales mix
- Realizing greater operating efficiencies through cost reduction, improved productivity, and increased asset utilization, and
- Maintaining a strong, liquid balance sheet

Throughout the year Culp demonstrated solid execution in meeting these objectives, resulting in significant improvement in operating results over the prior year. Including restructuring charges and the cumulative effect of accounting change, the company reported a net loss for fiscal 2003 of $24.9 million, or $2.17 per diluted share, compared with a net loss of $3.4 million, or $0.31 per diluted share, for fiscal 2002. Excluding restructuring and related charges and the cumulative effect of accounting change, pro forma net income for fiscal 2003 was $9.0

million, or $0.77 per diluted share. This compares with pro forma net income of $4.9 million, or $0.44 per diluted share, excluding restructuring and related charges, and goodwill amortization for the prior year. Please refer to the front of this annual report for a reconciliation of pro forma net income for fiscal 2002 and 2003.

Despite a challenging business climate, our strategic focus on increasing the profitability of our sales mix and carefully managing our costs allowed us to achieve meaningful improvement in profitability in 2003. For the year our gross profit margin increased to 17.0 percent from 16.4 percent in the prior year. We were especially encouraged by the 17.3 percent gross profit margin we achieved in the third quarter of this year. We believe our ability to achieve higher profit margins in a difficult sales environment reflects the soundness of our strategy. Additionally, we believe it confirms the scalability of our business and the significant opportunity to leverage earnings when our top line regains momentum. We have worked to improve the profitability of our sales mix over the past year by focusing on delivering both appealing design and product value rather than sheer number of pattern choices. During 2003, we successfully reduced or eliminated products generating little profit, especially low volume stock-keeping units.

A key strength that distinguishes Culp in this business environment has been our ability to capitalize on the strength of our balance sheet. While we have focused on effectively managing our operations and enhancing our competitive ability, we also have worked hard to strengthen our balance sheet so that we are better positioned to weather the challenging economic and market environment. We are pleased to report that Culp's financial position and liquidity improved substantially over the fiscal year, demonstrating our ability to meet our key financial objectives. Most significantly, we reduced our long-term debt by $32 million in 2003. Over the past three years we have reduced our debt by a total of $61 million, and have increased our cash position by $23 million. During the same time frame, we have generated over $109 million in cash flow from operations, reflecting improved earnings and reduced investment in working capital. As of April 27, 2003, our balance sheet reflects $24 million in cash and cash equivalents and short-term investments. In addition, we have realized significant decreases in our key leverage ratios and have minimal principal payments due on long-term debt for almost three years. A solid financial position

In 2003, we identified several strategic opportunities that would further enhance our competitive position and shape our performance for the future.

established during a difficult period for our industry not only provides a secure and sound financial foundation, but also reinforces our confidence in Culp's future.

Strengthening Our Foundation

In 2003, we identified several strategic opportunities that would further enhance our competitive position and shape our performance for the future. Even with the progress we had achieved within the Culp Decorative Fabrics division, we recognized there was room for further improvement in productivity and the level of profitability in this division. As a result, early in the fiscal year we brought our manufacturing capacity and operational overhead in line with current demand. Our primary objective in undertaking this initiative was to eliminate the least efficient and higher cost elements of this division's manufacturing base and realize greater utilization of its most productive assets. This restructuring plan involved consolidation of our weaving, finishing, yarn-making and distribution operations, resulting in the closing of our facility in Chattanooga, Tennessee, and integrating these functions into other plants.

These restructuring actions are expected to improve gross margins within the division by reducing fixed manufacturing costs and operating fewer facilities at higher utilization rates. In effect, Culp can now handle the same level of production in two plants that it formerly did in three while maintaining the capacity to meet anticipated levels of demand for the foreseeable future. This initiative is projected to result in a total annual cost savings of approximately $12 million, which began in the third quarter of fiscal 2003. Approximately $8 million of these savings relate to fixed manufacturing costs and the remaining $4 million relate to variable manufacturing costs. It is gratifying to begin to see the positive results of these initiatives taking place. We expect the potential benefits to be more fully realized in fiscal 2004 as operations within Culp Decorative Fabrics achieve higher levels of efficiency. We will continue to focus on selling products with higher margins, look for further reductions in low profit stock keeping units and identify additional ways to improve our manufacturing performance in order to improve profitability within this division.

In 2003 we also identified an opportunity to extend Culp's presence in the global marketplace and enhance our competitive position. In March we announced a marketing initiative to establish manufacturing and distribution operations in China. Our strategy is to link Culp's strong customer relationships, design expertise and production technology with low-cost fabric manufacturers in China and deliver enhanced value to our customers throughout the world. We are excited about the potential future growth opportunity that our China platform represents for Culp. This strategic initiative will enable us to integrate China-sourced goods with our domestic line and allow us to expand our business with middle-to-higher end fabrics. The combination of Culp's dedicated design resources, value-added fabric finishing, quality control testing, and supply-chain management allows Culp to offer our customers an even stronger value proposition. Our goal for fiscal 2004 is to establish a small but effective platform in China that we can build upon in future years.

In addition to the foregoing initiatives, we have continued to improve the creativity and strong consumer appeal for our fabric designs and are pleased with the reception we have received in the marketplace. Culp's array of attractive fabrics, backed by the superior customer service that has always been a hallmark of our success, further differentiates Culp in the marketplace. Ultimately we believe all of our efforts over the past year have set the stage for achieving gains in market share.

The View Ahead

As we look ahead, we recognize there are market dynamics that we cannot control, and experience teaches us that it is difficult to predict the timing of a sustainable recovery in the home furnishings business. However, we are optimistic that overall sales will start to increase in the fall, as is typical in the furniture industry. Additionally, we can point to signs that consumer confidence is improving with the passage of the tax bill, continued strong housing sales and a more stable stock market. Regardless of the course of the economy and its impact on our business going forward, we remain determined in our efforts to improve the efficiency of our operations, control costs and generate free cash flow while maintaining a strong balance sheet. Above all, we are committed to increasing both customer and shareholder value. We believe that our strategies of the past few years have been successful in helping us enhance our market position, even though difficult market conditions have negatively affected the degree of that success. We also recognize that many people – our associates, board of directors, and most importantly, our customers – play a critical role in shaping our future. The commitment of everyone involved with Culp provides a solid foundation that allows us to look ahead with confidence.

We are excited about the opportunities before us in 2004 and remain confident that Culp has the right strategy, the right assets and above all, the proven ability to execute and leverage these attributes with a focus on success. Thank you for the trust you have placed in us through your investment in Culp. We hope that you will continue to be a part of our future.

Sincerely,

Robert G. (Rob) Culp, III
Chairman of the Board and Chief Executive Officer

Howard L. Dunn, Jr.
President and Chief Operating Officer

August 11, 2003

The following analysis of the financial condition and results of operations should be read in conjunction with the Financial Statements and Notes and other information included elsewhere in this report. This analysis was filed with the company's Annual Report on Form 10-K dated July 28, 2003.

Overview

Culp is one of the three largest marketers of upholstery fabrics for furniture (as measured by total sales) and one of the four largest producers of mattress fabrics (known as mattress ticking), again measured by sales. 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. Information about the company's sales by geographic area for the past three fiscal years can be found in Note 16 to the Consolidated Financial Statements.

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 velvet and printed fabrics used primarily for residential furniture. Culp Yarn manufactures specialty filling yarns that are primarily used by Culp divisions. In mattress ticking, Culp Home Fashions markets a broad array of fabrics used by bedding manufacturers. Information about sales and gross profit by segment for the past three fiscal years can be found in Note 16 to the Consolidated Financial Statements.

Results of Operations

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

	2003	2002	2001
Net sales	100.0%	100.0%	100.0%
Cost of sales	83.0	83.5	86.3
Gross profit	17.0	16.5	13.7
Selling, general and administrative expenses	11.8	12.6	12.3
Goodwill amortization	0.0	0.4	0.3
Restructuring expense and asset impairments	3.8	2.7	1.4
Income (loss) from operations	1.4	0.8	(0.3)
Interest expense, net	1.8	2.1	2.2
Other expense	0.2	0.4	0.5
Loss before income taxes	(0.6)	(1.7)	(3.0)
Income taxes *	67.9	44.0	33.0
Loss before cumulative effect of accounting change	(0.2)%	(0.9)%	(2.0)%

* Calculated as a percent of income (loss) before income taxes

Restructuring Actions

The financial results for fiscal 2003 include a total of $15.9 million in restructuring and related charges, all of which reflect previously announced restructuring initiatives in the upholstery fabrics segment. As reflected in the financial statements for fiscal 2003, restructuring and related charges were recorded as $13.0 million in the line item "restructuring expense" and $2.9 million in "cost of sales," reducing net income by $9.7 million, net of taxes (or $0.85 per share). The $15.9 million is made up of the following: (1) $12.1 million of restructuring expenses related to the Culp Decorative Fabrics ("CDF") division, the largest items of which are lease termination expenses and personnel costs; (2) $2.9 million of "restructuring related" costs for CDF, which include inventory mark-downs and equipment moving expense (charged to "cost of sales"); and (3) $1.3 million of restructuring expenses related to further write-downs of equipment in connection with the exit from the wet printed flock business by the Culp Velvets/Prints ("CVP") division, offset by a restructuring credit of $354,000 for over accrued employee benefit and plant security costs. The additional write-down of equipment, which is a non cash item, was recorded to more closely estimate the current market value of this equipment, which has continued to deteriorate since April 2002. Of the charges related to CDF, approximately $4.1 million are non-cash items, which relate to write-downs of equipment and inventory mark-downs, while the remaining $10.9 million relates to cash expenditures.

Fiscal 2003 CDF Restructuring. The restructuring and related charges for CDF reflect the restructuring initiative announced in August 2002. The objectives of this initiative were to lower manufacturing costs, simplify the dobby fabric upholstery line, increase asset utilization and enhance the division's manufacturing competitive position. This restructuring plan principally involved (1) consolidation of the division's weaving, finishing, yarn making and distribution operations by closing the facility located in Chattanooga, Tennessee and integrating these functions into CDF's Pageland, South Carolina, Graham, North Carolina and Burlington, North Carolina plants; (2) a significant reduction in the number of stock keeping units (SKUs) offered in the dobby product line, representing about 70% of the finished goods SKUs (but only 10% of sales); and (3) a net reduction in workforce of approximately 300 positions.

The fiscal 2003 CDF restructuring is projected to result in annual cost savings of approximately $12 million, which began in the third quarter of fiscal 2003. Approximately $8.0 million of these savings relate to fixed manufacturing costs and the remaining $4.0 million relate to variable manufacturing costs. Realization of the savings from lower fixed manufacturing costs was achieved upon the closing of the Chattanooga, Tennessee operation at the end of the second quarter. However, while there has been progress on savings of variable manufacturing costs, the company expects the potential benefits to be realized over the next two to three fiscal quarters as operations within CDF achieve higher levels of efficiency. The company currently estimates that the fiscal 2003 CDF restructuring will result in minimal additional charges during fiscal 2004, most of which relate to equipment relocation costs.

Exit of Wet Printed Flock Product Line. During March 2002, the company announced that it was evaluating strategic alternatives for the capital invested in its wet printed flock upholstery fabrics product line. Management took this action because of the significant decline in sales and profitability of wet printed flocks in recent years, a decline related principally to the strength of the U.S. dollar relative to foreign currencies as well as a shift in consumer preferences to other styles of upholstery fabrics. In April 2002, management approved a plan to exit the wet printed flock upholstery fabric business and has been actively seeking to sell the assets related to this product line. The exit plan involved closing a printing facility and flocking operation within CVP, a reduction in related selling and administrative expenses, and termination of 86 employees. The company also recognized certain inventory write-downs related to this product line. The total charge from the exit plan and inventory write-down was $9.7 million, of which approximately $8.2 million represented non-cash items, consisting of a $7.6 million write-down of property, plant and equipment to its estimated net realizable value of $2.3 million and a $619,000 write-down of inventory. The company recorded the total charge in the fourth quarter of fiscal 2002. Of this total, $9.1 million was recorded in the line item "restructuring expense" and $619,000, related to the inventory write-downs, was recorded in "cost of sales," reducing net income by $5.8 million, net of taxes (or $0.51 per share). For fiscal 2003, additional restructuring charges related to wet printed flocks were recorded as explained earlier in this report. During the fiscal year ended April 28, 2002, sales of wet printed flocks contributed $17.1 million, or 4.5%, of the company's total sales and resulted in an operating loss of $2.1 million. The company estimates that the net loss attributable to these operations on an after-tax basis was approximately $0.12 per share during fiscal 2002.

Other Restructuring Actions. During fiscal 2001 and continuing into fiscal 2002, the company undertook a restructuring plan in its upholstery fabric segment intended to lower operating expenses, increase manufacturing utilization, raise productivity and position the company to operate profitably on a lower level of sales. The plan involved (1) the consolidation of certain fabric manufacturing capacity within the CDF division, (2) closing one of the company's four yarn manufacturing plants within Culp Yarn, (3) an extensive reduction in selling, general and administrative expenses including the termination of 110 employees and (4) a comprehensive stock keeping unit (SKU) reduction initiative related to finished goods and raw materials in CDF. Additionally, the plan included consolidation of the CDF design operation into the company's Design Center and the implementation of a common set of raw material components for CDF. 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, $3.6 million of which represented non-cash items. The company recognized $7.4 million of restructuring and related charges during fiscal 2001, of which $5.6 million was recorded in the line item "restructuring expense" and $1.8 million in "cost of sales," reducing net income by $5.0 million, net of taxes (or $0.44 per share). In fiscal 2002 the company recognized $2.5 million of restructuring and related charges, of which $1.3 million was recorded in the line item "restructuring expense" and $1.2 million in "cost of sales." These restructuring and related charges reduced net income by $1.5 million, net of taxes (or $0.14 per share). The costs reflected in "cost of sales" are principally related to the relocation of manufacturing equipment. Due to this restructuring plan, the company has realized annualized reductions of at least $14.0 million in fixed manufacturing costs and SG&A expenses.

China Initiative

On March 31, 2003, the company announced a strategic marketing initiative to establish manufacturing and distribution operations in China. The company's strategy is to link its customer relationships, design expertise and production technology with low-cost fabric manufacturers in China in order to deliver enhanced value to its customers throughout the world.

The company is currently in the process of establishing its operations in China. A general manager for the China operations relocated to Shanghai, China in May, and is in the process of hiring a small number of additional personnel. The company received the required business licenses in mid-July 2003. The company has signed a lease on a 65,000 square–foot facility and the building was ready for equipment installation and office occupancy in July 2003. Along with the installation of finishing equipment, the company plans to begin doing business at the China facility during the second fiscal quarter of fiscal 2004, which is expected to include fabric inspection, testing and distribution. Limited finishing operations are anticipated to begin in the third fiscal quarter of fiscal 2004.

2003 Compared with 2002

The company's net sales for fiscal 2003 decreased 11.2% to $339.6 million as compared with fiscal 2002; and the company reported a net loss before cumulative effect of accounting change of $736,000, or $0.06 per share diluted, versus a net loss $3.4 million, or $0.31 share diluted, a year ago. Including the cumulative effect of accounting change, the company reported a loss of $2.17 per share for fiscal 2003. Restructuring and related charges and credits of $9.7 million, net of tax (or $0.85 per share) and $7.5 million, net of tax (or $0.66 per share) were included in net income for fiscal 2003 and fiscal 2002, respectively.

The company reported further substantial improvement in its balance sheet by reducing long-term debt by $32 million during fiscal 2003 and ended the year with $24.4 million in cash and cash equivalents and short-term investments.

As of April 29, 2002, Culp adopted SFAS No. 142, *Goodwill and Other Intangible Assets.* As a result the company recorded during the first quarter of fiscal 2003 a non-operating non-cash goodwill impairment charge of $37.6 million ($24.2 million net of taxes of $13.4 million), or $2.11 per share diluted, related to the goodwill associated with the CDF division.

Upholstery Fabric Segment

Net Sales. Upholstery fabric sales for fiscal 2003 decreased 13.4% to $240.1 million. Domestic upholstery fabric sales decreased $22.7 million, or 9.6%, to $214.3 million, due primarily to overall weakness in consumer demand for upholstered furniture, and other factors discussed below. International sales decreased 36.0% to $25.8 million, due primarily to the exiting of the wet printed flock fabric business in April 2002.

In addition to the overall softness in demand during fiscal 2003, the sales decrease in upholstery fabrics is attributable to the company's strategy to focus on improving the profitability of its sales mix by reducing or eliminating products generating little or no profit. In the CVP division, the company discontinued its unprofitable wet printed flock business at the end of last fiscal year. This product line produced annual sales in fiscal 2002 of approximately $17.0 million with approximately $2.0 million in operating losses. In the CDF division, the company discontinued about half of its finished goods SKUs (or approximately 10,000) over the last eighteen months, most of which were small volume items and were very costly to produce. These discontinued SKUs include the dobby product line SKUs that were recently eliminated as part of the fiscal 2003 CDF restructuring. The company expects this process of identifying and dropping its low profit items to continue into fiscal 2004.

The company believes additional factors that are likely impacting upholstery fabric sales are (1) the increasing market share of leather furniture being sold in the U.S.; and (2) the increase in imported fabrics, both in "piece goods" and "cut and sewn kits."

Gross Profit. In spite of weak furniture demand and the operational disruption in connection with the fiscal 2003 CDF restructuring, the upholstery fabric segment improved its gross profit dollars and margins in fiscal 2003. Gross profit for fiscal 2003 was $34.7 million, or 14.5%, versus $33.6 million, or 12.1%, for fiscal 2002. Restructuring related charges of $2.9 million and $1.8 million were included in gross profit for fiscal 2003 and fiscal 2002, respectively. The key factors behind this improvement were (1) a more profitable sales mix; (2) the elimination of losses related to the wet printed flock business; (3) the increasing productivity benefits from the CDF 2001 restructuring; and (4) the fixed cost reduction benefits from the closing of the Chattanooga plant as part of the fiscal 2003 CDF restructuring.

Mattress Ticking Segment

Net Sales. Mattress ticking sales for fiscal 2003 decreased 5.5% to $99.6 million. Sales to U.S. bedding manufacturers fell 7.2% to $85.5 million, while sales to international customers increased by 6.8% to $14.1 million. The overall sales decrease is principally due to the weakness in consumer demand for mattresses. Additional factors that could be affecting ticking demand for the company's products from bedding manufacturers are: (1) the gradual shift by many customers to "one-sided" mattresses, which generally require one-third less mattress ticking and (2) a growing consumer preference at the higher end of the bedding market for knitted tickings (which the company does not manufacture) rather than woven or printed tickings (although the company has begun to source knitted tickings from an outside supplier).

Gross Profit. For fiscal 2003, the mattress ticking segment reported gross profit dollars and margins of $22.8 million and 22.9%, respectively, compared with $29.2 million and 27.7 % for fiscal 2002. The principal reasons for the decline were (1) lower sales volume and reduced production schedules, which resulted in less absorption of fixed costs; (2) pricing pressures related to the overall competitive situation in the bedding industry; and (3) the high cost of a European sourcing agreement. Culp Home Fashions entered into an agreement with a European supplier in October 2001 as part of the termination of a long-term supply relationship. The agreement required, among other things, that the company maintain a certain level of weekly purchases through the end of the second quarter of fiscal 2003. Consequently, during the first and second quarters of fiscal 2003, the company was required to source products from this supplier that were significantly more expensive than products manufactured at the company's U.S. and Canadian plants in order to meet the agreement's minimum purchase levels. This supply agreement was concluded on October 31, 2002.

Selling, General and Administrative Expenses (SG&A). SG&A expenses were $40.0 million for fiscal 2003 and decreased $8.0 million, or 16.7%, from fiscal 2002. As a percent of net sales, SG&A expenses decreased to 11.8% from 12.6% the previous year. SG&A expenses in fiscal 2003 included a credit to bad debt expense in the amount of $571,000 due to a significant decrease in past due receivable balances. This amount compares with bad debt expense of $4.2 million in the year-earlier period. Additionally, SG&A expenses for fiscal 2003 were lower due to reduced sampling charges and reduced sales expenses due to lower sales volume.

Goodwill Amortization. At the beginning of fiscal 2003, the company adopted SFAS No. 142, *Goodwill and Other Intangible Assets.* SFAS No. 142 requires that goodwill no longer be amortized.

Interest Expense. Interest expense for fiscal 2003 declined to $6.6 million from $7.9 million due to significantly lower borrowings outstanding, offset somewhat by a $750,000 increase in interest expense associated with the company's $75 million term loan, as a result of an amendment in February 2002.

Interest Income. Interest income increased to $596,000 from $176,000 due to significantly higher average invested cash for the year as compared with the average for the prior year.

Other Expense. Other expense for the fiscal 2003 totaled $805,000, compared with $1.4 million in the prior year. The decrease was principally due to lower legal and debt issue expenses.

Income Taxes. The effective tax rate for fiscal 2003 was 67.9% compared with 44.0% for fiscal 2002. The higher rate, on pretax loss in each period, reflects the benefit from a reduction in estimated accruals as well as a lower proportion of earnings in fiscal 2003 from the company's Canadian subsidiary that is taxed at a lower effective rate.

2002 Compared with 2001

The company's net sales for fiscal 2002 decreased by $28.0 million, or 6.8%, compared with fiscal 2001; and the company reported a net loss of $3.4 million, or $0.31 per share, compared with a net loss of $8.3 million, or $0.74 per share, in fiscal 2001. Restructuring and related charges of $7.4 million, net of tax (or $0.66 per share) and $5.0 million, net of tax (or $0.44 per share) were included in net income for fiscal 2002 and fiscal 2001, respectively. Below is additional discussion regarding segment financial performance.

Upholstery Fabric Segment

Net Sales. For fiscal 2002, upholstery fabrics sales decreased 9.2% to $277.3 million. This decline was due to a 3.3%, or $8.1 million, decline in domestic upholstery fabric sales, and a 33.2%, or $40.3 million, decline in international upholstery fabric sales. The decline in domestic upholstery fabric sales related primarily to a decline in sales to the external yarn market ($7.3 million), where the company discontinued producing yarns for the apparel and carpet markets, and to a decline in sales to the commercial furniture market ($4.5 million). The decline in international upholstery fabric sales was caused by the company's products becoming less competitive with goods produced internationally due to the strong U.S. dollar and additionally to a fashion trend away from wet printed flock fabrics, which have constituted a significant portion of the company's international sales.

Gross Profit. For fiscal 2002, gross profit was $33.6 million, or 12.1%, versus $29.5 million, or 9.7%, for fiscal 2001. Restructuring related charges of $1.8 million were included in gross profit for each of fiscal 2002 and fiscal 2001. This improvement reflected strong gross profit dollar and margin growth in CVP and Culp Yarn divisions. Offsetting these gains somewhat was a decrease in gross profit dollars and margin in CDF, which occurred in the first half of fiscal 2002.

Mattress Ticking Segment

Net Sales. Compared with fiscal 2001, mattress ticking sales increased 0.2% to $105.3 million for fiscal 2002. Sales to U.S. bedding manufacturing increased 5.0% to $91.7 million for fiscal 2002. International mattress ticking sales for fiscal 2002 were $13.2 million, down 24.5% from $17.5 million in fiscal 2001.

Gross Profit. For fiscal 2002, the mattress ticking segment reported gross profit dollars and margins of $29.2 million and 27.7%, respectively, compared with $26.5 million and 25.2%, respectively, for fiscal 2001. This improvement was due primarily to continued strong manufacturing operating efficiencies.

Selling, General and Administrative Expenses (SG&A). SG&A expenses were $48.1 million for fiscal 2002 and decreased $2.3 million, or 4.6%, from fiscal 2001. The significant factors affecting the year to year comparisons were bad debt expense of $4.2 million in fiscal 2002 versus $309,000 in fiscal 2001 and incentive compensation expense of $1.8 million in fiscal 2002 versus $0.0 in fiscal 2001. Without considering these factors in both years, SG&A expenses were $42.1 million, or 11.1% of net sales, for fiscal 2002, compared with $50.0 million, or 12.2% of net sales, for fiscal 2001.

This reflects a 15.8% decrease and primarily resulted from the company's decision to reduce SG&A expenses significantly as part of the 2001 restructuring plan.

Interest Expense. Interest expense for fiscal 2002 declined from $9.1 million to $7.9 million due to lower average borrowings outstanding and lower average interest rates over the course of the fiscal year.

Interest Income. Interest income increased from $46,000 to $176,000 due to the significant build-up in cash and cash investments during fiscal 2002, particularly in the fourth quarter.

Other Expense. Other expense for fiscal 2002 totaled $1.4 million compared with $1.9 million in the prior year.

Income Taxes. The effective tax rate for fiscal 2002 was 44.0% compared with 33.0% for the year-earlier period. The higher rate resulted from increased tax benefits in 2002 related to the company's loss in the U.S., including restructuring and related charges, and to a lower proportion of earnings from the company's Canadian subsidiary, as well as the recognition in 2001 of gain from terminated life insurance contracts.

Handling Costs

The company records warehousing costs in SG&A expenses. These costs were $4.9 million, $5.0 million and $5.2 million in fiscal 2003, fiscal 2002 and fiscal 2001, respectively. Warehousing costs include the operating expenses of the company's various finished goods distribution centers, such as personnel costs, utilities, building rent and material handling equipment lease expense. Had these costs been included in cost of sales, gross profit would have been $52.7 million, or 15.5% in fiscal 2003, $57.9 million, or 15.1% in fiscal 2003 and $50.8 million, or 12.4% in fiscal 2001.

Liquidity and Capital Resources

The company's sources of liquidity include cash, cash equivalents, short-term investments, cash flow from operations and amounts available under its revolving credit line. These sources have been adequate for day-to-day operating and capital expenditures. The company expects these sources of liquidity to continue to be adequate for the foreseeable future. Cash, cash equivalents and short-term investments as of April 27, 2003 decreased to $24.4 million from $32.0 million at the end of fiscal 2002, reflecting cash flow from operations of $31.1 million for fiscal 2003, capital expenditures of $6.8 million, payments on vendor-financed capital expenditures of $1.3 million, debt repayment of $32.0 million and stock issuance from the exercise of stock options of $1.4 million. Cash flow from operations totaled $31.1 million for fiscal 2003, $42.2 million for fiscal 2002 and $36.1 million for fiscal 2001, for a three year total of $109.4 million. Significantly contributing to cash flow from operations for this three year period were reductions in accounts receivable and inventories totaling $67.9 million, due primarily to lower sales volume and improvements in working capital management.

For fiscal 2004, the company believes cash flow from operations will be substantially less than fiscal 2003 primarily because the company does not expect continued significant reduction in working capital reflected in each of the previous three years.

Financing Arrangements

During fiscal 2003, the company reduced its long-term debt (current maturities plus long-term debt) by $32.0 million by repaying all of its Industrial Revenue Bonds. Long-term debt was $76.5 million at April 27, 2003, down $32.0 million from $108.5 million at April 28, 2002. The ratio of the company's long-term debt to tangible capitalization (defined as long-term debt plus shareholders' equity minus goodwill) was 47.0% at fiscal 2003 year end versus 60.1% at the end of last year. The company was in compliance with all financial covenants in its loan agreements as of April 27, 2003.

The company's long-term debt at April 27, 2003 is totally unsecured and is comprised of a $75 million term loan, which includes term notes from several insurance companies, with a fixed interest rate of 7.76%, and a $1.5 million, non-interest bearing term loan with the Canadian government. Additionally, the company has a $15.0 million revolving credit line with a bank, including letters of credit up to $2.5 million. Borrowings under the credit facility generally bear interest at the London Interbank Offered Rate plus an adjustable margin based upon the company's debt/EBITDA ratio, as defined by the agreement. As of April 27, 2003, there were $354,000 in outstanding letters of credit in support of inventory purchases and no borrowings outstanding under the agreement. The credit facility expires in August 2004. The first scheduled principal payment on the $75 million term loan is due March 2006 in the amount of $11.0 million. The Canadian government loan is repaid in annual installments of approximately $500,000 per year.

Commitments

The following table summarizes the company's contractual payment obligations and commitments (in thousands):

	2004	2005	2006	2007	2008	Thereafter	Total
Capital expenditure commitments	$ 573	$ 0	$ 0	$ 0	$ 0	$ 0	$ 573
Accounts payable – capital expenditures	4,389	1,096	0	0	0	0	5,485
Operating leases	4,900	3,791	2,260	1,293	1,065	112	13,421
Long-term debt	500	500	11,500	11,000	31,000	22,000	76,500
Total	$ 10,362	$ 5,387	$13,760	$ 12,293	$ 32,065	$ 22,112	$ 95,979

Note: Payment Obligations by Fiscal Year Ending April

Capital Expenditures

Capital spending for fiscal 2003 was $12.2 million. This compares with $4.7 million in fiscal 2002. The larger projects for fiscal 2003 were weaving modernization and a building addition at the Pageland, S.C. facility related to the fiscal 2003 CDF restructuring and weaving expansion in the Culp Home Fashions division. Depreciation expense for fiscal 2003 was $14.0 million. For fiscal 2004, the company's capital expenditure budget is $8.0 million, of which $3.0 million is related to the company's China initiative. Depreciation expense for fiscal 2004 is estimated to be comparable with fiscal 2003.

Inflation

The cost of certain of the company's raw materials, principally fibers from petroleum derivatives, and utility/energy costs have increased somewhat; but overall operating expenses are remaining generally stable. 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 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 of July 4th and Christmas.

Critical Accounting Policies

Accounting principles generally accepted in the United States of America require the company to make estimates and assumptions that affect the reported amounts in the financial statements and accompanying notes. Some of these estimates require difficult, subjective and/or complex judgments about matters that are inherently uncertain, and as a result actual results could differ significantly from those estimates. Due to the estimation processes involved, management considers the following summarized accounting policies and their application to be critical to understanding the company's business operations, financial condition and results of operations.

Accounts Receivable - Allowance for Doubtful Accounts. Substantially all of the company's accounts receivable are due from residential and commercial furniture and bedding manufacturers. Ownership of these manufacturers is increasingly concentrated and certain bedding manufacturers have a high degree of leverage. As of April 27, 2003, accounts receivable from furniture manufacturers totaled approximately $25.4 million and from bedding manufacturers approximately $9.1 million. Approximately $6.7 million of the company's total accounts receivable was due from international customers. Additionally, as of April 27, 2003, the aggregate accounts receivable balance of the company's ten largest customers was $10.9 million, or 31.7% of trade accounts receivable.

The company continuously performs credit evaluations of its customers, considering numerous inputs including customers' financial position, past payment history, cash flows and management capability; historical loss experience; and economic conditions and prospects. While management believes that adequate allowances for doubtful accounts have been provided in the consolidated financial statements, it is possible that the company could experience additional unexpected credit losses.

Inventory Valuation. The company operates as a "make-to-order" and "make-to-stock" business. Although management closely monitors demand in each product area to decide which patterns and styles to hold in inventory, the gradual shifts in consumer preferences expose the company to write-downs of inventory.

Management continually examines inventory to determine if there are indicators that the carrying value exceeds its net realizable value. Experience has shown that the most significant indicator of the need for inventory write-downs is the age of the inventory. As a result, the company provides inventory valuation write-downs based upon set percentages for inventory aging categories, generally using 6, 9 and 12 month categories. While management believes that adequate write-downs for excess and obsolete inventory have been made in the consolidated financial statements, significant unanticipated changes in demand or changes in consumer tastes and preferences could result in additional excess and obsolete inventory in the future.

Long-lived Assets. The company adopted the provisions of SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, effective April 29, 2002. SFAS No. 144 establishes a single accounting model for long-lived assets to be disposed of by sale, and also resolves implementation issues related to SFAS 121. Adoption of SFAS No. 144 did not have a significant impact on the company's financial position, results of operations or cash flows.

Management reviews long-lived assets, which consists of property, plant and equipment, for impairment whenever events or changes in circumstances indicate that the carrying value of the asset may not be recovered. Unforeseen events and changes in circumstances and market conditions could negatively affect the value of assets and result in an impairment charge.

The company's assessment at April 27, 2003 indicated that the net undiscounted future operating cash flows of the company's businesses were sufficient to recover the carrying amount of the long-lived assets under SFAS No. 144. The determination of future operating cash flows involve considerable estimation and judgment about future market conditions and future sales and profitability. Although the company believes it has based the impairment testing on reasonable estimates and assumptions, the use of different estimates and assumptions could result in materially different results.

Goodwill. As of April 29, 2002, Culp adopted SFAS No. 142, *Goodwill and Other Intangible Assets.* For the initial application of SFAS No. 142, an independent business valuation specialist was engaged to assist the company in the determination of the fair market value of CDF, one of the company's three divisions within the upholstery fabric segment, because of the significance of the goodwill associated with the division and due to its operating performance. As a result of the adoption of SFAS No. 142, during the first quarter of fiscal 2003 the company recorded a non-operating, non-cash goodwill impairment charge of $37.6 million ($24.2 million net of taxes of $13.4 million), or $2.11 per share diluted, related to the goodwill associated with the CDF division. After the goodwill impairment charge, the company's remaining goodwill relates to the following divisions: CDF - $4.4 million, Culp Yarn - $0.7 million and Culp Home Fashions - $4.1 million.

The company updated its goodwill impairment test as of April 27, 2003. This impairment test, which was prepared by an independent business valuation specialist, did not indicate any further impairment of goodwill. The determination of fair value involves considerable estimation and judgment. In particular, determining the fair value of a business unit involves, among other things, developing forecasts of future cash flows and appropriate discount rates. Although the company believes it has based the impairment testing on reasonable estimates and assumptions, the use of different estimates and assumptions could result in materially different results. As a result of a continuing difficult business environment, there is a potential for further impairment of the goodwill of CDF.

Restructuring Charges. The upholstery fabric industry continues to be under significant pressure from a variety of external forces, such as an increase in the market share of leather furniture, an increase in customers buying fabric and "cut and sew" fabric kits from China, increasing pricing demands, global competition and the overall weakness of the economy. In an effort to reduce operating expenses and increase manufacturing utilization, the company has undertaken four restructuring initiatives, two within Culp Decorative Fabrics, one related to the exit of the wet printed flock product line, which was part of the Culp Velvets Prints division within the upholstery fabric segment, and one related to a yarn manufacturing plant within its Culp Yarn division, which have resulted in restructuring charges related to the remaining lease costs of the closed facilities, the write-down of property, plant and equipment, workforce reduction and elimination of facilities as the company continues to scale its U.S. productive capacity in line with demand. Severance and related charges are accrued based on an estimate of amounts that will be paid to affected employees. Asset impairment charges related to the consolidation or closure of manufacturing facilities are based on an estimate of expected sales prices for the real estate and equipment. The exit of facilities has also resulted in charges for lease termination and losses may also result from termination of existing contracts.

The company reassesses the individual accrual requirements at the end of each reporting period. If circumstances change, causing current estimates to differ from original estimates, adjustments are recorded in the period of change. Restructuring charges, and adjustments of those charges, are summarized in note 2 to the consolidated financial statements.

In June 2002, the FASB issued SFAS No. 146, *Accounting for Costs Associated with Exit or Disposal Activities.* This Statement addresses financial accounting and reporting for costs associated with exit or disposal activities and supersedes Emerging Issues Task Force (EITF) Issue No. 94-3, *Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring).* A liability for a cost associated with an exit or disposal activity shall be recognized and measured initially at its fair value in the period in which the liability is incurred, except for certain qualifying employee termination benefits. This Statement became effective for exit or disposal activities initiated after December 31, 2002.

Income Taxes. The company is required to estimate its actual current tax exposure and to assess temporary differences resulting from differing treatment of items for tax and accounting purposes. No valuation allowance has been recorded to reduce the company's deferred tax assets. Management has concluded that it is more likely than not that the company will be able to realize the benefit of the deferred tax assets. Considerable judgment is involved in this process as ultimate realization of benefits is dependent on the generation of future taxable income.

Forward-Looking Information

This annual report to shareholders and the company's Annual Report on Form 10-K contain statements that may be deemed "forward-looking statements" within the meaning of the federal securities laws, including the Private Securities Litigation Reform Act of 1995 (Section 27A of the Securities Act of 1933 and Section 27A of the Securities and Exchange Act of 1934). Such statements are inherently subject to risks and uncertainties. Further, forward looking statements are intended to speak only as of the date on which they are made. Forward-looking statements are statements that include projections, expectations or beliefs about future events of results or otherwise are not statements of historical fact. Such statements are often but not always characterized by qualifying words such as "expect," "believe," "estimate," "plan" and "project" and their derivatives, and include but are not limited to statements about expectations for the company's future sales, gross profit margins, SG&A or other expenses, and earnings. Factors that could influence the matters discussed in such statements include the level of housing starts and sales of existing homes, consumer confidence, trends in disposable income, and general economic conditions. Decreases in these economic indicators could have a negative effect on the company's business and prospects. Likewise, increases in interest rates, particularly home mortgage rates, and increases in consumer debt or the general rate of inflation, could affect the company adversely. In addition, strengthening of the U. S. dollar against other currencies could make the company's products less competitive on the basis of price in markets outside the United States. Also, economic and political instability in international areas could affect the company's operations or sources of goods in those areas, as well as demand for the company's products in international markets. Finally, unanticipated delays or costs in executing restructuring actions could cause the cumulative effect of restructuring actions to fail to meet the objectives set forth by management.

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. The company's market risk sensitive instruments are not entered into for trading purposes. 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. The company's floating debt interest rate risk was eliminated in the fourth quarter of fiscal 2003 after the remaining industrial revenue bonds were paid.

The company's exposure to fluctuations in foreign currency exchange rates is due primarily to a foreign subsidiary domiciled in Canada and firmly committed and anticipated 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 firmly committed and anticipated purchases of certain machinery, equipment and raw materials. The amount of Canadian-denominated sales and manufacturing costs are not material to the company's consolidated results of operations; therefore, a 10% change in the exchange rate at April 27, 2003 would not have a significant impact on the company's results of operations or financial position. Additionally, as the company utilizes foreign currency instruments for hedging anticipated and firmly committed transactions, a loss in fair value for those instruments is generally offset by increases in the value of the underlying exposure.

April 27, 2003 and April 28, 2002

(dollars in thousands, except share data)	2003	2002
ASSETS		
current assets:		
cash and cash equivalents	$ 14,355	31,993
short-term investments	10,043	0
accounts receivable	32,259	43,366
inventories	49,552	57,899
deferred income taxes	12,303	9,447
other current assets	3,204	3,966
total current assets	121,716	146,671
property, plant and equipment, net	84,962	89,772
goodwill	9,240	47,083
other assets	2,235	4,187
total assets	$218,153	287,713
LIABILITIES AND SHAREHOLDERS' EQUITY		
current liabilities:		
current maturities of long-term debt	$ 500	1,483
accounts payable	19,874	24,327
accrued expenses	14,071	16,460
accrued restructuring expenses	7,743	2,445
income taxes payable	349	0
total current liabilities	42,537	44,715
long-term debt	76,000	107,001
deferred income taxes	3,851	16,932
total liabilities	122,388	168,648
commitments and contingencies (note 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 11,515,459 at April 27, 2003 and 11,319,584 at April 28, 2002	576	566
capital contributed in excess of par value	39,749	38,375
unearned compensation	(559)	(769)
retained earnings	55,999	80,886
accumulated other comprehensive income	0	7
total shareholders' equity	95,765	119,065
total liabilities and shareholders' equity	$218,153	287,713

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

For the years ended April 27, 2003, April 28, 2002
and April 29, 2001

(dollars in thousands, except per share data)	2003	2002	2001
net sales	$ 339,646	382,574	410,609
cost of sales	282,073	319,717	354,622
gross profit	57,573	62,857	55,987
selling, general and administrative expenses	40,040	48,059	50,366
goodwill amortization	0	1,395	1,395
restructuring expense and asset impairments	12,981	10,368	5,625
income (loss) from operations	4,552	3,035	(1,399)
interest expense	6,636	7,907	9,114
interest income	(596)	(176)	(46)
other expense	805	1,444	1,941
loss before income taxes	(2,293)	(6,140)	(12,408)
income taxes	(1,557)	(2,700)	(4,097)
loss before cumulative effect of accounting change	(736)	(3,440)	(8,311)
cumulative effect of accounting change, net of income taxes	(24,151)	0	0
net loss	$ (24,887)	(3,440)	(8,311)
basic loss per share:			
loss before cumulative effect of accounting change	$ (0.06)	(0.31)	(0.74)
cumulative effect of accounting change	(2.11)	0	0
net loss	$ (2.17)	(0.31)	(0.74)
diluted loss per share:			
loss before cumulative effect of accounting change	$ (0.06)	(0.31)	(0.74)
cumulative effect of accounting change	(2.11)	0	0
net loss	$ (2.17)	(0.31)	(0.74)

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

For the years ended April 27, 2003, April 28, 2002 and April 29, 2001

(dollars in thousands, except share data)	common stock shares	common stock amount	capital contributed in excess of par value	unearned compensation	retained earnings	accumulated other comprehensive income	total shareholders' equity
balance, April 30, 2000	11,208,720	$ 560	36,682	(1,416)	93,814	0	129,640
cash dividends ($0.105 per share)					(1,177)		(1,177)
net loss					(8,311)		(8,311)
stock-based compensation				360			360
common stock issued in connection with stock option plans	12,438	1	1,289				1,290
balance, April 29, 2001	11,221,158	561	37,971	(1,056)	84,326	0	121,802
net loss					(3,440)		(3,440)
net gain on cash flow hedges						7	7
stock-based compensation				144			144
forfeiture of stock options			(143)	143			0
common stock issued in connection with stock option plans	98,426	5	547				552
balance, April 28, 2002	11,319,584	566	38,375	(769)	80,886	7	119,065
net loss					(24,887)		(24,887)
net loss on cash flow hedges						(7)	(7)
stock-based compensation				210			210
common stock issued in connection with stock option plans	195,875	10	1,374				1,384
balance, April 27, 2003	11,515,459	$ 576	39,749	(559)	55,999	0	95,765

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

For the years ended April 27, 2003, April 28, 2002
and April 29, 2001

(dollars in thousands)	2003	2002	2001
cash flows from operating activities:			
net loss	$ (24,887)	(3,440)	(8,311)
adjustments to reconcile net loss to net cash			
provided by operating activities:			
cumulative effect of accounting change, net of income taxes	24,151	0	0
depreciation	13,990	17,274	19,391
amortization of intangible and other assets	457	1,575	1,591
stock-based compensation	210	144	360
provision for deferred income taxes	(2,507)	(1,452)	(5,394)
restructuring expense	12,981	10,368	5,625
changes in assets and liabilities:			
accounts receivable	11,107	14,483	17,374
inventories	8,347	2,098	14,474
other current assets	763	2,504	827
other assets	366	(311)	171
accounts payable	(8,558)	998	(4,530)
accrued expenses	(2,126)	1,727	(6,065)
accrued restructuring expenses	(3,514)	(2,523)	(702)
income taxes payable	349	(1,268)	1,268
net cash provided by operating activities	31,129	42,177	36,079
cash flows from (used in) investing activities:			
capital expenditures	(6,830)	(3,779)	(6,571)
purchases of short-term investments	(10,043)	0	0
sale of investments related to deferred compensation plan	0	0	4,547
net cash used in investing activities	(16,873)	(3,779)	(2,024)
cash flows from (used in) financing activities:			
payments on vendor-financed capital expenditures	(1,294)	(4,992)	(6,865)
proceeds from issuance of long-term debt	0	0	564
principal payments of long-term debt	(31,984)	(3,172)	(26,394)
cash dividends paid	0	0	(1,177)
proceeds from common stock issued	1,384	552	17
net cash used in financing activities	(31,894)	(7,612)	(33,855)
increase (decrease) in cash and cash equivalents	(17,638)	30,786	200
cash and cash equivalents, beginning of year	31,993	1,207	1,007
cash and cash equivalents, end of year	$ 14,355	31,993	1,207

The accompanying notes are an integral part of the 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 upholstery fabrics and mattress fabrics ("ticking") primarily for the furniture and bedding industries, with the majority of its business conducted in North America.

Fiscal Year – The company's fiscal year is the 52 or 53 week period ending on the Sunday closest to April 30. Fiscal years 2003, 2002 and 2001 included 52 weeks.

Cash and Cash Equivalents – Cash and cash equivalents include demand deposit and money market accounts. For purposes of the consolidated statements of cash flows, the company considers all highly liquid instruments with original maturities of three months or less to be cash equivalents.

Short-Term Investments – Short-term investments consist of two bond mutual funds. The investments were originally purchased in February 2003 at a cost of $10.0 million. The average remaining maturities of these investments are less than one year. Realized and unrealized gains and losses for the year ended April 27, 2003 were not significant, and accordingly, the cost of these investments approximated fair value.

Short-term investments are classified as available-for-sale and reported at fair value based on current market quotes with unrealized gains and losses, net of any tax effect, recorded as a separate component of comprehensive income in shareholders' equity until realized. Interest income is included in interest income. Gains and losses on investments sold are determined based on the specific identification method and are included in other expense, net. Unrealized losses that are other than temporary are recognized in net income. No investments are held for speculative or trading purposes.

Accounts Receivable – Substantially all of the company's accounts receivable are due from manufacturers in the furniture and bedding industries. The company grants credit to customers, a substantial number of which are located in North America and generally does not require collateral. Management continuously performs credit evaluations of its customers, considering numerous inputs including financial position, past payment history, cash flows and management ability, historical loss experience and economic conditions and prospects. While management believes that adequate allowances for doubtful accounts have been provided in the consolidated financial statements, it is possible that the company could experience additional unexpected credit losses.

Inventories – Principally all inventories are valued at the lower of last-in, first-out (LIFO) cost or market. Management continually examines inventory to determine if there are indicators that the carrying value exceeds its net realizable value. Experience has shown that the most significant indicator of the need for inventory write-downs is the age of the inventory. As a result, the company provides inventory valuation write-downs based upon set percentages for inventory aging categories, generally using six, nine and twelve month categories. While management believes that adequate write-downs for inventory obsolescence have been made in the consolidated financial statements, consumer tastes and preferences will continue to change and the company could experience additional inventory write-downs in the future.

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 (loss).

The company adopted the provisions of SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, effective April 29, 2002. SFAS No. 144 establishes a single accounting model for long-lived assets to be disposed of by sale, and also resolves implementation issues related to SFAS No. 121. In accordance with SFAS No. 144, management reviews long-lived assets, which consist principally of property, plant and equipment, for impairment whenever events or changes in circumstances indicate that the carrying value of the asset may not be recovered. Recoverability of long-lived assets to be held and used is measured by a comparison of the carrying amount of the asset to future net undiscounted cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized for the excess of the carrying amount over the fair value of the asset. Assets to be disposed of are reported at the lower of the carrying value or fair value less cost to sell when the company has committed to a disposal plan.

The company's assessment at April 27, 2003 indicated that net undiscounted future operating cash flows of the company's businesses were sufficient to recover the carrying amount of long-lived assets under SFAS No. 144. The determination of future operating cash flows involves considerable estimation and judgment about future market conditions and future sales and profitability. Although the company believes it has based the impairment assessment on reasonable estimates and assumptions, the use of different estimates and assumptions could result in materially different results.

Interest costs of $74,000, $36,000 and $99,000 incurred during the years ended April 27, 2003, April 28, 2002 and April 29, 2001, respectively, for the 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 (losses) for this subsidiary of ($60,000), ($33,000) and $37,000 are included in the other expense line item in the consolidated statements of income (loss) for the fiscal years ended April 27, 2003, April 28, 2002 and April 29, 2001, respectively.

Goodwill – The company adopted the provisions of SFAS 142, *Goodwill and Other Intangible Assets*, effective April 29, 2002. In accordance with SFAS No. 142, the company ceased amortizing goodwill beginning fiscal 2003. Instead, the company tests goodwill for impairment on an annual basis by comparing the fair value of each reporting unit to its carrying value. As a result of the initial application of SFAS No. 142, the company recorded an impairment charge of $37.6 million ($24.2 million net of taxes of $13.4 million) (see note 19). For periods presented through April 28, 2002, goodwill was amortized using the straight-line method over 40 years, and tested for impairment by comparison of the carrying value of the goodwill to estimated future undiscounted cash flows expected to be generated by the related assets, when events and circumstances indicated that the assets might be impaired.

Income Taxes – Deferred taxes are recognized for temporary differences between the financial statement carrying amounts and the tax bases of the company's assets and liabilities and operating loss and tax 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 (loss) 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 27, 2003, the amount of such undistributed income was $27.5 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 upon shipment, when title and risk of loss pass to the customer. Provision is made currently for estimated product returns, claims and allowances. Management considers historical claims and return experience, among other things, when establishing the allowance for returns and allowances. While management believes that adequate allowance has been established for returns and allowances, it is possible that the company could experience levels higher than provided for in the consolidated financial statements.

Shipping and Handling Costs – Revenue received for shipping and handling costs, which is immaterial for all periods presented, is included in net sales. Shipping costs, principally freight, that comprise payments to third-party shippers are classified as cost of sales. Handling costs, which consist principally of finished goods warehousing costs in the company's various distribution facilities, were $4.9 million, $5.0 million and $5.2 million in 2003, 2002 and 2001, respectively, and are included in selling, general and administrative expenses.

Stock-Based Compensation – Compensation costs related to employee stock option plans are recognized utilizing the intrinsic value-based method prescribed by APB No. 25, *Accounting for Stock Issued to Employees*, and related Interpretations. The company has adopted the disclosure requirements of SFAS No. 123, *Accounting for Stock-Based Compensation*, as amended by SFAS No. 148. Accordingly, compensation cost is recorded over the vesting period of the options based upon the difference in option price and fair market price at the date of grant, if any.

At April 27, 2003, the company had stock-based compensation plans, which are described more fully in note 12 to the consolidated financial statements.

The following table illustrates the effect on net loss and loss per share if the company had applied the fair value recognition provisions of SFAS No. 123 for the past three fiscal years:

(dollars in thousands, except per share data)	2003	2002	2001
Net loss, as reported	$ (24,887)	(3,440)	(8,311)
Add: Total stock-based employee compensation expense included in net loss, net of tax	67	81	241
Deduct: Total stock-based employee compensation expense determined under fair value-based method for all awards, net of tax	225	363	478
Pro forma net loss	$ (25,045)	(3,722)	(8,548)
Loss per share:			
Basic – as reported	$ (2.17)	(0.31)	(0.74)
Basic – pro forma	(2.19)	(0.33)	(0.76)
Diluted – as reported	(2.17)	(0.31)	(0.74)
Diluted – pro forma	(2.19)	(0.33)	(0.76)

Fair Value of Financial Instruments – The carrying amount of cash and cash equivalents, 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 is approximately $76.0 million at April 27, 2003.

Use of Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 fiscal 2002 and 2001 consolidated financial statements have been reclassified to conform with the presentation adopted in the current year, one of which is to reflect vendor-financed capital expenditures as supplemental non-cash investing activities, and payments on vendor-financed capital expenditures as financing activities. The effect of this change on the fiscal 2002 and 2001 consolidated statements of cash flows is presented below. These reclassifications did not impact net loss as previously reported.

	2002			2001		
(dollars in thousands)	As Previously Reported	Adjustment	As Reclassified	As Previously Reported	Adjustment	As Reclassified
Net cash provided by operating activities	$ 42,177	0	42,177	36,079	0	36,079
Net cash used in investing activities	(4,729)	950	(3,779)	(3,503)	1,479	(2,024)
Net cash used in financing activities	(6,662)	(950)	(7,612)	(32,376)	(1,479)	(33,855)

2. RESTRUCTURING AND ASSET IMPAIRMENT CHARGES

Fiscal 2003 CDF Restructuring

In August 2002, management approved a restructuring plan within the Culp Decorative Fabrics ("CDF") division aimed at lowering manufacturing costs, simplifying the dobby fabric upholstery line, increasing asset utilization and enhancing the division's manufacturing competitiveness. The restructuring plan principally involved (1) consolidation of the division's weaving, finishing, yarn making and distribution operations by closing the facility in Chattanooga, Tennessee and integrating these functions into other plants, (2) a significant reduction in the number of stock keeping units (SKUs) offered in the dobby product line and (3) a net reduction in workforce of approximately 300 positions. During fiscal 2003, the total restructuring and related charges incurred were $15.0 million, of which approximately $4.1 million represented non-cash items, including $2.8 million in impairment of property, plant and equipment and $1.3 million in inventory write-downs. Of the total charge, $12.0 million was recorded in restructuring expense in the 2003 Consolidated Statement of Income (Loss); and $1.3 million, related to inventory write-downs, and $1.7 million, related to equipment moving and relocation expense, were recorded in cost of sales in the 2003 Consolidated Statement of Income (Loss).

The following summarizes the activity in the restructuring accrual (dollars in thousands):

	Employee Termination Benefits	Lease Termination and Other Exit Costs	Total
Accrual established in fiscal 2003	$ 1,972	$ 7,194	$ 9,166
Paid in fiscal 2003	(1,228)	(949)	(2,177)
Balance April 27, 2003	$ 744	$ 6,245	$ 6,989

As of April 27, 2003, assets classified as held for sale consisted of machinery and equipment with a value of $166,000 and are included in other assets. Management anticipates the successful disposal of these assets.

Wet Printed Flock Restructuring

In April 2002, management approved a plan to exit the wet printed flock upholstery fabric business and has been actively seeking to sell the assets related to this product line. The exit plan involved closing a printing facility and flocking operation within the Culp Velvets/Prints ("CVP") division, reduction in related selling and administrative expenses and termination of 86 employees. The total charge for the exit plan was $9.7 million, of which approximately $8.2 million represented non-cash items, including $7.6 million in impairment of property, plant and equipment and $619,000 in inventory write-downs. Of the total charge, $9.1 million was recorded in restructuring expense in the 2002 Consolidated Statement of Income (Loss), and $619,000, related to inventory write-downs, was recorded in cost of sales in the 2002 Consolidated Statement of Income (Loss). During the fiscal year ended April 28, 2002, sales of the wet printed flock product contributed $17.1 million, or 4.5%, of the company's total sales and resulted in an operating loss of approximately $2.1 million.

During fiscal 2003, an additional restructuring expense of $1.3 million was recorded for the non-cash write-down of assets to reflect the deterioration in market value experienced since April 2002. Due to management's continual evaluation of the restructuring accrual, the reserve was reduced $313,000 to reflect current estimates of future health care claims. Additionally, the reserve was reduced $42,000 to reflect current estimates of future security expenses and other costs.

The following summarizes the activity in the restructuring accrual (dollars in thousands):

	Employee Termination Benefits	Lease Termination and Other Exit Costs	Total
Accrual established in fiscal 2002	$ 842	$ 610	$ 1,452
Paid in fiscal 2002	(5)	(5)	(10)
Balance April 28, 2002	837	605	1,442
Adjustments in fiscal 2003	(313)	(42)	(355)
Paid in fiscal 2003	(428)	(116)	(544)
Balance April 27, 2003	$ 96	$ 447	$ 543

As of April 27, 2003, assets classified as held for sale consisted of a building, machinery and equipment with an aggregate value of $484,000 and are included in other assets. Management is actively marketing these assets and anticipates the successful disposal of these assets.

Fiscal 2001 CDF Restructuring

During fiscal 2001 and continuing into fiscal 2002, the company undertook a restructuring plan in its upholstery fabric segment which involved (1) the consolidation of certain fabric manufacturing capacity within the CDF division, (2) closing one of the company's four yarn manufacturing plants within the Culp Yarn division, (3) an extensive reduction in selling, general and administrative expenses including the termination of 110 employees and (4) a comprehensive SKU reduction initiative related to finished goods and raw materials in CDF. The 2001 charge from the restructuring and related costs was $7.4 million, approximately $3.4 million of which represented non-cash items, including $2.5 million in impairment of property, plant and equipment and $874,000 in inventory write-downs. Of the total charge, $5.6 million was recorded in restructuring expense in the 2001 Consolidated Statement of Income (Loss); and $874,000, related to inventory write-downs, and $931,000, related to equipment relocation costs, were recorded in cost of sales in the 2001 Consolidated Statement of Income (Loss). The 2002 charge from restructuring and related expenses was $2.5 million, approximately $160,000 of which represented the non-cash impairment of property, plant and equipment. Of the total charge, $1.3 million was included in restructuring expense in the 2002 Consolidated Statement of Income (Loss), and $1.2 million, related to equipment relocation costs, was recorded in cost of sales in the 2002 Consolidated Statement of Income (Loss).

During fiscal 2003, as a result of management's continual evaluation of the restructuring accrual, the reserve was reduced $275,000 to reflect current estimates of future health care claims and increased $276,000 to reflect current estimates of remaining lease expenses, property taxes, insurance and other exit costs.

The following summarizes the activity in the restructuring accrual (dollars in thousands):

	Employee Termination Benefits	Lease Termination and Other Exit Costs	Total
Accrual established in fiscal 2001	$ 969	$ 2,116	$ 3,085
Paid in fiscal 2001	(491)	(211)	(702)
Balance April 29, 2001	478	1,905	2,383
Additions in fiscal 2002	925	218	1,143
Paid in fiscal 2002	(891)	(1,632)	(2,523)
Balance April 28, 2002	512	491	1,003
Adjustments in fiscal 2003	(275)	276	1
Paid in fiscal 2003	(202)	(591)	(793)
Balance April 27, 2003	$ 35	$ 176	$ 211

As of April 27, 2003, there were no assets classified as held for sale related to the fiscal 2001 CDF restructuring.

3. ACCOUNTS RECEIVABLE

A summary of accounts receivable follows:

(dollars in thousands)	April 27, 2003	April 28, 2002
customers	$ 34,580	46,886
allowance for doubtful accounts	(1,558)	(2,465)
reserve for returns and allowances	(763)	(1,055)
	$ 32,259	43,366

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

(dollars in thousands)	2003	2002
beginning balance	$ (2,465)	(1,282)
provision for bad debt	570	(4,172)
net write-offs	337	2,989
ending balance	$ (1,558)	(2,465)

4. INVENTORIES

A summary of inventories follows:

(dollars in thousands)	April 27, 2003	April 28, 2002
inventories on the FIFO cost method		
raw materials	$ 23,269	27,081
work-in-process	2,917	3,830
finished goods	23,366	27,233
total inventories on the FIFO cost method	49,522	58,144
adjustments of certain inventories to the LIFO cost method	0	(245)
	$ 49,522	57,899

5. PROPERTY, PLANT AND EQUIPMENT

A summary of property, plant and equipment follows:

(dollars in thousands)	depreciable lives (in years)	April 27, 2003	April 28, 2002
land and improvements	10	$ 2,244	2,213
buildings and improvements	7-40	32,791	30,325
leasehold improvements	7-10	1,435	2,537
machinery and equipment	3-12	171,087	175,972
office furniture and equipment	3-10	9,868	11,370
capital projects in progress		1,893	987
		219,318	223,404
accumulated depreciation		(134,356)	(133,632)
		$ 84,962	89,772

The company incurred total capital expenditures of $12,229,000, $4,729,000 and $8,050,000 in the fiscal years 2003, 2002 and 2001, respectively. The non-cash portion of these capital expenditures representing vendor financing totaled $5,366,000, $1,363,000 and $1,951,000 in the fiscal years 2003, 2002 and 2001, respectively.

In connection with the fiscal 2003 CDF restructuring (see note 2), machinery and equipment with a carrying value of $3.0 million was written down to its net realizable value of approximately $166,000 and reclassified to assets held for sale. In connection with the wet printed flock restructuring in fiscal 2002 (see note 2), property, plant and equipment with a carrying value of $9.9 million was written down to its net realizable value of approximately $2.3 million and reclassified to assets held for sale. Assets held for sale are included in the other assets line item in the consolidated balance sheets. As of April 27, 2003, the total carrying value of these assets is $650,000.

6. GOODWILL

A summary of the change in the carrying amount of goodwill follows:

(dollars in thousands)	2003	2002
beginning balance	$ 47,083	$48,478
amortization	0	(1,395)
impairment charge	(37,580)	0
adjustment to cost of acquired business	(263)	0
ending balance	$ 9,240	$ 47,083

As further discussed in notes 1 and 19, the company ceased recording goodwill amortization and recorded a goodwill impairment charge as a result of the initial adoption of SFAS 142, *Goodwill and Other Intangible Assets*, effective April 29, 2002.

7. ACCOUNTS PAYABLE

A summary of accounts payable follows:

(dollars in thousands)	April 27, 2003	April 28, 2002
accounts payable - trade	$14,389	22,947
accounts payable - capital expenditures	5,485	1,380
	$19,874	24,327

8. ACCRUED EXPENSES

A summary of accrued expenses follows:

(dollars in thousands)	April 27, 2003	April 28, 2002
compensation, commissions and related benefits	$ 9,683	10,122
interest	763	1,111
other	3,625	5,227
	$14,071	16,460

9. INCOME TAXES

Total income taxes (benefits) were allocated as follows:

(dollars in thousands)	2003	2002	2001
income from continuing operations	$ (1,557)	(2,700)	(4,097)
cumulative effect of accounting change	13,429	0	0
shareholders' equity, related to the tax benefit arising from the exercise of stock options	(402)	(145)	0
	$ 11,470	(2,845)	(4,097)

Income tax expense (benefit) attributable to income from continuing operations consists of:

(dollars in thousands)	2003	2002	2001
current			
federal	$ 350	(2,655)	(315)
state	25	0	11
Canadian	575	1,407	1,601
	950	(1,248)	1,297
deferred			
federal	(2,298)	(635)	(4,565)
state	(300)	(600)	(905)
Canadian	91	(217)	76
	(2,507)	(1,452)	(5,394)
	$ (1,557)	(2,700)	(4,097)

Income before income taxes related to the company's Canadian operation for the years ended April 27, 2003, April 28, 2002, and April 29, 2001 was $2,300,000, $4,000,000 and $4,400,000, respectively.

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

	2003	2002	2001
federal income tax rate	(35.0)%	(35.0)%	(35.0)%
state income taxes, net of federal income tax benefit	(7.8)	(6.3)	(4.7)
extraterritorial income or foreign sales corporation benefit	(2.3)	(0.8)	(0.4)
adjustment to estimated income tax accruals	(19.6)	0.0	0.0
gains on life insurance contracts	0.0	0.0	5.0
other	(3.2)	(1.9)	2.1
	(67.9)%	(44.0)%	(33.0)%

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)	April 27, 2003	April 28, 2002
deferred tax assets:		
accounts receivable	$ 799	1,188
inventories	2,427	2,904
goodwill	7,611	(4,701)
compensation	740	783
liabilities and reserves	3,717	1,705
alternative minimum tax	1,320	1,416
net operating loss carryforwards	5,520	3,878
gross deferred tax assets	22,134	7,173
valuation allowance	0	0
total deferred tax assets	22,134	7,173
deferred tax liabilities:		
property, plant and equipment, net	(12,853)	(13,783)
other	(829)	(875)
total deferred tax liabilities	(13,682)	(14,658)
	$ 8,452	(7,485)

At April 27, 2003, the company had an alternative minimum tax credit carryforward of approximately $1,320,000 for federal income tax purposes. Federal and state net operating loss carryforwards with related tax benefits of $5,520,000 at April 27, 2003 expire in varying amounts through fiscal 2023. 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 tax refunds, net of income tax payments, were $1,470,000 in 2003, $2,280,000 in 2002 and $369,000 in 2001.

10. LONG-TERM DEBT

A summary of long-term debt follows:

(dollars in thousands)	April 27, 2003	April 28, 2002
unsecured term notes	$ 75,000	75,000
industrial revenue bonds	0	30,612
canadian government loan	1,500	1,852
obligation to sellers	0	1,020
	76,500	108,484
current maturities	(500)	(1,483)
	$ 76,000	107,001

In August 2002, the company entered into an agreement with its principal bank lender that provides for a revolving loan commitment of $15.0 million, including letters of credit up to $2.5 million. Borrowings under the credit facility generally bear interest at the London Interbank Offered Rate plus an adjustable margin based upon the company's debt/EBITDA ratio, as defined by the agreement. As of April 27, 2003, there were $354,000 in outstanding letters of credit in support of inventory purchases and no borrowings outstanding under the agreement. Letter of credit and commitment fees are also determined by the company's debt/EBITDA ratio, as defined by the agreement. The credit facility expires in August 2004.

The unsecured term notes have an average remaining term of 5 years. The principal payments become due from March 2006 to March 2010. Interest is payable semi-annually at a fixed coupon rate of 7.76%.

The company's loan agreements require, among other things, that the company maintain compliance with certain financial ratios. At April 27, 2003, the company was in compliance with these financial covenants.

The principal payment requirements of long-term debt during the next five years are: 2004 – $500,000; 2005 – $500,000; 2006 – $11,500,000; 2007 – $11,000,000; and 2008 – $31,000,000.

Interest paid during 2003, 2002 and 2001 totaled $7,058,000, $8,199,000, and $8,950,000, respectively.

11. COMMITMENTS AND CONTINGENCIES

The company leases certain office, manufacturing and warehouse facilities and equipment, primarily computers and vehicles, under noncancellable operating leases. Lease terms related to real estate range from one to ten years with renewal options for additional periods ranging from two to ten years. The leases generally require the company to pay real estate taxes, maintenance, insurance and other expenses. Rental expense for operating leases was $5,673,000 in 2003; $6,605,000 in 2002; and $7,907,000 in 2001. Future minimum rental commitments for noncancellable operating leases are $4,900,000 in 2004; $3,791,000 in 2005; $2,260,000 in 2006; $1,293,000 in 2007; $1,065,000 in 2008; and $112,000 in later years. Management expects that in the normal course of business, these leases will be renewed or replaced by other operating leases.

The company is involved in 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 cash flows of the company.

The company has outstanding capital expenditure commitments of approximately $6.1 million as of April 27, 2003.

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 27, 2003, 893,375 shares of common stock were authorized for issuance under the plan. Of this total, 117,875 remain available for grant. Options are generally exercisable from one to five years after the date of grant and generally expire five to ten years after the date of grant.

No compensation cost has been recognized for this stock option plan as options are granted 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 27, 2003, April 28, 2002 and April 29, 2001 and changes during the years ended on those dates is presented below:

	2003		2002		2001	
	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
Outstanding at beginning of year	922,875	$ 7.73	788,926	$ 8.87	661,114	$ 9.98
Granted	0	0	290,375	4.07	130,250	3.11
Exercised	(145,375)	6.74	(91,426)	4.45	(2,438)	2.82
Canceled/expired	(2,000)	9.00	(65,000)	9.86	0	0
Outstanding at end of year	775,500	7.91	922,875	7.73	788,926	8.87
Options exercisable at year-end	475,250	10.21	491,625	10.64	549,926	10.41
Weighted-average fair value of options granted during the year	$ 0.00		$ 2.14		$ 1.60	

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding at 4/27/03	Weighted-Avg. Remaining Contractual Life	Weighted-Avg. Exercise Price	Number Exercisable at 4/27/03	Weighted-Avg. Exercise Price
$ 3.03 - $ 3.05	106,250	3.3 years	$ 3.03	48,750	$ 3.03
$ 4.00 - $ 7.50	271,125	3.4	4.26	60,375	4.82
$ 7.63 - $ 7.63	112,000	5.4	7.63	80,000	7.63
$ 7.75 - $12.75	180,500	2.5	10.29	180,500	10.29
$13.34 - $20.94	105,625	4.0	18.43	105,625	18.43
	775,500	3.5	$ 7.91	475,250	$ 10.21

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. As of April 27, 2003, the 1,000 options outstanding under the plan have exercise prices of $0.05 and a weighted-average remaining contractual life of 0.7 years. Options exercised during fiscal 2003, 2002 and 2001 were 50,500, 7,000 and 0, respectively. As all outstanding options under this plan have been fully vested, no compensation expense was recorded in fiscal 2003, 2002 and 2001.

During September 1997, the company's shareholders approved the 1997 option plan which provides for the one-time grant to certain officers and 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 generally exercisable on January 1, 2006. As of April 27, 2003, the 89,000 options outstanding under the plan have exercise prices of $1.00 and a weighted-average remaining contractual life of 3.7 years. Options exercised during fiscal 2003, 2002 and 2001 were 0, 0, and 10,000, respectively. During fiscal 2003, 2002 and 2001, the compensation expense recorded under the plan was $210,000, $144,000 and $360,000, respectively.

During September 2002, the company's shareholders approved the 2002 option plan under which options to purchase up to 1,000,000 shares of common stock may be granted to officers, directors and key employees. At April 27, 2003, 1,000,000 shares of common stock were authorized for issuance under the plan. Of this total, 906,750 remain available for grant. Options of 93,250 granted during fiscal 2003 have a weighted-average exercise price of $13.43, a weighted-average fair value of $7.29 and a weighted-average remaining contractual life of 4.8 years. Options are generally exercisable from one to four years after the date of grant and generally expire five to 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 the fair market value at the date of grant.

Had compensation cost for the fixed stock option plan with 775,500 options outstanding at April 27, 2003 and the 1997 and 2002 stock-based compensation plans been determined consistent with SFAS No. 123, the company's net loss, basic loss per share and diluted loss per share would have been changed to the pro forma amounts indicated below:

(in thousands, except per share data)		2003	2002	2001
Net loss	As reported	$ (24,887)	(3,440)	(8,311)
	Pro forma	(25,045)	(3,722)	(8,548)
Net loss per	As reported	$ (2.17)	(0.31)	(0.74)
share, basic	Pro forma	(2.19)	(0.33)	(0.76)
Net loss per	As reported	$ (2.17)	(0.31)	(0.74)
share, diluted	Pro forma	(2.19)	(0.33)	(0.76)

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 2003, 2002 and 2001, respectively: dividend yield of 0%, 0% and 0%; risk-free interest rates of 4.2%, 4.8% and 4.6%; expected volatility of 78%, 62% and 54%; and expected lives of 4 years, 5 years and 4 years.

13. DERIVATIVES

On April 30, 2001, the company adopted the provisions of SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*. Adoption of SFAS 133 did not have a significant impact on the company's financial position, results of operations or cash flows. SFAS No. 133, as amended by SFAS No. 137 and SFAS No. 138, requires the company to recognize all derivative instruments on the balance sheet at fair value. These statements also establish new accounting rules for hedging instruments, which depend on the nature of the hedge relationship. A fair value hedge requires that the effective portion of the change in the fair value of a derivative instrument be offset against the change in the fair value of the underlying asset, liability, or firm commitment being hedged through earnings. A cash flow hedge requires that the effective portion of the change in the fair value of a derivative instrument be recognized in Other Comprehensive Income ("OCI"), a component of Shareholders' Equity, and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. The ineffective portion of a derivative instrument's change in fair value is immediately recognized in earnings.

The company uses foreign exchange option and forward contracts to manage the exposure related to forecasted purchases of inventories denominated in the EURO. The company utilizes cash flow hedge accounting for these contracts. At April 27, 2003, there were no contacts outstanding.

The company also uses foreign exchange option and forward contracts to manage the exposure related to firm commitments to purchase fixed assets denominated in the EURO. The company has chosen not to utilize hedge accounting for these contracts, and accordingly changes in the fair value of these contracts are recorded currently in earnings. At April 27, 2003, the company had outstanding foreign exchange option and forward contracts to purchase a total of 2.9 million EURO.

From time to time, the company used interest rate swap agreements to effectively fix the interest rates on certain variable rate debt. During 2001, the interest rate swaps no longer served as a hedge due to the repayment of debt; consequently the interest rate swaps were recorded at fair value. During 2002, the company paid $105,000 to terminate the interest rate swap agreements.

14. NET INCOME (LOSS) PER SHARE

Basic net income (loss) per share is computed using the weighted-average number of shares outstanding during the period. Diluted net income per share uses the weighted-average number of shares outstanding during the period plus the dilutive effect of stock options calculated using the treasury stock method. Weighted average shares used in the computation of basic and diluted net income (loss) per share are as follows:

(in thousands)	2003	2002	2001
Weighted-average common shares outstanding, basic	11,462	11,230	11,210
Effect of dilutive stock options	0	0	0
Weighted-average common shares outstanding, diluted	11,462	11,230	11,210

Options to purchase 413,844 shares, 608,750 shares, and 769,926 shares of common stock were not included in the computation of diluted net income (loss) per share for fiscal 2003, 2002 and 2001, respectively, because the exercise price of the options was greater than the average market price of the common shares. Options to purchase 556,031 shares, 465,625 shares, and 177,500 shares were not included in the computation of diluted net income (loss) per share for fiscal 2003, 2002 and 2001, respectively, because the company incurred a net loss for each of these fiscal years.

15. 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 $1,799,000 in 2003; $1,979,000 in 2002; and $2,301,000 in 2001.

In addition to the defined contribution plan, the company has a nonqualified deferred compensation plan covering officers and certain other associates.

16. 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, 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 87%, 91% and 91% were denominated in U.S. dollars in 2003, 2002 and 2001, respectively, accounted for 12%, 14% and 19% of net sales in 2003, 2002 and 2001, respectively and are summarized by geographic area as follows:

(dollars in thousands)	2003	2002	2001
North America (excluding USA)	$ 30,375	32,033	34,049
Far East and Asia	4,926	10,703	15,497
All other areas	4,577	10,765	28,278
	$ 39,878	53,501	77,824

One customer represented approximately 14%, 13% and 11% of consolidated net sales for 2003, 2002 and 2001, respectively. Company assets located outside North America are not material for any of the three years presented.

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 equivalents, short-term investments, other current assets and other assets on a total company basis. Thus, identifiable assets by business segment represent accounts receivable, inventories, property, plant and equipment and goodwill.

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

(dollars in thousands)	2003	2002	2001
Net sales			
Upholstery Fabrics	$ 240,096	277,272	305,512
Mattress Ticking	99,550	105,302	105,097
	$ 339,646	382,574	410,609
Gross profit			
Upholstery Fabrics	$ 34,738	33,648	29,511
Mattress Ticking	22,835	29,209	26,476
	$ 57,573	62,857	55,987

Identifiable assets, including accounts receivable, inventories, property, plant and equipment and goodwill, for the company's operating segments are as follows:

(dollars in thousands)	2003	2002	2001
Identifiable Assets			
Upholstery Fabrics	$ 124,889	182,316	47,129[1]
Mattress Ticking	51,124	55,804	12,868[1]
	$ 176,013	238,120	59,997

[1] Includes inventory only for 2001. Inventory by operating segment for fiscal 2003: $37,538 for Upholstery Fabrics and $12,014 for Mattress Ticking. Inventory by operating segment for fiscal 2002: $44,453 for Upholstery Fabrics and $13,446 for Mattress Ticking.

17. 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 $47,593,000 in 2003; $48,418,000 in 2002; and $45,230,000 in 2001. The amount due from this customer at April 27, 2003 was approximately $2,690,000 and at April 28, 2002 was approximately $2,177,000.

Rents paid to entities owned by certain shareholders and officers of the company and their immediate families were approximately $708,000 in 2003, $726,000 in 2002 and $695,000 in 2001.

18. COMPREHENSIVE INCOME (LOSS)

Comprehensive income (loss) is the total of net income (loss) and other changes in equity, except those resulting from investments by shareholders and distributions to shareholders not reflected in net income (loss).

A summary of comprehensive loss follows:

(dollars in thousands)	2003	2002	2001
Net loss	$ (24,887)	(3,440)	(8,311)
Gain (loss) on foreign exchange options, net of taxes:			
Net changes in fair value	0	7	0
Net gains reclassified into earnings	(7)	0	0
	$ (24,894)	(3,433)	(8,311)

19. RECENTLY ADOPTED ACCOUNTING STANDARDS

The company adopted SFAS 142, *Goodwill and Other Intangible Assets,* effective April 29, 2002. SFAS No. 142 requires that goodwill no longer be amortized and that goodwill be tested for impairment by comparing each reporting unit's carrying value to its fair value. SFAS No. 142 requires that any goodwill impairment loss recognized as a result of initial application be reported as a change in accounting principle, and that the income per share effects of the accounting change be separately disclosed.

As required by the standard, the company ceased recording goodwill amortization for fiscal 2003. The following table reconciles fiscal 2002 and fiscal 2001 net loss to its amount adjusted to exclude goodwill:

(dollars in thousands, except per share data)	2002	2001
Reported net loss	$ (3,440)	(8,311)
Goodwill amortization, net of tax	921	935
Adjusted net loss	(2,519)	(7,376)
Basic:		
Reported net loss per share	(.31)	(.74)
Adjusted net loss per share	(.22)	(.66)
Diluted:		
Reported net loss per share	(.31)	(.74)
Adjusted net loss per share	(.22)	(.66)

For the initial application of SFAS No. 142, an independent business valuation specialist was engaged to assist the company in the determination of the fair market value of CDF, one of the company's three divisions within the upholstery segment, because of the significance of the goodwill associated with the division and due to its operating performance for fiscal 2002 and 2001. The fair value of the CDF division determined using several different methods, including comparable companies, comparable transactions and discounted cash flow analysis, was less than the carrying value. Accordingly, the company recorded a goodwill impairment charge of $37.6 million ($24.2 million net of taxes of $13.4 million), or $2.11 per share diluted, related to the goodwill associated with the CDF division. After the goodwill impairment charge, the company's remaining goodwill relates to the following divisions: CDF - $4.4 million, Culp Yarn - $700,000 and Culp Home Fashions - $4.1 million.

The company updated its goodwill impairment test as of April 27, 2003. This updated impairment test, which was prepared by an independent business valuation specialist, did not indicate any further impairment of goodwill. The determination of fair value involves considerable estimation and judgment. In particular, determining the fair value of a business unit involves, among other things, developing forecasts of future cash flows and appropriate discount rates. Although the company believes it has based the impairment testing on reasonable estimates and assumptions, the use of different estimates and assumptions could result in materially different results. As a result of a continuing difficult business environment, there is a potential for further impairment of the goodwill related to CDF.

20. RECENTLY ISSUED ACCOUNTING STANDARDS

In January 2003, FASB issued Interpretation No. 46, *Consolidation of Variable Interest Entities, an interpretation of ARB No. 51.* FIN No. 46 addresses the consolidation by business enterprises of variable interest entities, as defined in the interpretation. FIN 46 expands existing accounting guidance regarding when a company should include in its financial statements the assets, liabilities and activities of another entity. The consolidation requirements of FIN No. 46 apply immediately to variable interest entities created before February 1, 2003 in the first fiscal year or interim period beginning after June 15, 2003. Certain of the disclosure requirements apply to all financial statements issued after January 31, 2003. The application of this interpretation is not expected to have a material effect on the company's financial position, results of operations or cash flows.

In April 2003, the FASB issued SFAS 149, *Amendment of Statement 133 on Derivative Instruments and Hedging Activities,* which amends and clarifies accounting for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities under SFAS No. 133. SFAS No. 149 clarifies the discussion around initial net investment and when a derivative contains a financing component, and amends the definition of the term underlying to conform it to language used in FASB Interpretation No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others.* In addition, SFAS No. 149 also incorporates certain Derivative Implementation Group Implementation Issues. The provisions of SFAS No. 149 are effective for contracts entered into or modified after June 30, 2003, and for hedging relationships designated after June 30, 2003. The guidance is applied to hedging relationships on a prospective basis.

(amounts in thousands, except per share amounts)	fiscal 2003 4th quarter	fiscal 2003 3rd quarter	fiscal 2003 2nd quarter	fiscal 2003 1st quarter	fiscal 2002 4th quarter	fiscal 2002 3rd quarter	fiscal 2002 2nd quarter	fiscal 2002 1st quarter
INCOME STATEMENT DATA								
net sales	$ 90,406	79,492	83,740	86,008	108,586	90,749	96,591	86,648
cost of sales	74,218	65,704	69,997	72,154	85,568	77,241	81,049	75,859
gross profit	16,188	13,788	13,743	13,854	23,018	13,508	15,542	10,789
SG & A expenses	10,324	9,798	9,481	10,437	14,236	11,038	11,550	11,235
goodwill amortization	0	0	0	0	349	349	349	348
restructuring expense and asset impairments	(25)	(354)	13,360	0	9,065	0	0	1,303
income (loss) from operations	5,889	4,344	(9,098)	3,417	(632)	2,121	3,643	(2,097)
interest expense	1,392	1,665	1,676	1,903	2,056	1,820	1,963	2,068
interest income	(182)	(143)	(121)	(150)	(77)	(42)	(34)	(23)
other expense	160	192	242	211	718	86	416	224
income (loss) before income taxes	4,519	2,630	(10,895)	1,453	(3,329)	257	1,298	(4,366)
income taxes	1,247	963	(4,305)	538	(1,744)	87	441	(1,484)
income (loss) before cumulative effect of accounting change	3,272	1,667	(6,590)	915	(1,585)	170	857	(2,882)
cumulative effect of accounting change, net of income taxes	0	0	0	(24,151)	0	0	0	0
net income (loss)	3,272	1,667	(6,590)	(23,236)	(1,585)	170	857	(2,882)
depreciation	3,436	3,415	3,498	3,641	4,060	4,344	4,397	4,473
weighted average shares outstanding	11,496	11,485	11,483	11,383	11,255	11,221	11,221	11,221
weighted average shares outstanding, assuming dilution	11,616	11,714	11,483	11,765	11,255	11,304	11,281	11,221
PER SHARE DATA								
basic income (loss) per share:								
income (loss) before cumulative effect of accounting change	$ 0.28	0.15	(0.57)	0.08	(0.14)	0.02	0.08	(0.26)
cumulative effect of accounting change	0	0	0	(2.12)	0	0	0	0
net income (loss)	0.28	0.15	(0.57)	(2.04)	(0.14)	0.02	0.08	(0.26)
diluted income (loss) per share:								
income (loss) before cumulative effect of accounting change	0.28	0.14	(0.57)	0.08	(0.14)	0.02	0.08	(0.26)
cumulative effect of accounting change	0	0	0	(2.12)	0	0	0	0
net income (loss)	0.28	0.14	(0.57)	(2.04)	(0.14)	0.02	0.08	(0.26)
book value	8.33	8.02	7.87	8.45	10.52	10.62	10.68	10.59
BALANCE SHEET DATA								
operating working capital (3)	$ 61,937	64,063	68,492	70,762	76,938	84,233	84,346	86,586
property, plant and equipment, net	84,962	85,396	85,049	89,201	89,772	102,547	105,697	109,417
total assets	218,153	236,753	235,598	235,959	287,713	276,781	283,817	281,058
capital expenditures	3,153	3,748	2,258	3,070	1,336	1,105	686	1,602
long-term debt (1)	76,500	96,141	96,558	96,533	108,484	110,087	110,583	110,652
shareholders' equity	95,765	92,075	90,326	97,007	119,065	120,013	119,838	118,809
capital employed (2)	172,265	188,216	186,884	193,540	227,549	230,999	230,421	229,461
RATIOS & OTHER DATA								
gross profit margin	17.9%	17.3%	16.4%	16.1%	21.2%	14.9%	16.1%	12.5%
operating income (loss) margin	6.5	5.5	(10.9)	4.0	(0.6)	2.3	3.8	(2.4)
net income (loss) margin before cumulative effect of accounting change	3.6	2.1	(7.9)	1.1	(1.5)	0.2	0.9	(3.3)
effective income tax rate	27.6	36.6	39.5	37.0	52.4	34.0	34.0	34.0
long-term debt-to-total capital ratio (1)	44.4	51.1	51.7	49.9	47.7	47.8	48.0	48.2
operating working capital turnover (3)	5.0	4.9	4.8	4.7	4.5	4.2	4.1	4.1
days sales in receivables	32	34	36	34	36	43	47	51
inventory turnover	5.8	4.9	4.9	4.9	5.8	5.1	5.4	5.1
STOCK DATA								
stock price								
high	$ 8.10	9.97	14.95	17.89	10.74	5.10	4.15	4.75
low	3.75	6.21	3.81	8.00	5.60	2.12	2.38	3.20
close	5.00	7.19	6.50	11.40	9.30	5.01	2.60	3.95
daily average trading volume (shares)	65.5	59.9	97.4	145.5	59.7	17.0	15.6	9.1

(1) Long-term debt includes long- and short-term debt

(2) Capital employed includes long-term debt and shareholders' equity

(3) Operating working capital for this calculation is accounts receivable, inventories and accounts payable

(amounts in thousands, except per share amounts)	fiscal 2003	fiscal 2002	fiscal 2001	fiscal 2000	fiscal 1999	percent change 2003/2002	five-year growth rate (3)
INCOME STATEMENT DATA							
net sales	$339,646	382,574	410,609	488,079	483,084	(11.2)%	(6.6)%
cost of sales	282,073	319,717	354,622	403,414	406,976	(11.8)	(6.4)
gross profit	57,573	62,857	55,987	84,665	76,108	(8.4)	(7.2)
S G & A expenses	40,040	48,059	50,366	59,935	59,968	(16.7)	(5.4)
goodwill amortization	0	1,395	1,395	1,395	1,370	(100.0)	(100.0)
restructuring expense and asset impairments	12,981	10,368	5,625	0	0	25.2	N.M
income (loss) from operations	4,552	3,035	(1,399)	23,335	14,770	50.0	(31.1)
interest expense	6,636	7,907	9,114	9,521	9,615	(16.1)	(1.4)
interest income	(596)	(176)	(46)	(51)	(195)	238.6	14.4
other expense	805	1,444	1,941	171	494	(44.3)	44.9
income (loss) before income taxes	(2,293)	(6,140)	(12,408)	13,694	4,856	62.7	N.M
income taxes	(1,557)	(2,700)	(4,097)	4,314	1,206	(42.3)	N.M
income (loss) before cumulative effect of accounting change	(736)	(3,440)	(8,311)	9,380	3,650	78.6	N.M
cumulative effect of accounting change, net of income taxes	(24,151)	0	0	0	0	(100.0)	N.M
net income (loss)	(24,887)	(3,440)	(8,311)	9,380	3,650	(623.5)	N.M
depreciation	13,990	17,274	19,391	19,462	18,549	(19.0)	(1.1)
cash dividends	0	0	1,177	1,611	1,788	0.0	(100.0)
weighted average shares outstanding	11,462	11,230	11,210	11,580	12,909	2.1	(2.1)
weighted average shares outstanding, assuming dilution	11,462	11,230	11,210	11,681	13,064	2.1	(2.5)
PER SHARE DATA							
basic income (loss) per share:							
income (loss) before cumulative effect of accounting change	$ (0.06)	(0.31)	(0.74)	0.81	0.28	79.0	N.M
cumulative effect of accounting change	(2.11)	0	0	0	0	(100.0)	N.M
net income (loss)	(2.17)	(0.31)	(0.74)	0.81	0.28	(608.8)	N.M
diluted income (loss) per share:							
income (loss) before cumulative effect of accounting change	(0.06)	(0.31)	(0.74)	0.80	0.28	79.0	N.M
cumulative effect of accounting change	(2.11)	0	0	0	0	(100.0)	N.M
net income (loss)	(2.17)	(0.31)	(0.74)	0.80	0.28	(608.8)	N.M
cash dividends	0.0	0.0	0.105	0.14	0.14	0.0	(100.0)
book value	8.33	10.52	10.85	11.57	10.63	(20.8)	(3.9)
BALANCE SHEET DATA							
operating working capital (4)	$ 61,937	76,938	90,475	112,407	111,886	(19.5)%	(11.7)%
property, plant and equipment, net	84,962	89,772	112,322	126,407	123,310	(5.4)	(8.0)
total assets	218,153	287,713	289,580	343,980	331,714	(24.2)	(9.3)
capital expenditures	12,229	4,729	8,050	22,559	10,689	158.6	(19.4)
long-term debt (1)	76,500	108,484	111,656	137,486	138,650	(29.5)	(12.8)
shareholders' equity	95,765	119,065	121,802	129,640	128,428	(19.6)	(6.2)
capital employed (2)	172,265	227,549	233,458	267,126	267,078	(24.3)	(9.5)
RATIOS & OTHER DATA							
gross profit margin	17.0%	16.4%	13.6%	17.3%	15.8%		
operating income (loss) margin	1.3	0.8	(0.3)	4.8	3.1		
net income (loss) margin before cumulative effect of accounting change	(0.2)	(0.9)	(2.0)	1.9	0.8		
effective income tax rate	67.9	44.0	33.0	31.5	24.8		
long-term debt-to-total capital ratio (1)	44.4	47.7	47.8	51.5	51.9		
operating working capital turnover (4)	5.5	5.0	4.5	4.4	4.3		
days sales in receivables	35	41	51	49	49		
inventory turnover	5.3	5.4	5.3	5.4	5.6		
STOCK DATA							
stock price							
high	$ 17.89	10.74	7.25	11.06	19.13		
low	3.75	2.12	1.63	5.00	5.13		
close	5.00	9.30	4.95	5.81	8.25		
daily average trading volume (shares)	92.3	24.9	16.2	15.8	30.4		

(1) Long-term debt includes long- and short-term debt

(2) Capital employed includes long-term debt and shareholders' equity

(3) N.M – Not meaningful

(4) Operating working capital for this calculation is accounts receivable, inventories and accounts payable

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 27, 2003 and April 28, 2002, and the related consolidated statements of income (loss), shareholders' equity, and cash flows for each of the years in the three-year period ended April 27, 2003. 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 27, 2003 and April 28, 2002, and the results of their operations and their cash flows for each of the years in the three-year period ended April 27, 2003, in conformity with accounting principles generally accepted in the United States of America.

As discussed in note 19 to the consolidated financial statements, effective April 29, 2002, the Company adopted the provisions of Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets.*

KPMG LLP

Greensboro, North Carolina
May 30, 2003

The management of Culp, Inc. is responsible for the accuracy and consistency of all the information contained in this annual report, 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 2003 is presented on page 31.

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 Audit Committee also reviews the company's principal accounting policies, significant internal accounting controls, quarterly financial information releases, Annual Report and annual SEC filings (Form 10-K and Proxy Statement).

Robert G. Culp, III
Chairman of the Board and Chief Executive Officer
May 30, 2003

Franklin N. Saxon
Executive Vice President and
Chief Financial Officer
May 30, 2003

Robert G. Culp, III
Chairman of the Board and Chief Executive Officer
Director (E, N)

Howard L. Dunn, Jr.
President and Chief Operating Officer
Director (E)

Franklin N. Saxon
Executive Vice President, Chief Financial Officer, Treasurer and President, Culp Velvets/Prints division
Director (E)

Harry R. Culp
Private Investor
Director

H. Bruce English
Retired Executive
Monsanto Company
St. Louis, MO
Director (A)

Patrick B. Flavin
President and Chief Investment Officer, Flavin, Blake & Co., Inc.
Stamford, CT
Director (A, C)

Kenneth W. McAllister
Retired Senior Executive Vice President and General Counsel
Wachovia Corporation, Charlotte, NC
Director (A)

Patrick H. Norton
Chairman of the Board
La-Z-Boy Incorporated, Monroe, MI
Director (A, C, N)

Albert L. Prillaman
Chairman of the Board
Stanley Furniture Company, Inc.
Stanleytown, VA
Director

Rodney A. Smith
Senior Vice President and President, Culp Yarn division

Kenneth M. Ludwig
Senior Vice President, Human Resources and Assistant Secretary

Kathy J. Hardy
Corporate Secretary

Board Committees:
A-Audit
C-Compensation
E-Executive
N-Nominating

Shareholder Information

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02940-3023

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www.equiserve.com

Auditors
KPMG LLP
Greensboro, NC

Legal Counsel
Robinson, Bradshaw & Hinson, PA
Charlotte, NC

Form 10-K and Quarterly Reports/Investor Contact
A copy of the company's Annual Report on Form 10-K, filed with the Securities and Exchange Commission, may be obtained from the company at no charge. Requests for the Annual Report on Form 10-K and other investor information should be directed to Kathy J. Hardy, Corporate Secretary, at the company's corporate office or at the investor relations section at www.culpinc.com.

Analyst Coverage
These analysts cover Culp, Inc.:

BB&T Capital Markets - Joel Havard
C. L. King & Associates – Tom Lewis
Morgan Keegan & Co. – Laura Champine, CFA
Raymond, James & Associates - Budd Bugatch, CFA
Value Line – Craig Sirois
Wachovia Securities, Inc. - John Baugh, CFA

Stock Listing
Culp, Inc. common stock is traded on the New York Stock Exchange under the symbol CFI. As of April 27, 2003, Culp, Inc. had approximately 2,500 shareholders based on the number of holders of record and an estimate of the number of individual participants represented by security position listings.

Annual Meeting
Shareholders are cordially invited to attend the annual meeting to be held at 9:00 a.m. on Tuesday, September 23, 2003 at the Radisson Hotel; 135 South Main Street; High Point, North Carolina.

C U L P, I N C.

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