

FELLOW SHAREHOLDERS

We are proud to report that Fiscal 2011 was a year of solid growth and progress for Culp. Our results are especially noteworthy in light of the significant economic headwinds we faced throughout the year. We are encouraged that both our mattress fabrics and upholstery fabrics divisions increased sales during a challenging demand climate for the home furnishings industry. Our solid performance reflects the benefits of a lean and agile global operating platform, a focused strategy, innovative products and exceptional customer service. As a result, Culp is the market leader in both of our businesses with a proven ability to perform well in a dynamic marketplace. Our financial position continues to be the strongest in the company's history, an important advantage that will support our growth strategy both now and as the home furnishings industry recovers. Above all, we are building a strong global brand identity and have further enhanced Culp's reputation as a financially stable and trusted supplier for our customers.

Mattress Fabrics Segment

Our mattress fabrics business had a solid performance in fiscal 2011 with annual sales up over six percent compared with fiscal 2010. As a result of our multi-year \$50 million capital investment initiatives, which were completed during fiscal 2011, Culp has a strong competitive position with a large and modern, vertically integrated manufacturing platform in the major decorative product categories of woven and knitted fabrics. We have also substantially improved upon our supply logistics from pattern inception to fabric delivery. Looking ahead, we expect to have lower capital expenditures in mattress fabrics in the coming year, with our strategic focus more directed toward product development and new sales and marketing initiatives.

Our operating margins for the year were affected by significantly higher raw material costs and selling price pressures. As we enter fiscal 2012, we are beginning to see some stabilization in raw material prices; however, these costs remain significantly higher than a year ago. In an effort to offset a portion of the most significant cost surges, we have been taking steps to implement modest price increases, re-engineer certain products and yarns where possible without sacrificing quality, and enhance production efficiencies to improve our operating performance. Most importantly, we remain committed to providing our customers with outstanding service, reliable delivery performance and consistent quality and value.

Upholstery Fabrics Segment

Upholstery fabric sales increased by three percent in fiscal 2011 in spite of erratic consumer demand trends for furniture. China produced products accounted for 86 percent of our annual sales, as our China platform has continued to play a significant role in the development of our upholstery fabrics business in today's global marketplace. Customer response to our China produced products has been very favorable as we have further enhanced Culp's reputation for product innovation, quality and value. We have also identified additional opportunities to build upon our success with our U.S. customers with new sales of China produced products to both the local China market and other international customers in fiscal 2011.

Our profitability for the year in upholstery fabrics was also affected by significantly higher raw material costs, which began to increase in the second quarter, and by lower results in our U.S. facility. We have implemented price increases with effective dates in the fourth quarter and in early fiscal 2012 to help offset as much of these costs as possible. In addition, we have focused on introducing new fabrics that take into account the higher material costs, and, where possible, we have re-engineered certain products without affecting quality.

In the third quarter of fiscal 2011, we established a wholly-owned subsidiary in Poland, called Culp Europe, to sell and distribute fabrics throughout Europe and to make and sell cut and sewn kits. We began sales activities from this location late in the fourth quarter. We are excited about this new initiative as the Poland location offers a number of advantages for Culp, including the highest concentration of furniture suppliers to the European market, low

operating costs, an experienced work force, and close proximity for shipping to customers in most European countries. Europe as a whole represents the second largest furniture market in the world behind North America. This operation is still in the early stages, and we expect sales to develop gradually over the next year. However, we are encouraged by the initial level of interest from our customers.

For fiscal 2012, our priorities are to continue the excellent performance of our China-produced fabrics business, make meaningful progress in Culp Europe and improve the results of our U.S. facility.

Balance Sheet

One of our strengths as a company has been our ability to balance our growth strategy with conservative financial management. During fiscal 2011, we continued to build our balance sheet and generate significant cash flow in the face of a difficult economic environment. At the end of the year, we reported \$30.9 million in cash and cash equivalents and short-term investments, compared with \$21.3 million at the end of fiscal 2010. Total debt was \$11.5 million, which includes long-term debt plus current maturities of long-term debt. We have since made a scheduled principal payment of \$2.2 million on August 11, 2011.

Capital expenditures for fiscal 2011 totaled \$6.4 million. After several years of high levels of capital expenditures, primarily related to the mattress fabrics multi-year investment program, we expect significantly lower levels for the foreseeable future with capital expenditures projected to be approximately \$4.0 million in fiscal 2012. Notably, our shareholders equity has grown to \$80.3 million at the end of fiscal 2011, up 67 percent from \$48.0 million just two years ago. Our strong financial position provides us with a competitive advantage, especially in this uncertain economy, as well as sufficient capital and flexibility to support our growth strategy in fiscal 2012.

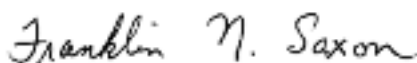
On June 16, 2011, we announced that our Board of Directors had authorized the expenditure of up to \$5.0 million for the repurchase of shares of Culp common stock. Based on the current market value of the common stock, this will allow the company to repurchase approximately five percent of the 13.3 million shares outstanding. This share repurchase program reflects the company's strong financial position and confidence in our long-term prospects, while also creating value for our shareholders.

Looking Ahead

Our results for fiscal 2011 demonstrate the resiliency of our company and our ability to successfully navigate through this challenging period of economic uncertainty. We have worked hard to create scalable and sustainable manufacturing platforms in both businesses and, as a result, Culp has emerged as a stronger player. At each stage of this process, we have been fortunate to receive the support of our talented team of dedicated associates, a proven management team and board of directors, and above all, our valued customers. Our focus going forward will be to continue our push to maintain an efficient operating platform, drive profitable growth, and extend the global reach of our brand through innovation, product excellence and outstanding customer service.

Thank you for your unwavering support of Culp.

Sincerely,



Franklin N. Saxon
President and Chief Executive Officer
August 16, 2011



Robert G. Culp, III
Chairman of the Board