UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549

# FORM 10-K

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

For the fiscal year ended May 2, 2004

Commission File No. 0-12781

## CULP, INC.

(Exact name of registrant as specified in its charter)

| | |
|---|---|
| NORTH CAROLINA | 56-1001967 |
| (State or other jurisdiction of incorporation or other organization) | (I.R.S. Employer Identification No.) |
| 101 S. Main St., High Point, North Carolina | 27261-2686 |
| (Address of principal executive offices) | (zip code) |

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

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

| Title of Each Class | Name of Each Exchange On Which Registered |
|---|---|
| Common Stock, par value $.05/ Share | New York Stock Exchange |
| Rights for Purchase of Series A Participating Preferred Shares | New York Stock Exchange |

Securities registered pursuant to Section 12(g) of the Act: None

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

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). YES X NO __

As of May 2, 2004, 11,546,634 shares of common stock were outstanding. As of October 31, 2003, the aggregate market value of the voting stock held by non-affiliates of the registrant on that date was $ 92,192,708 based on the closing sales price of such stock as quoted on the New York Stock Exchange (NYSE), assuming, for purposes of this report, that all executive officers and directors of the registrant are affiliates.

## DOCUMENTS INCORPORATED BY REFERENCE

Portions of the company's Proxy Statement to be filed pursuant to Regulation 14A of the Securities and Exchange Commission in connection with its Annual Meeting of Shareholders to be held on September 21, 2004 are incorporated by reference into Part III.

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## CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING INFORMATION

Parts I and II of this report 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 or 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 operations or success, sales, gross profit margins, SG&A or other expenses, and earnings, as well as any statements regarding future economic or industry trends or future developments. 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. Other factors that could affect the matters discussed in forward looking statements are included in the company's other periodic reports filed with the Securities and Exchange Commission.

PART I

ITEM 1. BUSINESS

## Overview

Culp, Inc., which we sometimes refer to as the company, manufactures and markets mattress fabrics (known as mattress ticking and used for covering mattresses and box springs) and upholstery fabrics primarily for use in the furniture (residential and commercial). The company's executive offices are located in High Point, North Carolina. The company was organized as a North Carolina corporation in 1972 and made its initial public offering in 1983. Since 1997, the company has been listed on the New York Stock Exchange and traded under the symbol "CFI."

Management believes that Culp is one of the two largest producers of mattress fabrics in North America as measured by total sales and one of the three largest marketers of furniture upholstery fabrics in North America, again measured by total sales. The company's fabrics are used principally in the production of residential and commercial furniture and bedding products, including sofas, recliners, chairs, loveseats, sectionals, sofa-beds, office seating, panel systems and mattress sets. Culp markets one of the broadest product lines in its industry, with a wide range of fabric constructions, patterns, colors, textures and finishes. This breadth is made possible by Culp's extensive manufacturing capabilities, which include a variety of weaving, printing and finishing operations and the ability to produce various yarns and unfinished base fabrics (known as greige goods) used in its products. Although most of the company's competitors emphasize one particular type of fabric, Culp competes in every major category except leather. Culp's extensive staff of designers and support personnel utilize computer aided design (CAD) systems to develop the company's own patterns and styles. Although Culp markets fabrics at most price levels, the company has emphasized fabrics that have a broad appeal in the "good" and "better" price categories of furniture and bedding.

Culp markets its products worldwide, with sales to customers in over 50 countries. Total net sales were $318.1 million in fiscal 2004, and the company's international sales totaled $35.3 million during fiscal 2004. Shipments to U.S.-based customers continue to account for most of the company's sales. International sales accounted for 11% of net sales for fiscal 2004 compared to 12% of net sales in fiscal 2003.

Culp has eleven (11) active manufacturing facilities, with a combined total of approximately 2.0 million square feet, which are located in North Carolina (7), South Carolina (2), Quebec, Canada (1) and Shanghai, China (1). The company's distribution system is designed to offer customers fast, responsive delivery. Products are shipped directly to customers from the company's manufacturing facilities, as well as from three regional distribution facilities strategically located in High Point, North Carolina, Los Angeles, California, and Tupelo, Mississippi, which are areas with a high concentration of furniture manufacturing.

Culp maintains an Internet website at www.culpinc.com. The company will make this annual report, in addition to its other annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to these reports, available free of charge on its Internet site as soon as reasonably practicable after such material is electronically filed with, or furnished to, the Securities and Exchange Commission. Information included on the company's website is not incorporated by reference into this annual report.

## Segments

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

## Culp's Segments/Divisions

| SEGMENT | DIVISION | FISCAL 2004 NET SALES (in millions) | PRODUCT LINES (BASE CLOTH, IF APPLICABLE) |
|---|---|---|---|
| Mattress Fabrics | Culp Home Fashions | $ 106.3 | Woven and damask jacquards<br>Pigment prints(jacquard, knit, sheeting, non-woven)<br>Knitted ticking |
| Upholstery Fabrics | Culp Decorative Fabrics (1) | $ 124.3 | Woven jacquards<br>Woven dobbies |
| | Culp Velvets/Prints | $ 87.5 | Heat-transfer prints (jacquard, flock)<br>Woven velvets<br>Tufted velvets (woven polyester)<br>Suede fabrics |

(1) Includes the company's yarn manufacturing operations and the operation located in China

Culp Home Fashions. Culp Home Fashions markets mattress ticking to bedding manufacturers. These fabrics encompass woven jacquard ticking and pigment-printed ticking on a variety of base fabrics, including jacquard, knit, poly/cotton sheeting and non-woven materials. Additionally, the division has begun to source knitted ticking from an outside supplier. Culp Home Fashions blends its finishing capabilities with its access to a variety of base fabrics to offer innovative designs to bedding manufacturers for mattress products. Culp Home Fashions' manufacturing facilities are located in Stokesdale, North Carolina and St. Jerome, Quebec, Canada.

Culp Decorative Fabrics. Culp Decorative Fabrics manufactures and markets jacquard and dobby woven fabrics used primarily for residential and commercial furniture. For a description of the characteristics of these fabrics, see "Products" below. Culp Decorative Fabrics' manufacturing facilities are located in Burlington and Graham, North Carolina, and Pageland, South Carolina. The designs marketed by Culp Decorative Fabrics range from intricate, complicated patterns such as floral and abstract designs to more simple patterns associated with casual living styles. During 2003, the company carried out a restructuring plan, within this division, designed to increase efficiencies and eliminate cost. The company consolidated the operations from its Chattanooga, Tennessee facility into the other Culp Decorative Fabrics manufacturing facilities, which resulted in the closure of the Chattanooga operation during fiscal 2003 (note additional discussion of restructuring activity in the "Management's Discussion and Analysis of Financial Condition and Results of Operations").

Culp Decorative Fabrics is vertically integrated, complementing its extensive weaving capabilities with the ability to extrude, dye and texturize yarn. Culp Decorative Fabrics includes the company's yarn facilities, where the company manufactures and markets a variety of pre-dyed spun yarns, including WrapSpun (TM), open-end spun and chenille yarns. The company operates yarn manufacturing facilities in Shelby, Cherryville, and Lincolnton, North Carolina. Most of the production is used internally by Culp Decorative Fabrics and other Culp divisions. The external sales, which totaled approximately $4.8 million, representing less than 2.0% of the company's consolidated sales for fiscal 2004, are directed primarily to the upholstery fabric market. Culp's yarn manufacturing operations provide Culp more control over its supply of spun and chenille yarns and complements the company's emphasis on developing new designs.

In March of 2003, the company announced a strategic marketing initiative to establish manufacturing and distribution operations in China. The strategy is to link the company's strong 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. During the fourth quarter of fiscal 2004, the company began incoming fabric inspection and testing at its facility in China, and started shipping fabric to customers from that location. Finishing operations in China also began in the fourth quarter of fiscal 2004.

Culp Velvets/Prints. Culp Velvets/Prints manufactures and markets a broad range of printed and velvet fabrics. These include heat-transfer prints on jacquard and flock base fabrics, woven velvets and tufted velvets. For a description of the characteristics of these fabrics, see "Products" below. These fabrics, which are manufactured at Burlington, North Carolina and Anderson, South Carolina, typically offer manufacturers richly colored patterns and textured surfaces. In addition, with the company's offshore sourcing efforts, Culp Velvets/Prints is experiencing higher sales of upholstery fabric products produced outside of the company's U.S. manufacturing plants. These sales include microdenier suedes and other sourced products to meet consumer preferences.

Capital Expenditures

The company spent approximately $6.7 million in capital expenditures during fiscal 2004, compared with $12.2 million spent in fiscal 2003. Approximately $3.0 million of amount spent in fiscal 2004 represents manufacturing equipment and leasehold improvements for the China operation. For fiscal 2005, the company's capital expenditure budget is $9.0 million.

The company's board of directors has approved the purchase and upfit of an approximately 55,000 square foot building in High Point, North Carolina that will serve as the company's new corporate offices and as new space for the company's showrooms. This purchase will involve approximately $5.7 million of the company's $9.0 million capital expenditure budget for fiscal 2005 and will result in the company's headquarters and showroom space being in the same facility for the first time. The move to the new space is expected to occur during the fall of 2004, at which time the company will vacate leased space that it currently occupies in downtown High Point. In connection with vacating these leased premises, the company expects to take a charge related primarily to the remaining lease obligations of approximately $600,000, or $0.03 per share, during the second quarter of fiscal 2005. On an ongoing basis, however, the company will avoid lease expenses of approximately $750,000 per year that are currently being paid for rent and related expenses on its present office and showroom space. The company expects the annual operating costs of the new building to be significantly lower than the lease and related costs associated with the current facilities.

Overview of Industry and Markets

Culp markets products worldwide to an array of manufacturers that operate in three principal markets and several specialty markets. The mattress fabrics segment supplies the bedding industry. This market includes mattress sets as well as "top of the bed" (comforters and bedspreads). The upholstery fabrics segment supplies the residential furniture industry and the commercial furniture industry, in addition to smaller specialty markets. The residential furniture market includes upholstered furniture sold to consumers. Products include sofas, sleep sofas, chairs, motion/recliners, sectionals and occasional furniture items. Commercial furniture includes upholstered office seating and modular office systems sold primarily for use in offices (including home offices) and other institutional settings. Specialty markets supplied by the company include juvenile furniture (baby car seats and other baby items), hospitality (furniture used in hotels and other lodging establishments), outdoor furniture, recreational vehicle seating, automotive aftermarket (slip-on seat covers), retail fabric stores and specialty yarn. Sales to specialty markets did not constitute a material part of the company's revenues in fiscal 2003 or 2004. The major markets into which the company sells products are described below.

Overview of Bedding Industry

According to the International Sleep Products Association (ISPA), the U. S. wholesale bedding industry accounted for an estimated $5.0 billion in sales in 2003, a 5.8% increase over 2002. The industry is comprised of over 700 manufacturers, and in 2003 the largest four manufacturers, Sealy, Simmons, Serta and Spring Air, accounted for $3.0 billion in wholesale shipments, or 58.7% of the total shipments. The bedding industry has averaged approximately 6.0% annual growth over the past twenty years, with only one year experiencing a decline in sales volume. It has proven to be a stable and mature industry, and has grown despite several economic downturns over the past twenty years. This stability and resistance to economic downturns is due largely to replacement purchases, which account for approximately 80% of bedding industry sales.

The bedding industry has faced limited competition from imports, due mainly to 1) short lead times demanded by mattress retailers, 2) the limited inventories carried by retailers, 3) the customized nature of each retailer's product lines, 4) high shipping cost, 5) the relatively low domestic direct labor content in mattresses and 6) strong brand recognition.

The company believes that several important demographic factors are helping to support the bedding industry. In particular, the growth of the aging and affluent segment of the population has a profound impact on the bedding industry. The increasing size of homes and increase in the number of second homes also play major roles in the demand for bedding in the United States. In recent years, there has been an increase in consumer awareness of the health benefits of sleep, driven by advertising by bedding manufacturers and studies conducted by the Better Sleep Council. These trends have not only driven total unit increases, they have also been a factor in the size of mattresses being sold in the United States. According to ISPA, the queen and king-size mattress categories combined to represent 46.5% of mattresses sold in 2003, up from 41.6% of the market in 1999.

While a majority of bedding sales is traditional innerspring bedding, several specialty bedding producers have posted impressive sales gains in recent years. Select Comfort, now the nation's fifth largest bedding producer according to Furniture/Today, is a producer, marketer and retailer of airbeds that experienced a 32.2% increase in wholesale bedding shipments to $197 million in 2003. The sixth largest bedding producer according to Furniture/Today is Tempur-Pedic, which had bedding shipments of $188 million in 2003, an 88%

increase over 2002. The specialty bedding segment has provided new growth opportunities for bedding producers and those companies that supply components, including fabric, to them.

A key trend in the bedding industry is the continued transition to selling "one-sided" mattresses versus "two-sided" mattresses, which have been the industry norm for many years. All of the four largest bedding manufacturers have initiated this product in the vast majority of their product line. Currently, most of the other bedding manufacturers are at various stages in the process of transitioning to the sale of "one-sided" mattresses. While no industry data is available, the company believes that a majority of the mattresses that are currently being sold are "one-sided," and that the industry is trending towards a very high percentage of mattresses sold being "one-sided." Since a "one-sided" mattress uses 28% to 30% less mattress ticking, the company believes that the overall industry demand for mattress ticking has been affected by this trend and will continue to be affected until the transition to "one-sided" mattresses is substantially complete, which is an estimated to be one year away, based upon the company's knowledge of its customers.

A product trend within mattress ticking is the increasing popularity of knitted mattress tickings, as opposed to woven and printed tickings. Knitted ticking is currently being used on premium mattresses. The company believes knitted ticking market share will continue to grow for the foreseeable future as these products are starting to be placed on mattresses at lower retail price points. Since the company does not manufacture knitted ticking, it began sourcing and marketing a line of these products in fiscal 2003.

Another key product trend impacting the bedding industry is the focus on producing flame-resistant material that is designed to be used between the mattress foam and the mattress fabirc. When this fabric is properly integrated into a sleep set, the bedding will meet the State of California's new open flame mattress flammability standard, currently scheduled to go into effect on January 1, 2005. The company has entered into an agreement with a producer of flame blocking non-woven material to distribute the product to its customers.

## Overview of Residential Furniture Industry

According to the American Furniture Manufacturers Association (AFMA), a trade association, the U.S. residential furniture industry has grown at a compound annual growth rate of 3.7% over the last 20 years from $11.2 billion in residential furniture wholesale shipments in 1983 to $23.1 billion in 2003. However, during the last three years the residential furniture industry has been negatively impacted by the general economic slowdown, as well as a structural shift to offshore sourcing, primarily from China, which has led to deflation in retail furniture prices. While the residential furniture industry recovered 3.5% in 2002 from a 10.2% decline in 2001, the total level of residential furniture wholesale shipments declined again in 2003 by 2.8%.

The upholstered furniture sector has been outperforming the wood sector in recent years. According to the AFMA, upholstered furniture has grown from 40.0% of total residential furniture wholesale shipments in 1997 to 47.3% in 2003. It has appeared in recent years that the upholstered furniture segment is less vulnerable to economic downturns and more responsive to economic recoveries than the wood sector. The company believes that consumers are more willing to postpone wooden casegoods purchases in deference to upholstered products, which receive a higher priority. Furthermore, upholstered products have a shorter average life, as they are more prone to everyday wear as well as changes in design trends and home fashion. This phenomenon is apparent from recent residential furniture industry trends. For example, during 2001, a year in which residential furniture wholesale shipments declined, the upholstery segment declined 9.3% while the wood segment decreased 10.9%. Amidst a recovery in the residential furniture industry in 2002, the upholstery segment grew 10.9% compared to a 1.8% decrease for the wood sector. In 2003, while total industry shipments were slightly down, the upholstery segment was flat and wood shipments were down by 4.4%.

There are several key issues facing the residential furniture industry:

- The sourcing of components and fully assembled furniture from overseas continues to play a major role in the residential furniture industry, although the pace of import growth slowed in 2003 relative to the previous several years. According to Furniture/Today, imports of residential furniture into the U.S. grew 8.0% to $15.6 billion in 2003 compared to a gain of 14.3% in 2002. The main source for these imports continues to be China, which accounted for 43.9% of total U.S. imports in 2003, up from 40.1% in 2002. In 2003, wood casegoods comprised 49.4% of the residential furniture imports coming into the U.S, while upholstered furniture only accounted for 16.2% of these imports, most of which was leather furniture. However, many upholstered furniture manufacturers are now sourcing fabric and leather from global sources, as well as outsourcing "cut-and-sew kits" to factories overseas, particularly in China. Fabrics entering the U.S. from China and other low labor cost countries are resulting in increased price competition in the upholstery fabric and upholstered furniture markets. In addition, competition in the U.S. domestic market is likely to further intensify following the January 1, 2005 expiration of the quotas imposed under the Uruguay Round Agreement on Textiles and Clothing on textile and apparel products coming into the U.S.

- Leather upholstered furniture has been gaining market share over the last ten years. This trend has increased over the last two to three years in large part because selling prices of leather furniture have been declining significantly over this time period.

- The residential furniture industry has been consolidating at the manufacturing level for several years. Furniture/Today reports that the ten largest residential furniture manufacturers (ranked by dollar value of shipments in 2003) accounted for 42.2% of the industry's total wholesale shipments in 2003, which is a significantly higher concentration than the comparable proportion ten or twenty years ago. The result of this trend is fewer, but larger, customers for upholstery fabric manufacturers. The company believes that this consolidation favors larger upholstery fabric manufacturers capable of supplying a broad range of product choices at the volumes required by major furniture manufacturers on a timely basis.

- In recent years, several of the nation's larger furniture manufacturers have opened retail outlets of their own. As top retailers shift more floor space to private label imports, manufacturers are focused on distributing their own products.

- The company believes that demographic trends support the outlook for continued long-term growth in the U.S. residential furniture. In particular, "baby boomers" (people born between 1946 to 1964) are reaching their highest earning power and are the most likely group to make a final upgrade to their home decor. Consumers in these age groups tend to spend more on home furnishings, and the increasing number of these individuals favors higher demand for furniture and related home furnishings. Many of these individuals are purchasing vacation and second homes, as evidenced by the increasing number of such homes in the U.S. Additionally, the children of the "baby boomers" are entering their college years and are expected to drive the next wave of household formation in the U.S. According to the U.S. Census Bureau, the home ownership rate is currently at an all-time high in excess of 68%, and the average size of homes in the U.S. continues to increase, further driving purchases of furniture.

Overview of Commercial Furniture Industry

According to the Business and Institutional Furniture Manufacturer's Association (BIFMA), a trade association, the commercial furniture market in the U.S. totaled approximately $8.5 billion in 2003 in wholesale shipments by manufacturers. This represents a significant decrease from the industry's peak of $13.3 billion in 2000. From 1990 to 2000, the commercial furniture industry grew at a compound annual growth rate of 5.3%. However, the commercial furniture industry is largely affected by economic trends. The commercial furniture industry declined significantly in 2001 and 2002 in light of economic trends affecting businesses, which are the ultimate customers in this industry. The decrease was not as significant in 2003, with the total market declining by 4.3% over 2002 figures. However, based on recent 2004 BIFMA data, the office furniture industry appears to be improving, with positive growth in orders and shipments.

Products

As described above, the company's products include mattress fabrics and upholstery fabrics, which are the company's identified operating segments.

Mattress Fabrics Segment. The company manufactures and markets mattress fabrics for sale to bedding manufacturers. Mattress fabrics segment sales constituted 33.4% of consolidated sales in fiscal 2004. The company has emphasized fabrics and patterns that have broad appeal at prices generally ranging from $1.75 to $5.00 per yard.

Upholstery Fabrics Segment. The company derives the majority of its revenues from the sale of upholstery fabrics, primarily to the residential and commercial (contract) furniture markets. Upholstery fabrics segment sales totaled 66.6% of consolidated sales for fiscal 2004. The company has emphasized fabrics and patterns that have broad appeal at "good" and "better" prices, generally ranging from $3.00 per yard to $8.00 per yard.

The following table indicates the product lines within each segment and division, and a brief description of their characteristics and identification of their principal end-use market.

## Culp Fabric Categories By Segment and Division

| Mattress Fabrics | Characteristics | Principal Markets |
|---|---|---|
| Culp Home Fashions: | | |
| Woven jacquards | Florals and other intricate designs. Woven on complex looms using a variety of synthetic and natural yarns. | Bedding |
| Pigment prints | Variety of designs produced economically by screen printing pigments onto a variety of base fabrics, including jacquards, knits, poly/cotton sheeting and non-wovens. | Bedding |
| Upholstery Fabrics | | |
| Culp Decorative Fabrics: | | |
| Woven jacquards | Elaborate, complex designs such as florals and tapestries in traditional, transitional and contemporary styles. Woven on intricate looms using a wide variety of synthetic and natural yarns. | Residential furniture<br>Commercial furniture |
| Woven dobbies | Fabrics that use straight lines to produce geometric designs such as plaids, stripes and solids in traditional and country styles. Woven on less complicated looms using a variety of weaving constructions and primarily synthetic yarns. | Residential furniture<br>Commercial furniture |
| Culp Velvet/ Prints: | | |
| Heat-transfer prints | Sharp, intricate designs on flock or jacquard base fabrics. Plush feel (flocks), deep colors (jacquards) and excellent wearability. Produced by using heat and pressure to transfer color from printed paper onto base fabric. | Residential furniture<br>Juvenile furniture |
| Woven velvets | Basic designs such as plaids in traditional and contemporary styles with a plush feel. Woven with a short-cut pile using various weaving methods and synthetic yarns. | Residential furniture |
| Tufted velvets | Lower cost production process of velvets in which synthetic yarns are punched into a base polyester fabric for texture. Similar designs as woven velvets. | Residential furniture |
| Suede fabrics | Fabrics woven or knitted using microdenier yarns, which are piece dyed and finished, usually by sanding. The fabrics are typically plain or with small jacquard designs. | Residential furniture |

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The company's products include all major types of coverings, except for leather, that manufacturers use today for furniture and bedding. The company also markets fabrics for certain specialty markets, but these do not currently represent a material portion of the company's business. See "Overview of Industry."

### Manufacturing

The company operates eleven (11) manufacturing facilities for the production and finishing of its upholstery and mattress fabrics. These plants encompass a total of approximately 2.0 million square feet and include yarn extrusion, spinning, dyeing and texturizing equipment, narrow and wide-width jacquard looms, dobby and woven velvet looms, tufting machines, printing equipment for pigment, heat-transfer printing, fabric finishing equipment and various types of surface finishing equipment (such as washing, softening and embossing).

The company's woven fabrics, which include jacquards, dobby, and velvet, are made from various types of synthetic and natural yarn, such as polypropylene, polyester, acrylic, rayon, nylon or cotton. Yarn is woven into various fabrics on jacquard, dobby or velvet weaving equipment. Once the weaving is completed, the fabric can be printed or finished using a variety of processes. The company currently extrudes and spins a portion of its own needs for yarn and purchases the remainder from outside suppliers. Culp produces internally a substantial amount of its needs for spun and chenille yarns.

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

The company's printing operations include pigment and heat-transfer methods. The company also produces its own printed heat-transfer paper, another component of vertical integration.

## Product Design and Styling

Consumer tastes and preferences related to upholstered furniture and bedding change, although gradually, over time. The use of new fabrics and designs remains an important consideration for manufacturers to distinguish their products at retail and to capitalize on changes in preferred colors, patterns and textures. Culp's success is largely dependent on the company's ability to market fabrics with appealing designs and patterns. Culp has an extensive staff of designers and support personnel involved in the design and development of new patterns and styles. Culp uses computer aided design (CAD) systems in the development of new fabrics, which assists the company in providing a flexible design program. These systems have enabled the company's designers to experiment with new ideas and involve customers more actively in the process. The use of CAD systems also has supported the company's emphasis on integrating manufacturing considerations into the early phase of a new design. The company's designers are located in the Howard L. Dunn, Jr. Design Center to support the sharing of design ideas and CAD and other technologies. The Design Center has enhanced the company's merchandising and marketing efforts by providing an environment in which customers can be shown new products as well as participate in product development initiatives.

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

The mattress ticking designs are introduced, once annually, during the summer to fall timeframe. Every other year, the designs are introduced twice during the year in conjunction with events associated with the International Sleep Products Association (ISPA). Additionally, the company works closely with its customers, throughout the year, on new line introductions.

## Distribution

### Mattress Fabrics Segment

Substantially all of the company's shipments of mattress ticking originate from its manufacturing facilities in Stokesdale, North Carolina and St. Jerome, Quebec, Canada.

### Upholstery Fabrics Segment

The majority of the company's products are shipped directly from its two distribution centers at or near manufacturing facilities. This "direct ship" program is primarily utilized by large manufacturers. Generally, small and medium-size residential furniture manufacturers use one of the company's three regional distribution facilities, which have been strategically positioned in areas that have a high concentration of residential furniture manufacturers - High Point, North Carolina, Los Angeles, California and Tupelo, Mississippi. The company closely monitors demand in each distribution territory to decide which patterns and styles to hold in inventory. These products are generally available on demand by customers and are usually shipped within 48 hours of receipt of an order.

## Sources and Availability of Raw Materials

Raw materials account for more than half of the company's total production costs. The company purchases various types of synthetic and natural yarns (polypropylene, polyester, acrylic, rayon and cotton), synthetic staple fibers (acrylic, rayon, polyester), various types of greige goods (poly/cotton wovens and flocks, polyester wovens, poly/rayon and poly/cotton jacquard wovens, polyester knits, poly/cotton sheeting and non-wovens), polypropylene resins, latex adhesives, dyes and chemicals from a variety of suppliers. The company is generally vertically integrated and produces internally a significant portion of raw materials, such as chenille, pile and other filling yarns, polypropylene yarns and printed heat-transfer paper. As a result, a large portion of its raw materials are comprised of more basic commodities such as rayon staple, undyed yarns, polypropylene resin chips, polyester warp yarns, unprinted heat-transfer paper and polyester woven substrates. The prices of such materials fluctuate depending upon current supply and demand conditions and the general rate of inflation. Many of the company's basic raw materials are petrochemical products or are produced from such products; and therefore, the company's raw material costs are sensitive to changes in petrochemical prices, as has been the case with the recent increase in oil prices. Generally, the company has not had significant difficulty in obtaining raw materials.

Most of the company's raw materials are available from more than one primary source, but the company is currently depending primarily on one supplier for acrylic staple. In fiscal 2004, this supplier of acrylic staple filed for reorganization under Chapter 11 of the federal bankruptcy laws. While the actions taken by this supplier have generally not had an adverse effect on supplies to Culp, the company has identified alternate suppliers.

## Seasonality

### Mattress Fabrics Segment

The ticking business and the bedding industry in general are slightly seasonal, with sales being the highest in the company's first and fourth fiscal quarters.

### Upholstery Fabrics Segment

The company's upholstery fabrics business is seasonal, with increased sales during the company's 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 company's first and third fiscal quarters for the holiday weeks of July 4th and Christmas.

## Competition

Competition for the company's products is based primarily on price, design, quality, timing of delivery and service.

### Mattress Fabrics Segment

The mattress ticking market is concentrated in a few relatively large suppliers. The company believes its principal mattress ticking competitors are Bekaert Textiles B.V., Blumenthal Print Works, Inc., Burlington Industries and Tietex, Inc.

### Upholstery Fabrics Segment

In spite of the trend toward consolidation in the upholstery fabric market, the company competes against a large number of producers, ranging from a few large manufacturers comparable in size to the company to small producers and converters of fabrics. The company believes its principal domestic upholstery fabric competitors are Joan Fabrics Corporation (including its Mastercraft division), Richloom Fabrics, Microfibres, S.T.I. and Quaker Fabric Corporation.

Overseas producers had not historically been a source of significant competition for the company, but recent trends have shown significant increased competition in U.S. markets by foreign producers of upholstery fabric, furniture components and finished upholstery furniture, as well as increased sales in the U.S. of leather furniture produced overseas (which competes with upholstered furniture for market share). Foreign manufacturers often are able to produce upholstery fabric and other components of furniture with significantly lower raw material and production costs than those of the company and other U.S.-based manufacturers. The company competes with lower cost foreign goods on the basis of design, quality, reliability and speed of delivery. In addition, the company has established an operation in China to facilitate the sourcing (and finishing) of goods produced in Asia, and the company has other overseas sourcing efforts underway as well.

## Technology

Culp views the proper use of technology as an integral part of an effective and responsive business. The company employs technology that will help to achieve higher levels of service to customers and bring operating efficiencies to the manufacturing process. Some key areas include:

- Use of the Internet has continued to be an important component of the company's work. CulpLink provides real-time information for the company's customers, including order status, shipping and invoice documentation, sales history, and inventory availability.

- Culp has invested in technology to aid the design process. CAD, digital printing, digital imaging, and electronic interfaces to the production equipment have allowed significant savings in terms of speed and ease of development.

- Culp utilizes shop floor systems, including the use of scanners, radio frequency devices, bar-coding, and process documentation throughout the company's manufacturing and distribution systems. Inventories and manufacturing processes are tracked by these systems to provide customer service and operational management with real time information for better customer service and a more efficient operation. All of these systems operate on redundant computer hardware and fiber optic backbones to effectively minimize downtime to the company's production processes.

Additionally, the company recently moved its major computer systems offsite to an organization which specializes in system security, long range business continuity planning, network monitoring and data storage. The goals for this move were to strengthen system monitoring and security and to enhance the company's disaster recovery plan.

## Environmental and Other Regulations

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

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

In addition, under the Comprehensive Environmental Response, Compensation, and Liability Act of 1980, as amended ("CERCLA"), and analogous state statutes, liability can be imposed for the disposal of waste at sites targeted for cleanup by federal and state regulatory authorities. Liability under CERCLA is strict as well as joint and several.

The company provides for environmental matters based on information presently available. Based on this information, the company does not believe that environmental matters will have a material adverse effect on either the company's financial condition or results of operations. However, there can be no assurance that the costs associated with environmental matters will not increase in the future.

## Employees

As of May 2, 2004, the company had approximately 2,300 employees, compared to approximately 2,500 at the end of fiscal 2003. All of the hourly employees at the Rayonese facility in Canada (approximately 9% of the company's workforce) are represented by a local, unaffiliated union. The collective bargaining agreement for the Rayonese hourly employees was renewed in 2002 and expires on February 1, 2005. The company is not aware of any efforts to organize any more of its employees and believes its relations with its employees are good.

## Customers and Sales

### Mattress Fabrics Segment

During fiscal 2004, 90% of mattress fabrics sales were concentrated among approximately 75 customers. Major customers include the leading bedding manufacturers: Sealy, Serta (National Bedding), Simmons, Denver Mattress and Spring Air (various licensees). The loss of one or more of these customers would have a material adverse effect on the company. Culp's mattress ticking customers also include many small and medium-size bedding manufacturers.

In international markets outside North America, Culp sells mattress ticking primarily to distributors that maintain inventories for resale to bedding manufacturers.

### Upholstery Fabrics Segment

For fiscal 2004, 90% of upholstery fabrics sales were concentrated among approximately 175 customers. Major customers are leading manufacturers of upholstered furniture, including Bassett, Furniture Brands International (Broyhill, Thomasville, and Lane /Action), Berkline, Benchcraft, Flexsteel and La-Z-Boy (La-Z-Boy Residential, Bauhaus, England, and Clayton Marcus). Representative customers for the company's fabrics for commercial furniture include Herman Miller, HON Industries, Global Upholstery and Steelcase. The company's two largest customers in this segment are La-Z-Boy Incorporated and Furniture Brands International, Inc., the loss of either of which would have a material adverse effect on the company. The company's sales to La-Z-Boy accounted for approximately 13% of the company's total sales in fiscal 2004. Patrick H. Norton, Chairman of La-Z-Boy, serves on the company's board of directors.

In international markets, Culp sells upholstery fabrics to distributors that maintain inventories for resale to furniture manufacturers. In addition, the company has established an operation in China to facilitate the sourcing (and finishing) of goods produced in Asia.

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

Net Sales by Geographic Area
(dollars in thousands)

| | Fiscal 2004 | | Fiscal 2003 | | Fiscal 2002 | |
|---|---|---|---|---|---|---|
| United States | $282,865 | 88.8% | $299,768 | 88.3% | $329,073 | 86.0% |
| North America (Excluding USA) | 26,740 | 8.4 | 30,375 | 8.9 | 32,033 | 8.4 |
| Far East and Asia | 6,954 | 2.2 | 4,926 | 1.5 | 10,703 | 2.8 |
| All other areas | 1,557 | 0.6 | 4,577 | 1.3 | 10,765 | 2.8 |
| Subtotal (International) | 35,251 | 11.2 | 39,878 | 11.7 | 53,501 | 14.0 |
| Total | $318,116 | 100.0% | $339,646 | 100.0% | $382,574 | 100.0% |

For additional segment information, see note 16 in the consolidated financial statements.

## Backlog

### Mattress Ticking Segment

The backlog for mattress ticking is not a reliable predictor of future shipments because the majority of sales are on a just-in-time basis.

### Upholstery Fabrics Segment

Because many of the company's upholstery fabric customers have an opportunity to cancle orders, and because the company makes a significant portion of its upholstery sales through in-stock positions, it is difficult to predict the amount of backlog that is "firm." For this reason, the company has reported the portion of the upholstery fabric backlog from customers (excluding orders to replenish warehouses) with confirmed shipping dates within five weeks of the end of the fiscal year. On May 2, 2004, the portion of the upholstery fabric backlog from customers with confirmed shipping dates prior to June 6, 2004 was $9.6 million, all of which are expected to be filled during the current fiscal year, as compared to $10.9 million as of the end of fiscal 2003 (for confirmed shipping dates prior to June 1, 2003).

## ITEM 2. PROPERTIES

The company's headquarters are located in High Point, North Carolina, and the company currently owns or leases eleven (11) active and two (2) inactive manufacturing facilities, a design center and three (3) regional distribution facilities. The following is a list of the company's principal administrative, manufacturing and distribution facilities. The manufacturing facilities and distribution centers are organized by segment.

| Location | Principal Use | Approx. Total Area (Sq. Ft.) | Expiration of Lease (1) |
|---|---|---|---|
| o Administrative and Design Facilities: | | | |
| High Point, North Carolina (2) | Corporate headquarters | 40,000 | 2015 |
| Burlington, North Carolina (2) | Design center | 30,000 | Owned |
| o Mattress Fabrics: | | | |
| Stokesdale, North Carolina | Manufacturing and distribution | 220,000 | Owned |
| St. Jerome, Quebec, Canada | Manufacturing and distribution | 202,500 | Owned |
| o Upholstery Fabrics: | | | |
| Graham, North Carolina (2) | Manufacturing | 341,000 | Owned |
| Burlington, North Carolina | Manufacturing | 302,000 | Owned |
| Pageland, South Carolina | Manufacturing | 204,000 | Owned |
| Cherryville, North Carolina | Manufacturing | 135,000 | Owned |
| Shelby, North Carolina | Manufacturing | 101,000 | Owned |
| Anderson, South Carolina | Manufacturing | 99,000 | Owned |
| Lincolnton, North Carolina | Manufacturing | 78,000 | Owned |
| Burlington, North Carolina | Manufacturing and distribution | 275,000 | 2006 |
| Burlington, North Carolina | Distribution and yarn warehouse | 112,500 | Owned |
| High Point, North Carolina | Regional distribution | 65,000 | Monthly |
| Tupelo, Mississippi | Regional distribution | 57,000 | 2018 |
| Los Angeles, California | Regional distribution | 33,000 | 2007 |
| Shanghai, China | Manufacturing | 65,000 | 2006 |
| Chattanooga, Tennessee (3) | Inactive | 290,000 | 2008 |
| Lumberton, North Carolina (4) | Inactive | 107,000 | Owned |

(1) Includes all options to renew, except for inactive properties
(2) Properties are used jointly by Upholstery Fabrics and Mattress Fabrics
(3) The company has a sublease agreement for a portion of this property
(4) The company is seeking to sell this property

The company believes that its facilities are in good condition, well maintained and suitable and adequate for present utilization. In the mattress fabrics segment, the company has manufacturing capacity to produce approximately 5.0% more products (measured in yards) than it manufactured in fiscal 2004. In the upholstery fabrics segment, the company has manufacturing capacity to produce approximately 22.0% more products (measured in yards) than it sold during fiscal 2004. In addition, the company has the ability to source additional mattress ticking and upholstery fabrics from outside suppliers, further increasing its ultimate output of finished goods.

## ITEM 3. LEGAL PROCEEDINGS

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

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

There were no matters submitted to a vote of shareholders during the fourth quarter ended May 2, 2004.

# PART II

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

Registrar and Transfer Agent
EquiServe Trust Company, N.A.
Post Office Box 43023
Providence, Rhode Island 02940-3023
(800) 633-4236
(816) 843-4293 (Foreign shareholders)
www.equiserve.com

Stock Listing

Culp, Inc. common stock is traded on the New York Stock Exchange under the symbol CFI. As of May 2, 2004, Culp, Inc. had approximately 1,800 shareholders based on the number of holders of record and an estimate of individual participants represented by security position listings.

Analyst Coverage
These analysts cover Culp, Inc.:

BB&T Capital Markets - Joel Havard
Morgan Keegan - Laura Champine, CFA
Raymond, James & Associates - Budd Bugatch, CFA
Sidoti & Company, LLC - Todd A. Schwartzman, CFA
Value Line - Craig Sirois

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

ITEM 6 - SELECTED ANNUAL FINANCIAL DATA

| (amounts in thousands, except per share amounts) | fiscal 2004 | fiscal 2003 | fiscal 2002 | fiscal 2001 | fiscal 2000 | percent change 2004/2003 | five-year growth rate (4) |
|---|---|---|---|---|---|---|---|
| INCOME (LOSS) STATEMENT DATA | | | | | | | |
| net sales | $ 318,116 | 339,646 | 382,574 | 410,609 | 488,079 | (6.3) % | (8.0) |
| cost of sales (6) | 259,794 | 282,073 | 319,717 | 354,622 | 403,414 | (7.9) | (8.6) |
| gross profit | 58,322 | 57,573 | 62,857 | 55,987 | 84,665 | 1.3 | (5.2) |
| S G & A expenses | 41,019 | 40,040 | 48,059 | 50,366 | 59,935 | 2.4 | (7.3) |
| goodwill amortization | 0 | 0 | 1,395 | 1,395 | 1,395 | 0 | (100.0) |
| restructuring (credit) expense and asset impairment (6) | (1,047) | 12,981 | 10,368 | 5,625 | 0 | (108.1) | 100.0 |
| income (loss) from operations | 18,350 | 4,552 | 3,035 | (1,399) | 23,335 | 303.1 | 4.4 |
| interest expense | 5,528 | 6,636 | 7,907 | 9,114 | 9,521 | (16.7) | (10.5) |
| interest income | (376) | (596) | (176) | (46) | (51) | (36.9) | 14.0 |
| early extinguishment of debt | 1,672 | 0 | 0 | 0 | 0 | 100.0 | 100.0 |
| other expense | 750 | 805 | 1,444 | 1,941 | 171 | (6.8) | 8.7 |
| income (loss) before income taxes | 10,776 | (2,293) | (6,140) | (12,408) | 13,694 | 570.0 | 17.3 |
| income taxes | 3,556 | (1,557) | (2,700) | (4,097) | 4,314 | 328.4 | 24.1 |
| income (loss) before cumulative effect of accounting change | 7,220 | (736) | (3,440) | (8,311) | 9,380 | 1,081.0 | 14.6 |
| cumulative effect of accounting change, net of income tax (7) | 0 | (24,151) | 0 | 0 | 0 | 100.0 | 0 |
| net income (loss) | $ 7,220 | (24,887) | (3,440) | (8,311) | 9,380 | 129.0 | 14.6 |
| depreciation | $ 13,642 | 13,990 | 17,274 | 19,391 | 19,462 | (2.5) | (6.0) |
| cash dividends | 0 | 0 | 0 | 1,177 | 1,611 | 0 | (100.0) |
| weighted average shares outstanding | 11,525 | 11,462 | 11,230 | 11,210 | 11,580 | 0.5 | (2.2) |
| weighted average shares outstanding, assuming dilution | 11,777 | 11,462 | 11,230 | 11,210 | 11,681 | 2.7 | (2.1) |
| PER SHARE DATA | | | | | | | |
| basic income (loss) per share: | | | | | | | |
| income (loss) before cumulative effect of accounting change | $ 0.63 | (0.06) | (0.31) | (0.74) | 0.81 | 1,150.0 | 17.6 |
| cumulative effect of accounting change (7) | 0 | (2.11) | 0 | 0 | 0 | 100.0 | 0.0 |
| net income (loss) | $ 0.63 | (2.17) | (0.31) | (0.74) | 0.81 | 129.0 | 17.6 |
| diluted income (loss) per share: | | | | | | | |
| income (loss) before cumulative effect of accounting change | $ 0.61 | (0.06) | (0.31) | (0.74) | 0.81 | 1,116.7 | 16.9 |
| cumulative effect of accounting change (7) | 0 | (2.11) | 0 | 0 | 0 | 100.0 | 0.0 |
| net income (loss) | $ 0.61 | (2.17) | (0.31) | (0.74) | 0.81 | 128.1 | 16.9 |
| cash dividends | $ 0.00 | 0.00 | 0.00 | 0.105 | 0.14 | 0.0 | (100.0) |
| book value | 8.95 | 8.33 | 10.52 | 10.85 | 11.57 | 7.4 | (3.4) |
| BALANCE SHEET DATA | | | | | | | |
| operating working capital (5) | $ 64,441 | 61,937 | 76,938 | 90,475 | 112,407 | 4.0 % | (10.4) |
| property, plant and equipment, net | 77,770 | 84,962 | 89,772 | 112,322 | 126,407 | (8.5) | (8.8) |
| total assets | 193,728 | 218,153 | 287,713 | 289,580 | 343,980 | (11.2) | (10.2) |
| capital expenditures | 6,747 | 12,229 | 4,729 | 8,050 | 22,559 | (44.8) | (8.8) |
| long-term debt (1) | 51,030 | 76,500 | 108,484 | 111,656 | 137,486 | (33.3) | (18.1) |
| shareholders' equity | 103,391 | 95,765 | 119,065 | 121,802 | 129,640 | 8.0 | (4.2) |
| capital employed (3) | 154,421 | 172,265 | 227,549 | 233,458 | 267,126 | (10.4) | (10.4) |
| RATIOS & OTHER DATA | | | | | | | |
| gross profit margin | 18.3% | 17.0% | 16.4% | 13.6% | 17.3% | | |
| operating income (loss) margin | 5.8 | 1.3 | 0.8 | (0.3) | 4.8 | | |
| net income (loss) margin before cumulative effect of accounting change | 2.3 | (0.2) | (0.9) | (2.0) | 1.9 | | |
| effective income tax rate | 33.0 | 67.9 | 44.0 | 33.0 | 31.5 | | |
| long-term debt-to-total capital employed ratio (1) | 33.0 | 44.4 | 47.7 | 47.8 | 51.5 | | |
| operating working capital turnover (5) | 5.2 | 5.0 | 4.5 | 4.0 | 4.4 | | |
| days sales in receivables | 35 | 35 | 41 | 51 | 49 | | |
| inventory turnover | 5.6 | 5.3 | 5.4 | 5.3 | 5.4 | | |

STOCK DATA

| | | | | | | |
|---|---|---|---|---|---|---|
| stock price | | | | | | |
| high | $ | 12.28 | 17.89 | 10.74 | 7.25 | 11.06 |
| low | | 5.05 | 3.75 | 2.12 | 1.63 | 5.00 |
| close | | 8.61 | 5.00 | 9.30 | 4.95 | 5.81 |
| P/E ratio (2) | | | | | | |
| high (4) | | 20.1 | N.M. | N.M. | N.M. | 13.7 |
| low (4) | | 8.3 | N.M. | N.M. | N.M. | 6.2 |
| daily average trading volume (shares) | | 55.9 | 92.3 | 24.9 | 16.2 | 15.8 |

(1) Long-term debt includes long- and short-term debt
(2) P/E ratios based on trailing 12-month net income (loss) per share
(3) Capital employed includes long-term debt and shareholders' equity
(4) N.M - Not meaningful
(5) Operating working capital for this calculation is accounts receivable, inventories and accounts payable
(6) The company incurred restructuring and related charges in fiscal 2003, 2002 and 2001. See note 2 of the company's consolidated financial statements
(7) See note 19 of the company's consolidated financial statements

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

The following analysis of the financial condition and results of operations should be read in conjunction with the Financial Statements and Notes attached thereto.

### Overview

Management believes that Culp is one of the two largest producers of mattress fabrics (known as mattress ticking) in North America, as measured by total sales, and one of the three largest marketers of upholstery fabrics for furniture in North America, again measured by total sales. The company's fabrics are used primarily in the production of bedding products and residential and commercial upholstered furniture, 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 "good" and "better" priced categories of furniture and bedding.

The company's fiscal year is the 52 or 53 week period ending on the Sunday closest to April 30. Fiscal 2004 included 53 weeks. Fiscal years 2003 and 2002 included 52 weeks. The company's operating segments are mattress fabrics and upholstery fabrics, with related divisions organized within those segments. In mattress fabrics, Culp Home Fashions markets a broad array of fabrics used by bedding manufacturers. In upholstery fabrics, Culp Decorative Fabrics markets jacquard and dobby woven fabrics for residential and commercial furniture and yarn for use primarily by the company, with some outside sales. Culp Velvets/Prints markets velvet and printed fabrics used primarily for residential furniture.

### 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.

| | 2004 | 2003 | 2002 |
|---|---|---|---|
| Net sales | 100.0% | 100.0% | 100.0% |
| Cost of sales | 81.7 | 83.0 | 83.5 |
| Gross profit | 18.3 | 17.0 | 16.5 |
| Selling, general and administrative expenses | 12.9 | 11.8 | 12.6 |
| Goodwill amortization | 0.0 | 0.0 | 0.4 |
| Restructuring (credit) expense and asset impairments | (0.3) | 3.8 | 2.7 |
| Income from operations | 5.8 | 1.3 | 0.8 |
| Interest expense, net | 1.6 | 1.8 | 2.1 |
| Early extinguishment of debt | 0.5 | 0.0 | 0.0 |
| Other expense | 0.2 | 0.2 | 0.4 |
| Income (loss) before income taxes | 3.4 | (0.7) | (1.7) |
| Income taxes * | 33.0 | 67.9 | 44.0 |
| Income (loss) before cumulative effect of accounting change | 2.3% | (0.2)% | (0.9)% |

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

2004 Compared with 2003

The company's net sales for fiscal 2004 decreased 6.3% to $318.1 million; and the company reported net income of $7.2 million, or $0.61 per share diluted, versus a net loss before cumulative effect of accounting change of $736,000, or $0.06 per 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 credits of $701,000, net of tax (or $0.06 per share), and an early extinguishment of debt charge of $1.1 million, net of tax (or $0.10 per share) were included in net income for fiscal 2004. In addition, restructuring and related charges and credits of $9.7 million, net of tax (or $0.85 per share) were included in net loss for fiscal 2003.

The company reported substantial improvement in its consolidated balance sheet by reducing long-term debt by $25.5 million during fiscal 2004, and ended the year with $14.6 million in cash and cash equivalents.

Mattress Fabrics Segment

Net Sales. Mattress ticking sales for fiscal 2004 increased $6.7 million, or 6.7%, to $106.3 million from $99.7 million in fiscal 2003, due principally to overall improved industry demand and continued gains with key customers. The 6.7% fiscal year sales gain in this segment is especially noteworthy because it occurred during the bedding industry's transition to selling predominantly one-sided mattresses, which utilize approximately 28% to 30% less mattress ticking. This transition at retail began in late calendar year 2002 and is expected to continue through early calendar year 2005.

Mattress ticking yards sold during fiscal 2004 were 43.0 million compared with 39.9 million yards in the previous year, an increase of 7.8%. The average selling price was $2.45 per yard for fiscal 2004, compared to $2.48 per yard in the same period last year. This slight reduction in average selling price was due primarily to greater participation in cash discount terms.

Gross Profit. For fiscal 2004, the mattress fabric segment reported gross profit dollars and margins of $23.4 million and 22.0%, respectively, compared with $22.8 million and 22.9% for fiscal 2003. The loss in margin, which was due to a lower average sales price, was offset by improved operating efficiencies.

Upholstery Fabrics Segment

Net Sales. Upholstery fabric sales for fiscal 2004 decreased $28.2 million, or 11.7%, to $211.8 million from $240.0 million in fiscal 2003, primarily reflecting a decline in sales in the Culp Decorative Fabrics (CDF) division related to consumer preference for leather and competition from imported fabrics, including cut and sewn kits. Management continues to monitor and assess sales trends in this division. If sales declines continue, management may need to take further actions to adjust cost structures and capacity, in addition to those taken in recent years.

Upholstery fabric yards sold during fiscal 2004 were 49.1 million versus 57.7 million in fiscal 2003, a decline of 14.9%. Average selling price was $4.19 per yard for fiscal 2004 compared with $4.04 per yard last year, an increase of 3.7%, due primarily to higher average selling prices in the Culp Decorative Fabrics division.

Gross Profit. In spite of weak furniture demand and increased competition from imported fabrics, the upholstery fabric segment experienced a slight improvement in gross profit dollars and a more significant improvement in gross margin. Gross profit for fiscal 2004 was $34.9 million, or 16.5%, versus $34.7 million, or 14.5%, for fiscal 2003. The increase in gross profit margins primarily reflects significant gains in manufacturing operating efficiencies within the CDF division.

Offshore Upholstery Fabric Sourcing

The company has undertaken several initiatives to source and market upholstery fabrics produced internationally, primarily in Asia. These measures are part of the company's continuing efforts to meet consumer preferences for certain types of fabrics, as well as to serve the growing segment of the company's customer base that is establishing or expanding furniture production in international areas. In fiscal 2004, the company sourced 7.5% of its upholstery fabrics offshore, a figure that nearly tripled from 2.6% for fiscal 2002. During the fourth quarter of fiscal 2004, 11.1% of the company's upholstery fabrics were sourced outside the United States. The growth in offshore sourcing is a trend that is expected to continue.

A major component of the company's offshore sourcing effort is its China operation, which was announced in March 2003 and began operations during the fourth quarter of fiscal 2004. This initiative involves a strategy to link the company's existing customer relationships, design expertise and production technology with low-cost fabric manufacturing in China, while continuing to maintain high quality standards. The company has leased and upfitted a 65,000 square foot facility in the Shanghai region of China, where fabrics sourced in Asia will be inspected and tested to assure compliance with the company's quality standards before shipment to customers. In most cases, additional value-added finishing steps are applied to the fabrics in China before shipment. Incoming fabric inspection, testing and finishing operations began during the fourth quarter. As expected, the company has experienced moderate operating losses in its China operations in fiscal 2004, and some level of operating loss may continue until some time in fiscal 2005.

Other Corporate Expenses

Selling, General and Administrative Expenses. SG&A expenses were $41.0 million for fiscal 2004 and increased $1.0 million, or 2.4%, from fiscal 2003. As a percent of net sales, SG&A expenses increased to 12.9% from 11.8% the previous year. This increase over the prior year was due primarily to higher professional fees coupled with lower sales. Additionally, 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.

Restructuring (Credit) Expense. The $1.0 million restructuring credit represents the adjustment of accrued employee benefit and other plant closing costs related to the shutdown of the Chattanooga and Lumberton operations. See additional discussion of restructuring activity in the "2003 Compared with 2002, Restructuring Actions" section below.

Interest Expense. Interest expense for fiscal 2004 declined to $5.5 million from $6.6 million due to significantly lower borrowings outstanding.

Interest Income. Interest income decreased to $376,000 from $596,000 due to lower interest rates earned in fiscal 2004 and lower invested balances.

Early Extinguishment of Debt. The $1.7 million charge represents premium and fees paid to reduce the $75 million term loan balance. See "Financing" for additional discussion.

Other Expense. Other expense for the fiscal 2004 totaled $750,000, compared with $805,000 in the prior year. The decrease was principally due to lower debt issue amortization expenses.

Income Taxes. The effective tax rate (taxes as a percentage of pretax income (loss)) for fiscal 2004 was 33.0% compared with 67.9% for fiscal 2003. The higher rate for the prior period reflects the increased tax benefits related to the company's loss in the U.S. resulting from the restructuring charges recorded in the second quarter of fiscal 2003.

2003 Compared with 2002

Restructuring Actions

The financial results for fiscal 2003 include a total of $15.9 million in restructuring and related charges. As reflected in the consolidated 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 related to 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 continued to deteriorate after April 2002, the date of the original write-down. 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.

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 the Culp Velvets/Prints division, 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 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 Culp Decorative Fabrics (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, about $3.6 million of which represented non-cash items. In fiscal 2002 the company recognized $2.5 million of restructuring and related charges recorded as $1.3 million 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" were principally related to the relocation of manufacturing equipment. Due to this restructuring plan, the company has realized annualized reductions of at least $14 million in fixed manufacturing costs and SG&A expenses.

Fiscal 2003 vs. 2002 - Overview

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 for fiscal 2002. 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 loss for fiscal 2003 and fiscal 2002, respectively.

The company reported substantial improvement in its consolidated 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 Culp Decorative Fabrics division.

Mattress Fabrics 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 was principally due to the weakness in consumer demand for mattresses. Additional factors that could have affected 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 fabric 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.

Upholstery Fabrics 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 was 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 Culp Velvets/Prints division, the company discontinued its unprofitable wet printed flock business at the end of fiscal 2002. This product line produced annual sales in fiscal 2002 of approximately $17.0 million with approximately $2.0 million in operating losses.

The company believes upholstery fabric sales were also impacted in fiscal 2003 by (1) an increasing market share of leather furniture being sold in the U.S.; and (2) an 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.

Other Corporate Expenses

Selling, General and Administrative Expenses. 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% for fiscal 2002. SG&A expenses for 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 for fiscal 2002. 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 for fiscal 2002 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 for fiscal 2003 increased to $596,000 from $176,000 for fiscal 2002 due to significantly higher average invested cash for the year as compared with the average for fiscal 2002.

Other Expense. Other expense for the fiscal 2003 totaled $805,000, compared with $1.4 million for fiscal 2002. 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 the 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.

Handling Costs

The company records warehousing costs in Selling, General & Administrative expenses. These costs were $4.6 million, $4.9 million and $5.0 million in fiscal 2004, fiscal 2003 and fiscal 2002, 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 $53.7 million, or 16.8% in fiscal 2004, $52.7 million, or 15.5% in fiscal 2003 and $57.9 million, or 15.1% in fiscal 2002.

Liquidity and Capital Resources

The company's sources of liquidity include cash, cash equivalents, cash flow from operations and amounts available under its revolving credit line. These sources have been adequate for day-to-day operating purposes 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 May 2, 2004 decreased to $14.6 million from $24.4 million at the end of fiscal 2003, reflecting cash flow from operations of $25.4 million for fiscal 2004, proceeds from the sale of short-term investments of $10.0 million, capital expenditures of $6.0 million, payments on vendor-financed capital expenditures of $3.9 million, debt repayment of $25.5 million and stock issuance from the exercise of stock options of $.2 million. Cash flow from operations totaled $25.4 million for fiscal 2004, $31.1 million for fiscal 2003 and $42.2 million for fiscal 2002, for a three-year total of $98.7 million.

Working Capital

Accounts receivable as of May 2, 2004 decreased 4.8% from the year-earlier level, principally due to lower sales volume. Days sales outstanding totaled 33 days at May 2, 2004, the same as for the same period last fiscal year. Inventories at the close of the fourth quarter decreased 1.0% from a year ago. Inventory turns for the fourth quarter were 5.5 versus 5.7 for the year-earlier period. Operating working capital (comprised of accounts receivable, inventories and trade accounts payable) was $64.4 million at May 2, 2004, up from $61.9 million a year ago.

Financing Arrangements

Strengthening the consolidated balance sheet was an important focus for the company in fiscal 2004. During the third quarter of fiscal 2004, the company made a $25.0 million prepayment on its $75.0 million of outstanding senior notes. As part of the transaction, the company negotiated a five percent, or $1.25 million, premium to be paid to the current note holders for the prepayment of this principal amount. This premium amount, along with other related transaction costs, resulted in a charge of $1.7 million, or $0.10 per share, in the third quarter of fiscal 2004. As a result of this prepayment, the company will realize annualized savings of approximately $1.7 million, or $0.09 per share, in net interest expense in each of the next two years, and a declining amount over the reminder of the notes' term until 2010. In addition, the company's long-term debt to capital ratio improved to 33.0% at May 2, 2004 compared with 44.4% at the end of fiscal 2003. During the past four years, the company has generated sufficient cash flow from operations to reduce long-term debt by $86.0 million.

The company's remaining $51.0 million in long-term debt is unsecured and is comprised of $50 million in outstanding senior notes from several insurance companies, with a fixed interest rate of 7.76%, and a $1.0 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 on the company's debt/EBITDA ratio, as defined by the agreement. As of May 2, 2004, there were $1.4 million in outstanding letters of credit in support of inventory purchases, and no borrowings outstanding under the agreement. The bank agreement expires in August 2004. The first scheduled principal payment on the $50 million senior notes is due March 2006 in the amount of $7.5 million. The Canadian government loan is repaid in annual installments of approximately $500,000 per year. The company was in compliance with all financial covenants in its loan agreements as of May 2, 2004.

Commitments

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

| | 2005 | 2006 | 2007 | 2008 | 2009 | Thereafter | Total |
|---|---|---|---|---|---|---|---|
| Capital expenditure Commitments | $ 4,724 | $ - | $ - | $ - | $ - | $ - | $ 4,724 |
| Accounts payable - capital expenditures | 1,816 | 69 | - | - | - | - | 1,885 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Operating leases | 4,753 | 3,265 | 2,067 | 1,217 | 235 | 1 | 11,538 |
| Long-term debt | 528 | 8,062 | 7,535 | 19,835 | 7,535 | 7,535 | 51,030 |
| Total | $11,821 | $11,396 | $9,602 | $21,052 | $7,770 | $7,536 | $69,177 |

Note: Payment Obligations by Fiscal Year Ending April

Capital Expenditures

Capital spending for fiscal 2004 was $6.7 million. This compares with $12.2 million in fiscal 2003. The larger projects for fiscal 2004 included approximately $3.0 million for manufacturing equipment and leasehold improvements related to the company's China operation. Depreciation expense for fiscal 2004 was $13.6 million. For fiscal 2005, the company's capital expenditure budget is $9.0 million, of which $5.7 million is related to the company's purchase and renovation of a new corporate headquarters building. Depreciation expense for fiscal 2005 is estimated to be comparable with fiscal 2004.

Inflation

The cost of certain of the company's raw materials, principally fibers from petroleum derivatives, and utility/energy costs, have increased during the past few months due to rising oil prices; 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.

Critical Accounting Policies

U.S. generally accepted accounting principles require the company to make estimates and assumptions that affect the reported amounts in the consolidated 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 May 2, 2004, accounts receivable from furniture manufacturers totaled approximately $22.8 million and from bedding manufacturers approximately $10.3 million. Approximately $5.8 million of the company's total accounts receivable was due from international customers. Additionally, as of May 2, 2004, the aggregate accounts receivable balance of the company's ten largest customers was $12.8 million, or 38.8% 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. Once evaluated, each customer is assigned a credit grade. Credit grades are adjusted as warranted. 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 six, nine and twelve 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 May 2, 2004 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 involves 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 Culp Decorative Fabrics, one of the company's two 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 Culp Decorative Fabrics division. After the goodwill impairment charge, the company's remaining goodwill relates to the following divisions: Culp Decorative Fabrics - $5.1 million and Culp Home Fashions - $4.1 million.

The company updated its goodwill impairment test as of May 2, 2004. This impairment test, which was prepared by the company with assistance from 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 Culp Decorative Fabrics.

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, three within Culp Decorative Fabrics, and 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, which have resulted in restructuring charges related to the remaining lease costs of the closed facilities, the write-down of property, plant and equipment and workforce reduction. Severance and related charges and facility exit costs, including those related to leases, were accounted for under EITF 94-3, the then currently effective accounting literature. 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 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. Management continues to monitor and assess sales trends in the Culp Decorative Fabrics division. If sales declines continue, management may need to take further actions to adjust cost structures and capacity, in addition to those taken in recent years.

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.

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

The company is exposed to market risk from changes in foreign currency exchange rates. The company's market risk sensitive instruments are not entered into for trading purposes. The company's exposure to 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 is not material to the company's consolidated results of operations; therefore, a 10% change in the exchange rate at May 2, 2004 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.

Due to the start up of operations in China, the company does have exposure to fluctuations in currency rates if China allows their currency to float since it has been essentially fixed in relation to the U.S. dollar. Currently, the risk cannot be hedged. The amount of sales and manufacturing costs denominated in Chinese currency is not material to the company's consolidated results of operations; therefore, a 10% change in the exchange rate at May 2, 2004 would not have a significant impact on the company's results of operations or financial position.

CULP, INC.
SALES / GROSS PROFIT BY SEGMENT/DIVISION
FOR THE TWELVE MONTHS ENDED MAY 2, 2004, APRIL 27, 2003 AND APRIL 28, 2002

(Amounts in thousands)

| | | TWELVE MONTHS ENDED | | | | |
|---|---|---|---|---|---|---|
| | | Amounts | | | Percent of Total Sales | |
| Segment/Division Sales | | May 2, 2004 | April 27, 2003 | % Over (Under) | 2004 | 2003 |
| Upholstery Fabrics | | | | | | |
| Culp Decorative Fabrics | $ | 119,514 | 137,479 | (13.1) % | 37.6 % | 40.5 % |
| Culp Velvets/Prints | | 87,522 | 96,049 | (8.9) % | 27.5 % | 28.3 % |
| Culp Yarn | | 4,758 | 6,459 | (26.3) % | 1.5 % | 1.9 % |
| | | 211,794 | 239,987 | (11.7) % | 66.6 % | 70.7 % |
| Mattress Ticking | | | | | | |
| Culp Home Fashions | | 106,322 | 99,659 | 6.7 % | 33.4 % | 29.3 % |
| | $ | 318,116 | 339,646 | (6.3) % | 100.0 % | 100.0 % |

| Segment Gross Profit | | | | | Gross Profit Margin | |
|---|---|---|---|---|---|---|
| Upholstery Fabrics (1) | $ | 34,946 | 34,737 | 0.6 % | 16.5 % | 14.5 % |
| Mattress Ticking | | 23,376 | 22,836 | 2.4 % | 22.0 % | 22.9 % |
| Gross Profit | $ | 58,322 | 57,573 | 1.3 % | 18.3 % | 17.0 % |

| | | TWELVE MONTHS ENDED | | | | |
|---|---|---|---|---|---|---|
| | | Amounts | | | Percent of Total Sales | |
| Segment/Division Sales | | April 27, 2003 | April 28, 2002 | % Over (Under) | 2003 | 2002 |
| Upholstery Fabrics | | | | | | |
| Culp Decorative Fabrics | $ | 137,479 | 152,783 | (10.0) % | 40.5 % | 39.9 % |
| Culp Velvets/Prints | | 96,049 | 119,180 | (19.4) % | 28.3 % | 31.2 % |
| Culp Yarn | | 6,459 | 5,309 | 21.7 % | 1.9 % | 1.4 % |
| | | 239,987 | 277,272 | (13.4) % | 70.7 % | 72.5 % |
| Mattress Ticking | | | | | | |
| Culp Home Fashions | | 99,659 | 105,302 | (5.4) % | 29.3 % | 27.5 % |
| | $ | 339,646 | 382,574 | (11.2) % | 100.0 % | 100.0 % |

| Segment Gross Profit | | | | | Gross Profit Margin | |
|---|---|---|---|---|---|---|
| Upholstery Fabrics (2) | $ | 34,737 | 33,648 | 3.2 % | 14.5 % | 12.1 % |
| Mattress Ticking | | 22,836 | 29,209 | (21.8) % | 22.9 % | 27.7 % |
| Gross Profit | $ | 57,573 | 62,857 | (8.4) % | 17.0 % | 16.4 % |

(1) Gross profit includes $2.9 million of restructuring related charges for fiscal 2003
(2) Gross profit includes $1.8 million of restructuring related charges for fiscal 2002

## ITEM 8. CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Management's Statement of Responsibility

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

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

KPMG LLP, the company's independent registered public accountants, conducts an audit in accordance with the standards of the Public Company Accounting Oversight Board (United States) and provides an opinion on the consolidated financial statements prepared by management. Their report for 2004 is presented on the following page.

The Audit Committee of the Board of Directors reviews the scope of the audit and the findings of the independent registered public accountants. The internal auditor and the independent registered public accountants 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 | Franklin N. Saxon | Kenneth R. Bowling |
| Chairman and Chief | President and | Vice President and |
| Executive Officer | and Chief Operating Officer | Treasurer (principal |
| (principal executive officer) | (principal financial officer) | accounting officer) |
| June 4, 2004 | June 4, 2004 | June 4, 2004 |

# REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying consolidated balance sheets of Culp, Inc. and subsidiaries as of May 2, 2004 and April 27, 2003, and the related consolidated statements of income (loss), shareholders' equity, and cash flows for each of the years in the three-year period ended May 2, 2004. 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 the standards of the Public Company Accounting Oversight Board (United States). 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 subsidiaries as of May 2, 2004 and April 27, 2003, and the results of their operations and their cash flows for each of the years in the three-year period ended May 2, 2004, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 1 to the consolidated financial statements, the Company changed its method of accounting for inventories from the lower of last-in, first-out (LIFO) cost or market to the lower of first-in, first-out (FIFO) cost or market.

\S\ KPMG LLP

Greensboro, North Carolina
June 4, 2004

CONSOLIDATED BALANCE SHEETS

| May 2, 2004 and April 27, 2003 (dollars in thousands, except share data) | 2004 | 2003 |
|---|---|---|
| ASSETS | | |
| current assets: | | |
| cash and cash equivalents | $ 14,568 | 14,355 |
| short-term investments | 0 | 10,043 |
| accounts receivable | 30,719 | 32,259 |
| inventories | 49,045 | 49,552 |
| deferred income taxes | 9,256 | 12,303 |
| other current assets | 1,634 | 3,204 |
| total current assets | 105,222 | 121,716 |
| property, plant and equipment, net | 77,770 | 84,962 |
| goodwill | 9,240 | 9,240 |
| other assets | 1,496 | 2,235 |
| total assets | $ 193,728 | 218,153 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| current liabilities: | | |
| current maturities of long-term debt | $ 528 | 500 |
| accounts payable | 15,323 | 19,874 |
| accrued expenses | 13,028 | 14,071 |
| accrued restructuring expenses | 4,968 | 7,743 |
| income taxes payable | 1,850 | 349 |
| total current liabilities | 35,697 | 42,537 |
| long-term debt, less current maturities | 50,502 | 76,000 |
| deferred income taxes | 4,138 | 3,851 |
| total liabilities | 90,337 | 122,388 |
| 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 11,546,634 at May 2, 2004 and 11,515,459 at April 27, 2003 | 578 | 576 |
| capital contributed in excess of par value | 39,943 | 39,749 |
| unearned compensation | (349) | (559) |
| retained earnings | 63,219 | 55,999 |
| total shareholders' equity | 103,391 | 95,765 |
| total liabilities and shareholders' equity | $ 193,728 | 218,153 |

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

CONSOLIDATED STATEMENTS OF INCOME (LOSS)

| For the years ended May 2, 2004, April 27, 2003 and April 28, 2002 (dollars in thousands, except per share data) | | 2004 | 2003 | 2002 |
|---|---|---|---|---|
| net sales | $ | 318,116 | 339,646 | 382,574 |
| cost of sales | | 259,794 | 282,073 | 319,717 |
| gross profit | | 58,322 | 57,573 | 62,857 |
| selling, general and administrative expenses | | 41,019 | 40,040 | 48,059 |
| goodwill amortization | | 0 | 0 | 1,395 |
| restructuring (credit) expense and asset impairments | | (1,047) | 12,981 | 10,368 |
| income from operations | | 18,350 | 4,552 | 3,035 |
| interest expense | | 5,528 | 6,636 | 7,907 |
| interest income | | (376) | (596) | (176) |
| early extinguishment of debt | | 1,672 | 0 | 0 |
| other expense | | 750 | 805 | 1,444 |
| income (loss) before income taxes | | 10,776 | (2,293) | (6,140) |
| income taxes | | 3,556 | (1,557) | (2,700) |
| income (loss) before cumulative effect of accounting change | | 7,220 | (736) | (3,440) |
| cumulative effect of accounting change, net of income taxes | | 0 | (24,151) | 0 |
| net income (loss) | $ | 7,220 | (24,887) | (3,440) |
| basic income (loss) per share: | | | | |
| income (loss) before cumulative effect of accounting change | $ | 0.63 | (0.06) | (0.31) |
| cumulative effect of accounting change | | 0.00 | (2.11) | 0.00 |
| net income (loss) | $ | 0.63 | (2.17) | (0.31) |
| diluted income (loss) per share: | | | | |
| income (loss) before cumulative effect of accounting change | $ | 0.61 | (0.06) | (0.31) |
| cumulative effect of accounting change | | 0.00 | (2.11) | 0.00 |
| net income (loss) | $ | 0.61 | (2.17) | (0.31) |

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

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

| For the years ended May 2, 2004, April 27, 2003 and April 28,2002 (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 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 |
| net income | | | | | 7,220 | | 7,220 |
| stock-based compensation | | | | 210 | | | 210 |
| common stock issued in connection with stock option plans | 31,175 | 2 | 194 | | | | 196 |
| balance, May 2, 2004 | 11,546,634 | $ 578 | 39,943 | (349) | 63,219 | 0 | 103,391 |

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

| For the years ended May 2, 2004, April 27, 2003 and April 28, 2002 (dollars in thousands) | 2004 | 2003 | 2002 |
|---|---|---|---|
| cash flows provided by operating activities: | | | |
| net income (loss) | $ 7,220 | (24,887) | (3,440) |
| adjustments to reconcile net income (loss) to net cash provided by operating activities: | | | |
| cumulative effect of accounting change, net of income taxes | 0 | 24,151 | 0 |
| depreciation | 13,642 | 13,990 | 17,274 |
| amortization of intangible and other assets | 173 | 457 | 1,575 |
| stock-based compensation | 210 | 210 | 144 |
| provision for deferred income taxes | 3,334 | (2,507) | (1,452) |
| restructuring (credit) expense | (1,047) | 12,981 | 10,368 |
| changes in assets and liabilities: | | | |
| accounts receivable | 1,540 | 11,107 | 14,483 |
| inventories | 507 | 8,347 | 2,098 |
| other current assets | 1,570 | 763 | 2,504 |
| other assets | 607 | 366 | (311) |
| accounts payable | (951) | (8,558) | 998 |
| accrued expenses | (1,043) | (2,126) | 1,727 |
| accrued restructuring expenses | (1,911) | (3,514) | (2,523) |
| income taxes payable | 1,501 | 349 | (1,268) |
| net cash provided by operating activities | 25,352 | 31,129 | 42,177 |
| cash flows provided by (used in) investing activities: | | | |
| capital expenditures | (5,976) | (6,830) | (3,779) |
| purchases of short-term investments | (17,282) | (10,043) | 0 |
| proceeds from the sale of short-term investments | 27,325 | 0 | 0 |
| net cash provided by (used in) investing activities | 4,067 | (16,873) | (3,779) |
| cash flows used in financing activities: | | | |
| payments on vendor-financed capital expenditures | (3,932) | (1,294) | (4,992) |
| principal payments of long-term debt | (25,470) | (31,984) | (3,172) |
| proceeds from common stock issued | 196 | 1,384 | 552 |
| net cash used in financing activities | (29,206) | (31,894) | (7,612) |
| increase (decrease) in cash and cash equivalents | 213 | (17,638) | 30,786 |
| cash and cash equivalents, beginning of year | 14,355 | 31,993 | 1,207 |
| cash and cash equivalents, end of year | $ 14,568 | 14,355 | 31,993 |

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation - The consolidated financial statements include the accounts of the company and its subsidiaries, which are 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 2004 included 53 weeks. Fiscal years 2003 and 2002 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 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.

At April 27, 2003, short-term investments consisted of two bond mutual funds. The investments were originally purchased in February 2003 at a cost of $10.0 million. 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. During fiscal 2004, an additional $7.3 million was invested in these funds. During the third quarter of fiscal 2004, these investments were sold resulting in a net loss of $58,000 which is included in the other expense line of the 2004 Consolidated Statement of Income. During fiscal 2004, two additional bond funds were purchased at a cost of $10.0 million and subsequently sold during the year resulting in a net loss of $11,000 which is included in the other expense line of the 2004 Consolidated Statement of Income.

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, 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 - Prior to the fourth quarter of fiscal 2004, principally all inventories were valued at the lower of last-in, first-out (LIFO) cost or market. During the fourth quarter of fiscal 2004, the company changed its method of accounting for inventories to the lower of first-in, first-out (FIFO) cost or market. The change in accounting principle was made to provide a better matching of revenue and expenses. Additionally, the change will enable the financial reporting to parallel the way management assesses the financial and operational performance of the company's segments. Prior year consolidated financial statements, including interim periods, have not been restated as the effect of the change was immaterial.

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).

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 by sale 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.

Interest costs of $50,000, $74,000 and $36,000 incurred during the years ended May 2, 2004, April 27, 2003 and April 28, 2002, 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 and Chinese subsidiaries. Translation losses for the Canadian subsidiary of $153,000, $60,000 and $33,000 are included in the other expense line item in the Consolidated Statements of Income (Loss) for the fiscal years ended May 2, 2004, April 27, 2003 and April 28, 2002, 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 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 the fiscal year ended 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 - Income taxes are accounted for under the asset and liability method. 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 May 2, 2004, the amount of such undistributed income was $30.2 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 $4.6 million, $4.9 million and $5.0 million in 2004, 2003 and 2002, 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 May 2, 2004, 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 income (loss) and income (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) | | 2004 | 2003 | 2002 |
|---|---|---|---|---|
| Net income (loss), as reported | $ | 7,220 | (24,887) | (3,440) |
| Add: Total stock-based employee compensation expense included in net income (loss), net of tax | | 141 | 67 | 81 |
| Deduct: Total stock-based employee compensation expense determined under fair value-based method for all awards, net of tax | | 456 | 225 | 363 |
| Pro forma net income (loss) | $ | 6,905 | (25,045) | (3,722) |
| Income (loss) per share: | | | | |
| Basic - as reported | $ | 0.63 | (2.17) | (0.31) |
| Basic - pro forma | | 0.60 | (2.19) | (0.33) |
| Diluted - as reported | $ | 0.61 | (2.17) | (0.31) |
| Diluted - pro forma | | 0.59 | (2.19) | (0.33) |

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. At May 2, 2004, the carrying value of the company's long-term debt is $51.0 million and the fair value is $53.7 million. At April 27, 2003, the carrying value of the company's long-term debt was $76.5 million and the fair value was $80.2 million.

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

Reclassification - Certain items in the fiscal 2002 consolidated financial statements have been reclassified to conform with the current presentation.

## 2. RESTRUCTURING AND ASSET IMPAIRMENT

### Fiscal 2003 CDF Restructuring

In August 2002, management approved a restructuring plan within the Culp Decorative Fabrics 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).

During fiscal 2004, as a result of management's continual evaluation of the restructuring accrual, the reserve was increased $178,000 to reflect current estimates of future health care claims and decreased $684,000 to reflect current estimates of remaining lease expenses and other exit costs. Additionally, the company recorded a restructuring charge of $8,000 representing a non-cash impairment of equipment.

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 |
| Adjustments in fiscal 2004 | 178 | (684) | (506) |
| Paid in fiscal 2004 | (422) | (1,227) | (1,649) |
| Balance May 2, 2004 | $ 500 | 4,334 | 4,834 |

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 successfully disposed of these assets during fiscal 2004.

Wet Printed Flock Restucturing

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 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 net 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.

During fiscal 2004, due to management's continual evaluation of the restructuring accrual, the reserve was reduced $101,000 to reflect current estimates of employee termination benefits and future health care claims and reduced $277,000 to reflect current estimates of other exit costs. The company also recognized a restructuring credit of $171,000 related to the sale of assets classified as held for sale in connection with the restructuring.

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 |
| Adjustments in fiscal 2004 | | (101) | (277) | (378) |
| Paid in fiscal 2004 | | 5 | (70) | (65) |
| Balance May 2, 2004 | $ | 0 | 100 | 100 |

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. As of May 2, 2004, assets classified as held for sale consist of a building with a value of $180,000 and is included in other assets. Management is actively marketing the building and anticipates the successful disposal of the building.

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 Culp Decorative Fabrics (CDF) division, (2) closing one of the company's four yarn manufacturing plants, (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.

During fiscal 2004, as a result of management's continual evaluation of the restructuring accrual, the reserve was increased $33,000 to reflect current estimates of future health care claims and reduced $32,000 to reflect current estimates of 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 |
| Adjustments in fiscal 2004 | | 33 | (32) | 1 |
| Paid in fiscal 2004 | | (34) | (144) | (178) |
| Balance May 2, 2004 | $ | 34 | 0 | 34 |

As of May 2, 2004 and 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) | | May 2, 2004 | April 27, 2003 |
|---|---|---|---|
| customers | $ | 33,064 | 34,580 |
| allowance for doubtful accounts | | (1,442) | (1,558) |
| reserve for returns and allowances | | (903) | (763) |
| | $ | 30,719 | 32,259 |

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

| (dollars in thousands) | 2004 | 2003 | 2002 |
|---|---|---|---|
| beginning balance | (1,558) | (2,465) | (1,282) |
| provision for bad debt | (139) | 570 | (4,172) |
| net write-offs | 225 | 337 | 2,989 |
| ending balance | (1,442) | (1,558) | (2,465) |

4. INVENTORIES

A summary of inventories follows:

| (dollars in thousands) | | May 2, 2004 | April 27, 2003 |
|---|---|---|---|
| raw materials | $ | 21,015 | 23,269 |
| work-in-process | | 2,489 | 2,917 |
| finished goods | | 25,541 | 23,366 |
| | $ | 49,045 | 49,522 |

## 5. PROPERTY, PLANT AND EQUIPMENT

A summary of property, plant and equipment follows:

| (dollars in thousands) | depreciable lives (in years) | May 2, 2004 | April 27, 2003 |
|---|---|---|---|
| land and improvements | 10 | $ 2,319 | 2,244 |
| buildings and improvements | 7-40 | 32,849 | 32,791 |
| leasehold improvements | 7-10 | 1,265 | 1,435 |
| machinery and equipment | 3-12 | 168,078 | 171,087 |
| office furniture and equipment | 3-10 | 9,849 | 9,868 |
| capital projects in progress | | 3,690 | 1,893 |
| | | 218,050 | 219,318 |
| accumulated depreciation | | (140,280) | (134,356) |
| | | $ 77,770 | 84,962 |

The company incurred total capital expenditures of $6,747,000, $12,229,000 and $4,729,000 in the fiscal years 2004, 2003 and 2002, respectively. The non-cash portion of these capital expenditures representing vendor financing totaled $331,000, $5,366,000 and $1,363,000 in the fiscal years 2004, 2003 and 2002, 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 fair value less cost to sell 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 fair value less cost to sell 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 May 2, 2004, the total carrying value of these assets is $180,000. As of April 27, 2003, the total carrying value of these assets was $650,000.

## 6. GOODWILL

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

| (dollars in thousands) | 2004 | 2003 |
|---|---|---|
| beginning balance | $ 9,240 | $ 47,083 |
| amortization | 0 | 0 |
| impairment charge | 0 | (37,580) |
| adjustment to cost of acquired business | 0 | (263) |
| ending balance | $ 9,240 | $ 9,240 |

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) | May 2, 2004 | April 27, 2003 |
|---|---|---|
| accounts payable - trade | $ 13,438 | 14,389 |
| accounts payable - capital expenditures | 1,885 | 5,485 |
| | $ 15,323 | 19,874 |

## 8. ACCRUED EXPENSES

A summary of accrued expenses follows:

| (dollars in thousands) | May 2, 2004 | April 27, 2003 |
|---|---|---|
| compensation, commissions and related benefits | $ 8,040 | 9,683 |
| interest | 459 | 763 |
| accrued rebates | 2,258 | 1,401 |
| other | 2,271 | 2,224 |
| | $ 13,028 | 14,071 |

9. INCOME TAXES

Total income taxes (benefits) were allocated as follows:

| (dollars in thousands) | 2004 | 2003 | 2002 |
|---|---|---|---|
| income from continuing operations | $ 3,556 | (1,557) | (2,700) |
| cumulative effect of accounting change | 0 | 13,429 | 0 |
| shareholders' equity, related to the tax benefit arising from the exercise of stock options | (60) | (402) | (145) |
| | $ 3,496 | (11,470) | (2,845) |

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

| (dollars in thousands) | 2004 | 2003 | 2002 |
|---|---|---|---|
| current | | | |
| federal | $ 0 | 350 | (2,655) |
| state | 0 | 25 | 0 |
| foreign | 222 | 575 | 1,407 |
| | 222 | 950 | (1,248) |
| deferred | | | |
| federal | 3,144 | (2,298) | (635) |
| state | 520 | (300) | (600) |
| foreign | (330) | 91 | (217) |
| | 3,334 | (2,507) | (1,452) |
| | $ 3,556 | (1,557) | (2,700) |

Income before income taxes related to the company's Canadian operation for the years ended May 2, 2004, April 27, 2003, and April 28, 2002 was $2,700,000, $2,300,000 and $4,000,000, respectively.

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

| | 2004 | 2003 | 2002 |
|---|---|---|---|
| federal income tax rate | 34.0% | (35.0)% | (35.0)% |
| state income taxes, net of federal income tax benefit | 3.2 | (7.8) | (6.3) |
| extraterritorial income or foreign sales corporation benefit | (0.1) | (2.3) | (0.8) |
| adjustment to estimated income tax accruals | (5.6) | (19.6) | 0.0 |
| other | 1.5 | (3.2) | (1.9) |
| | 33.0% | (67.9)% | (44.0)% |

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) | 2004 | 2003 |
|---|---|---|
| deferred tax assets: | | |
| accounts receivable | $ 792 | 799 |
| inventories | 1,666 | 2,427 |
| goodwill | 6,244 | 7,611 |
| compensation | 1,027 | 740 |
| liabilities and reserves | 2,477 | 3,717 |
| alternative minimum tax | 1,320 | 1,320 |
| net operating loss carryforwards | 4,287 | 5,520 |
| gross deferred tax assets | 17,813 | 22,134 |
| valuation allowance | 0 | 0 |
| total deferred tax assets | 17,813 | 22,134 |
| deferred tax liabilities: | | |
| property, plant and equipment, net | (11,817) | (12,853) |
| other | (878) | (829) |
| total deferred tax liabilities | (12,695) | (13,682) |
| | $ 5,118 | 8,452 |

At May 2, 2004, 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 $4,287,000 at May 2, 2004 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 $1,338,000 in 2004, $1,470,000 in 2003 and $2,280,000 in 2002.

10. LONG-TERM DEBT

A summary of long-term debt follows:

| (dollars in thousands) | | May 2, 2004 | April 27, 2003 |
|---|---|---|---|
| unsecured term notes | $ | 49,975 | 75,000 |
| canadian government loan | | 1,055 | 1,500 |
| | | 51,030 | 76,500 |
| current maturities | | (528) | (500) |
| | $ | 50,502 | 76,000 |

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 May 2, 2004, there were $1.4 million 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.

During fiscal 2004, the company elected to make a $25.0 million prepayment on the unsecured term notes. As a result of this prepayment, the company incurred a consent fee and prepayment premium of $1.3 million, additional debt issue cost amortization of $144,000 and approximately $202,000 in other professional fees. The remaining principal balance is payable over an average remaining term of 5 years, with principal payments coming due March 2006 through 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 May 2, 2004, the company was in compliance with these financial covenants.

The principal payment requirements of long-term debt during the next five fiscal years are: 2005 - $528,000; 2006 - $8,062,000; 2007 - $7,535,000; 2008- $19,835,000; and 2009 - $7,535,000.

Interest paid during 2004, 2003 and 2002 totaled $5,882,000, $7,058,000, and $8,199,000, 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 $5,013,000 in 2004; $5,673,000 in 2003; and $6,605,000 in 2002. Future minimum rental commitments for noncancellable operating leases are $4,753,000 in 2005; $3,265,000 in 2006; $2,067,000 in 2007; $1,217,000 in 2008; and $235,000 in 2009. 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 $4.7 million as of May 2, 2004.

12. STOCK OPTION PLANS

The company has a stock option plan under which options to purchase common stock may be granted to officers, directors and key employees. At May 2, 2004, 682,450 shares of common stock were authorized for issuance under the plan. Of this total, none 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 were 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 May 2, 2004, April 27, 2003 and April 28, 2002 and changes during the years ended on those dates is presented below:

| | 2004 | | 2003 | | 2002 | |
|---|---|---|---|---|---|---|
| | Shares | Weighted-Average Exercise Price | Shares | Weighted-Average Exercise Price | Shares | Weighted-Average Exercise Price |
| Outstanding at beginning of year | 775,500 | $ 7.91 | 922,875 | $ 7.73 | 788,926 | $ 8.87 |
| Granted | 0 | 0 | 0 | 0 | 290,375 | 4.07 |
| Exercised | (31,175) | 4.35 | (145,375) | 6.74 | (91,426) | 4.45 |
| Canceled/expired | (61,875) | 12.33 | (2,000) | 9.00 | (65,000) | 9.86 |
| Outstanding at end of year | 682,450 | 7.65 | 775,500 | 7.91 | 922,875 | 7.73 |
| Options exercisable at year-end | 512,950 | 8.88 | 475,250 | 10.21 | 491,625 | 10.64 |
| Weighted-average fair value of options granted during the year | $0.00 | | $0.00 | | $2.14 | |

| | Options Outstanding | | | Options Exercisable | |
|---|---|---|---|---|---|
| Range of Exercise Prices | Number Outstanding at 5/2/04 | Weighted-Avg. Remaining Contractual Life | Weighted-Avg. Exercise Price | Number Exercisable at 5/2/04 | Weighted-Avg. Exercise Price |
| $ 3.03 - $ 3.05 | 91,250 | 2.4 years | $ 3.03 | 63,500 | $ 3.03 |
| $ 4.00 - $ 7.50 | 258,575 | 2.4 | 4.27 | 116,825 | 4.47 |
| $ 7.63 - $ 7.63 | 108,000 | 4.4 | 7.63 | 108,000 | 7.63 |
| $ 7.75 - $ 12.13 | 133,000 | 2.0 | 9.72 | 133,000 | 9.72 |
| $ 13.34 - $ 20.94 | 91,625 | 3.3 | 18.83 | 91,625 | 18.83 |
| | 682,450 | 2.7 | $ 7.65 | 512,950 | $ 8.88 |

During fiscal 1995, the company adopted a stock option plan which provided for the one-time grant to officers and certain senior managers of options to purchase 121,000 shares of the company's common stock at $.05 (par value) per share. As of May 2, 2004, there are no options outstanding under the plan. Options exercised during fiscal 2004, 2003 and 2002 were 0, 50,500 and 7,000, respectively. As all outstanding options under this plan have been fully vested, no compensation expense was recorded in fiscal 2004, 2003 and 2002.

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 May 2, 2004, the 89,000 options outstanding under the plan have exercise prices of $1.00 and a weighted-average remaining contractual life of 2.7 years. There were no options exercised during fiscal 2004, 2003 and 2002, respectively. During fiscal 2004, 2003 and 2002, the compensation expense recorded under the plan was $210,000, $210,000 and $144,000, 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 May 2, 2004, 1,000,000 shares of common stock were authorized for issuance under the plan. Of this total, 820,000 remain available for grant. 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.

A summary of the status of the plan as of May 2, 2004, and April 27, 2003 and changes during the years ended on those dates is presented below:

| | 2004 | | 2003 | |
|---|---|---|---|---|
| | Shares | Weighted-Average Exercise Price | Shares | Weighted-Average Exercise Price |
| Outstanding at beginning of year | 93,250 | $ 13.43 | 0 | $ 0.00 |
| Granted | 88,750 | 6.99 | 93,250 | 13.43 |
| Exercised | 0 | 0.00 | 0 | 0.00 |
| Canceled/expired | (2,000) | 6.61 | 0 | 0.00 |
| Outstanding at end of year | 180,000 | 10.25 | 93,250 | 13.43 |
| Options exercisable at year-end | 43,000 | 11.62 | 11,250 | 9.37 |
| Weighted-average fair value of options granted during the year | $4.07 | | $7.29 | |

| | Options Outstanding | | | Options Exercisable | |
|---|---|---|---|---|---|
| Range of Exercise Prices | Number Outstanding at 5/2/04 | Weighted-Avg. Remaining Contractual Life | Weighted-Avg. Exercise Price | Number Exercisable at 5/2/04 | Weighted-Avg. Exercise Price |
| $ 6.61 - $ 6.61 | 75,500 | 4.1 years | $ 6.61 | 0 | $ 0.00 |
| $ 9.37 - $ 9.57 | 22,500 | 8.9 | 9.47 | 22,500 | 9.47 |
| $ 13.99 - $ 13.99 | 82,000 | 3.1 | 13.99 | 20,500 | 13.99 |
| | 180,000 | 4.3 | $ 10.25 | 43,000 | $ 11.62 |

Had compensation cost for the stock option plan with 682,450 options outstanding at May 2, 2004 and the 1997 and 2002 stock-based compensation plans been determined consistent with SFAS No. 123, the company's net income (loss), basic income (loss) per share and diluted income (loss) per share would have been changed to the pro forma amounts indicated below:

| (in thousands, except per share data) | | 2004 | 2003 | 2002 |
|---|---|---|---|---|
| Net income (loss) | As reported | $ 7,220 | (24,887) | (3,440) |
| | Pro forma | 6,905 | (25,045) | (3,722) |
| Net income (loss) per share, basic | As reported | $ 0.63 | (2.17) | (0.31) |
| | Pro forma | 0.60 | (2.19) | (0.33) |
| Net income (loss) per share, diluted | As reported | $ 0.61 | (2.17) | (0.31) |
| | Pro forma | 0.59 | (2.19) | (0.33) |

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 2004, 2003 and 2002, respectively: dividend yield of 0%, 0% and 0%; risk-free interest rates of 1.9%, 4.2% and 4.8%; expected volatility of 80%, 78% and 62%; and expected lives of 4 years, 4 years and 5 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, SFAS No. 138 and SFAS No. 149, 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 May 2, 2004, there were no contracts 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 May 2, 2004, the company had outstanding foreign exchange option and forward contracts to purchase a total of 564,000 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) | 2004 | 2003 | 2002 |
|---|---|---|---|
| Weighted-average common shares outstanding, basic | 11,525 | 11,462 | 11,230 |
| Effect of dilutive stock options | 252 | 0 | 0 |
| Weighted-average common shares outstanding, diluted | 11,777 | 11,462 | 11,230 |

Options to purchase 348,337 shares, 413,844 shares and 608,750 shares of common stock were not included in the computation of diluted net income (loss) per share for fiscal 2004, 2003 and 2002, 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 and 465,625 shares were not included in the computation of diluted net income (loss) per share for fiscal 2003 and 2002, respectively, because the company incurred a net loss for 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 $1,583,000 in 2004; $1,799,000 in 2003; and $1,979,000 in 2002.

In addition to the defined contribution plan, the company implemented a nonqualified deferred compensation plan covering officers and certain other associates in fiscal 2003. The plan provides for participant deferrals on a pre-tax basis and non-elective contributions made by the company. Company contributions to the plan were $62,000 for both 2004 and 2003. The company's nonqualified plan liability of $308,000 and $97,000 at May 2, 2004 and April 27, 2003, respectively, is included in accrued expenses in the Consolidated Balance Sheets.

## 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 and damask jacquards, as well as pigment prints to bedding manufacturers.

International sales, of which 98%, 87% and 91% were denominated in U.S. dollars in 2004, 2003 and 2002, respectively, accounted for 11%, 12% and 14% of net sales in 2004, 2003 and 2002, respectively and are summarized by geographic area as follows:

| (dollars in thousands) | 2004 | 2003 | 2002 |
|---|---|---|---|
| North America (excluding USA) | $ 26,740 | 30,375 | 32,033 |
| Far East and Asia | 6,954 | 4,926 | 10,703 |
| All other areas | 1,557 | 4,577 | 10,765 |
| | $ 35,251 | 39,878 | 53,501 |

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) | 2004 | 2003 | 2002 |
|---|---|---|---|
| Net sales | | | |
| Upholstery Fabrics | $ 211,794 | 240,096 | 277,272 |
| Mattress Ticking | 106,322 | 99,550 | 105,302 |
| | $ 318,116 | 339,646 | 382,574 |
| Gross profit | | | |
| Upholstery Fabrics | $ 34,946 | 34,738 | 33,648 |
| Mattress Ticking | 23,376 | 22,835 | 29,209 |
| | $ 58,322 | 57,573 | 62,857 |

One customer represented approximately 13%, 14% and 13% of consolidated net sales for 2004, 2003 and 2002, respectively. No other customer accounted for 10% or more of consolidated net sales during those years.

Identifiable assets for the company's operating segments are as follows:

| (dollars in thousands) | 2004 | 2003 | 2002 |
|---|---|---|---|
| Identifiable assets | | | |
| Upholstery Fabrics | $ 114,894 | 124,889 | 182,316 |
| Mattress Ticking | 51,880 | 51,124 | 55,804 |
| | $ 166,774 | 176,013 | 238,120 |
| Non-identifiable assets | | | |
| cash and cash equivalents | 14,568 | 14,355 | 31,993 |
| short-term investments | 0 | 10,043 | 0 |
| deferred income taxes | 9,256 | 12,303 | 9,447 |
| other current assets | 1,634 | 3,204 | 3,966 |
| other assets | 1,496 | 2,235 | 4,187 |
| Total assets | $ 193,728 | 218,153 | 287,713 |

## 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 $41,819,000 in 2004; $47,593,000 in 2003; and $48,418,000 in 2002. The amount due from this customer at May 2, 2004 was approximately $4,768,000 and at April 27, 2003 was approximately $2,690,000.

Rents paid to entities owned by certain shareholders and officers of the company and their immediate families were approximately $682,000 in 2004, $708,000 in 2003 and $726,000 in 2002.

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 income (loss) follows:

| (dollars in thousands) | 2004 | 2003 | 2002 |
|---|---|---|---|
| Net income (loss) | $ 7,220 | (24,887) | (3,440) |
| Gain (loss) on foreign exchange options, net of taxes: | | | |
| Net changes in fair value | 0 | 0 | 7 |
| Net gains reclassified into earnings | 0 | (7) | 0 |
| | $ 7,220 | (24,894) | (3,433) |

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 loss 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 net loss to its amount adjusted to exclude goodwill:

| (dollars in thousands, except per share data) | 2002 |
|---|---|
| Reported net loss | $ (3,440) |
| Goodwill amortization, net of tax | 921 |
| Adjusted net loss | (2,519) |
| Basic | |
| Reported net loss per share | (0.31) |
| Adjusted net loss per share | (0.22) |
| Diluted | |
| Reported net loss per share | (0.31) |
| Adjusted net loss per share | (0.22) |

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 Culp Decorative Fabrics (CDF), one of the company's two 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: Culp Decorative Fabrics - $5.1 million and Culp Home Fashions - $4.1 million.

The company updated its goodwill impairment test as of May 2, 2004. This updated impairment test, which was prepared by the company with the assistance of 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 Culp Decorative Fabrics.

20. RECENTLY ISSUED ACCOUNTING STANDARDS

In April 2002, the FASB issued SFAS No. 145, Rescission of FASB Statement No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections. Under Statement 4, all gains and losses from extinguishment of debt were required to be aggregated and, if material, classified as an extraordinary item, net of related income tax effect. This Statement eliminates Statement 4 and as a result, gains and losses from extinguishment of debt should be classified as extraordinary items only if they meet the criteria in APB No. 30. This Statement became effective for the company on April 28, 2003. As a result of its adoption, the net loss associated with the debt extinguishment during fiscal 2004 has been classified in continuing operations.

In January 2003, the FASB issued Interpretation 46, Consolidation of Variable Interest Entities. This Interpretation was subsequently revised in December 2003. This Interpretation clarifies the application of Accounting

Research Bulletin No. 51, Consolidated Financial Statements, to certain entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support. An enterprise shall consolidate a variable interest entity, as defined, if that enterprise has a variable interest that will absorb a majority of the entity's expected losses, receive a majority of the entity's expected residual returns, or both. This Interpretation became effective for the company August 4, 2003. The adoption of Interpretation 46 did not impact the consolidated financial statements.

SELECTED QUARTERLY DATA

| (amounts in thousands, except per share amounts) | fiscal 2004 4th quarter | fiscal 2004 3rd quarter | fiscal 2004 2nd quarter | fiscal 2004 1st quarter | fiscal 2003 4th quarter | fiscal 2003 3rd quarter | fiscal 2003 2nd quarter | fiscal 2003 1st quarter |
|---|---|---|---|---|---|---|---|---|
| INCOME (LOSS) STATEMENT DATA | | | | | | | | |
| net sales | $ 85,148 | 76,561 | 82,731 | 73,676 | 90,406 | 79,492 | 83,740 | 86,008 |
| cost of sales | 69,510 | 62,093 | 65,993 | 62,198 | 74,218 | 65,704 | 69,997 | 72,154 |
| gross profit | 15,638 | 14,468 | 16,738 | 11,478 | 16,188 | 13,788 | 13,743 | 13,854 |
| SG & A expenses | 9,925 | 10,282 | 10,296 | 10,516 | 10,324 | 9,798 | 9,481 | 10,437 |
| restructuring expense (credit) and asset impairments | (1,047) | 0 | 0 | 0 | (25) | (354) | 13,360 | 0 |
| income (loss) from operations | 6,760 | 4,186 | 6,442 | 962 | 5,889 | 4,344 | (9,098) | 3,417 |
| interest expense | 988 | 1,534 | 1,509 | 1,497 | 1,392 | 1,665 | 1,676 | 1,903 |
| interest income | (20) | (113) | (121) | (122) | (182) | (143) | (121) | (150) |
| early extinguishment of debt | 0 | 1,672 | 0 | 0 | 0 | 0 | 0 | 0 |
| other expense | 220 | 229 | 62 | 239 | 160 | 192 | 242 | 211 |
| income (loss) before income taxes | 5,572 | 864 | 4,992 | (652) | 4,519 | 2,630 | 10,895) | 1,453 |
| income taxes | 1,839 | 112 | 1,846 | (241) | 1,247 | 963 | (4,305) | 538 |
| income (loss) before cumulative effect of accounting change | 3,733 | 752 | 3,146 | (411) | 3,272 | 1,667 | (6,590) | 915 |
| cumulative effect of accounting change, net of income taxes | 0 | 0 | 0 | 0 | 0 | 0 | 0 | (24,151) |
| net income (loss) | 3,733 | 752 | 3,146 | (411) | 3,272 | 1,667 | (6,590) | (23,236) |
| depreciation | 3,348 | 3,411 | 3,439 | 3,444 | 3,436 | 3,415 | 3,498 | 3,641 |
| weighted average shares outstanding | 11,531 | 11,529 | 11,524 | 11,515 | 11,496 | 11,485 | 11,483 | 11,383 |
| weighted average shares outstanding, assuming dilution | 11,815 | 11,859 | 11,774 | 11,515 | 11,616 | 11,714 | 11,483 | 11,765 |
| PER SHARE DATA | | | | | | | | |
| basic income (loss) per share: | | | | | | | | |
| income (loss) before cumulative effect of accounting change | $ 0.32 | 0.07 | 0.27 | (0.04) | 0.28 | 0.15 | (0.57) | 0.08 |
| cumulative effect of accounting change | 0 | 0 | 0 | 0 | 0 | 0 | 0 | (2.12) |
| net income (loss) | 0.32 | 0.07 | 0.27 | (0.04) | 0.28 | 0.15 | (0.57) | (2.04) |
| diluted income (loss) per share: | | | | | | | | |
| income (loss) before cumulative effect of accounting change | $ 0.32 | 0.06 | 0.27 | (0.04) | 0.28 | 0.14 | (0.57) | 0.08 |
| cumulative effect of accounting change | 0 | 0 | 0 | 0 | 0 | 0 | 0 | (2.12) |
| net income (loss) | 0.32 | 0.06 | 0.27 | (0.04) | 0.28 | 0.14 | (0.57) | (2.04) |
| book value | 8.95 | 8.63 | 8.55 | 8.28 | 8.33 | 8.02 | 7.87 | 8.45 |
| BALANCE SHEET DATA | | | | | | | | |
| operating working capital (3) | $ 64,439 | 62,492 | 61,262 | 54,854 | 61,937 | 64,063 | 68,492 | 70,762 |
| property, plant and equipment, net | 77,770 | 78,909 | 81,219 | 83,299 | 84,962 | 85,396 | 85,049 | 89,201 |
| total assets | 193,728 | 193,853 | 224,812 | 214,387 | 218,153 | 236,753 | 235,598 | 235,959 |
| capital expenditures | 2,377 | 1,103 | 1,427 | 1,840 | 3,153 | 3,748 | 2,258 | 3,070 |
| long-term debt (1) | 51,030 | 51,063 | 76,616 | 76,551 | 76,500 | 96,141 | 96,558 | 96,533 |
| shareholders' equity | 103,391 | 99,467 | 98,605 | 95,340 | 95,765 | 92,075 | 90,326 | 97,007 |
| capital employed (2) | 154,421 | 150,530 | 175,221 | 171,891 | 172,265 | 188,216 | 186,884 | 193,540 |
| RATIOS & OTHER DATA | | | | | | | | |
| gross profit margin | 18.4% | 18.9% | 20.2% | 15.6% | 17.9% | 17.3% | 16.4% | 16.1% |
| operating income (loss) margin | 7.9 | 5.5 | 7.8 | 1.3 | 6.5 | 5.5 | (10.9) | 4.0 |
| net income (loss) margin before cumulative effect of accounting change | 4.4 | 1.0 | 3.8 | (0.6) | 3.6 | 2.1 | (7.9) | 1.1 |
| effective income tax rate | 33.0 | 13.0 | 37.0 | 37.0 | 27.6 | 36.6 | 39.5 | 37.0 |
| long-term debt-to-total capital employed ratio (1) | 33.0 | 33.9 | 43.7 | 44.5 | 44.4 | 51.1 | 51.7 | 49.9 |
| operating working capital turnover (3) | 5.2 | 5.3 | 5.3 | 5.1 | 5.0 | 4.9 | 4.8 | 4.7 |
| days sales in receivables | 33 | 31 | 34 | 32 | 32 | 34 | 36 | 34 |
| inventory turnover | 5.5 | 4.7 | 5.1 | 5.0 | 5.8 | 4.9 | 4.9 | 4.9 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| STOCK DATA | | | | | | | | |
| stock price | | | | | | | | |
| high | $ 12.28 | 12.25 | 10.95 | 8.03 | 8.10 | 9.97 | 14.95 | 17.89 |
| low | 8.52 | 9.98 | 7.00 | 5.05 | 3.75 | 6.21 | 3.81 | 8.00 |
| close | 8.61 | 11.56 | 10.72 | 7.42 | 5.00 | 7.19 | 6.50 | 11.40 |
| daily average trading volume (shares) | 22.9 | 32.0 | 56.0 | 107.9 | 65.5 | 59.9 | 97.4 | 145.5 |

(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

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

During the three years ended May 2, 2004, there were no changes of accountants and/or disagreements on any matters of accounting principles or practices or financial statement disclosures.

## ITEM 9A. CONTROLS AND PROCEDURES

Disclosure controls and procedures have been established to ensure that material information relating to the company is made known to management, including the company's Chief Executive officer and Chief Financial officer, and the board of directors. The company's Chief Executive officer and Chief Financial officer have concluded that the company's disclosure controls and procedures are effective based on their evaluation of these controls and procedures at the end of the period covered by this report.

There have been no significant changes in the company's internal controls over financial reporting or in other factors that could materially affect these controls during the period covered by this report or subsequent to the date of their evaluation.

# PART III

## ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

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

## ITEM 11. EXECUTIVE COMPENSATION

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

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

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

## ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

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

## ITEM 14: PRINCIPAL ACCOUNTANT FEES AND SERVICES

Information with respect to accountants fees and services is included in the company's definitive Proxy Statement to be filed within 120 days after the end of the company's fiscal year pursuant to Regulation 14A of the Securities and Exchange Commission, under the caption "Fees Paid to Independent Auditors," which information is herein incorporated by reference.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

a) DOCUMENTS FILED AS PART OF THIS REPORT:

1. Consolidated Financial Statements

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



2. Financial Statement Schedules

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

3. Exhibits

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

3(i) Articles of Incorporation of the company, as amended, were filed as Exhibit 3(i) to the company's Form 10-Q for the quarter ended July 28, 2002, filed September 11, 2002, and are incorporated herein by reference.

3(ii) Restated and Amended Bylaws of the company, as amended June 12, 2001, were filed as Exhibit 3(ii) to the company's Form 10-Q for the quarter ended July 29, 2001, filed September 12, 2001, and are incorporated herein by reference.

10(a) Lease Agreement, dated January 19, 1990, with Phillips Interests, Inc. was filed as Exhibit 10(g) to the company's Form 10-K for the year ended April 29, 1990, filed on July 25, 1990, and is incorporated herein by reference.

10(b) Management Incentive Plan of the company, dated August 1986 and amended July 1989, filed as Exhibit 10(o) to the company's Form 10-K for the year ended May 3, 1992, filed on August 4, 1992, and is incorporated herein by reference. (*)

10(c) Lease Agreement, dated September 6, 1988, with Partnership 74 was filed as Exhibit 10(h) to the company's Form 10-K for the year ended April 28, 1991, filed on July 25, 1991, and is incorporated herein by reference.

10(d) First Amendment of Lease Agreement dated July 27, 1992 with Partnership 74 Associates was filed as Exhibit 10(n) to the company's Form 10-K for the year ended May 2, 1993, filed on July 29, 1993, and is incorporated herein by reference.

10(e) Second Amendment of Lease Agreement dated June 15, 1994 with Partnership 74 Associates was filed as Exhibit 10(v) to the company's Form 10-Q for the quarter ended October 29, 1995, filed on December 12, 1995, and is incorporated herein by reference.

10(f) Second Amendment of Lease Agreement dated April 16, 1993, with Partnership 52 Associates was filed as Exhibit 10(l) to the company's Form 10-K for the year ended May 2, 1993, filed on July 29, 1993, and is incorporated herein by reference.

10(g) 1993 Stock Option Plan was filed as Exhibit 10(o) to the company's Form 10-K for the year ended May 2, 1993, filed on July 29, 1993, and is incorporated herein by reference. (*)

10(h) Amendments to 1993 Stock Option Agreement dated September 26, 2000. This amendment was filed as Exhibit 10(rr) to the company's Form 10-Q for the quarter ended October 29, 2000, and is incorporated herein by reference. (*)

10(i) Performance-Based Stock Option Plan, dated June 21, 1994, was filed as Exhibit 10(bb) to the company's Form 10-K for the year ended April 30, 1995, filed on July 26, 1995, and is incorporated herein by reference. (*)

10(j) Form of Note Purchase Agreement (providing for the issuance by Culp, Inc. of its $20 million 6.76% Series A Senior Notes due 3/15/08 and its $55 million 6.76% Series B Senior Notes due 3/15/10), each dated March 4, 1998, between Culp, Inc. and each of the following:

1. Connecticut General Life Insurance Company;
2. The Mutual Life Insurance Company of New York;
3. United of Omaha Life Insurance Company;
4. Mutual of Omaha Insurance Company;
5. The Prudential Insurance Company of America;
6. Allstate Life Insurance Company;
7. Life Insurance Company of North America; and
8. CIGNA Property and Casualty Insurance Company

This agreement was filed as Exhibit 10(ll) to the company's Form 10-K for the year ended May 3, 1998, filed on July 31, 1998, and is incorporated herein by reference.

10(k) First Amendment, dated January 31, 2002 to Note Purchase Agreement (providing for the issuance by Culp, Inc. of its $20 million 6.76% Series A Senior Notes due 3/15/08 and its $55 million 6.76% Series B Senior Notes due 3/15/10), each dated March 4, 1998, between Culp, Inc. and each of the following:

1. Connecticut General Life Insurance Company;
2. Life Insurance Company of North America;
3. ACE Property and Casualty;
4. J. Romeo & Co.;
5. United of Omaha Life Insurance Company;
6. Mutual of Omaha Insurance Company;
7. The Prudential Insurance of America; and
8. Allstate Life Insurance Company

This amendment was filed as Exhibit 10(a) to the company's Form 10-Q for the quarter ended January 27, 2002, and is incorporated herein by reference.

| | |
|---|---|
| 10(l) | Rights Agreement, dated as of October 8, 1999, between Culp, Inc. and EquiServe Trust Company, N.A., as Rights Agent, including the form of Articles of Amendment with respect to the Series A Participating Preferred Stock included as Exhibit A to the Rights Agreement, the forms of Rights Certificate included as Exhibit B to the Rights Agreement, and the form of Summary of Rights included as Exhibit C to the Rights Agreement. The Rights Agreement was filed as Exhibit 99.1 to the company's Form 8-K dated October 12, 1999, and is incorporated herein by reference. |
| 10(m) | Form of Change of Control and Noncompetition Agreement, each dated December 11, 2001, by and between the company and each of Robert G. Culp, III, Howard L. Dunn, Jr., Franklin N. Saxon, Kenneth M. Ludwig, and Rodney A. Smith. (*) |
| 10(n) | 2002 Stock Option Plan was filed as Exhibit 10(a) to the company's Form 10-Q for the quarter ended January 26, 2003, filed on March 12, 2003, and is incorporated herein by reference.(*) |
| 10(o) | Amended and Restated Credit Agreement dated as of August 23, 2002 among Culp, Inc. and Wachovia Bank, National Association, as Agent and as Bank, was filed as Exhibit 10(a) to the company's Form 10-Q for the quarter ended July 28, 2002, filed September 11, 2002, and is incorporated herein by reference. |
| 10(p) | First Amendment to Amended and Restated Credit Agreement dated as of March 17, 2003 among Culp, Inc. and Wachovia Bank, National Association, as Agent and as Bank, was filed as exhibit 10(p) to the company's form 10-K for the year ended April 27, 2003, filed on July 25, 2003, and is incorporated here by reference. |
| 10(q) | Second Amendment to Amended and Restated Credit Agreement dated as of June 3, 2003 among Culp, Inc. and Wachovia Bank, National Association, as Agent and as Bank. was filed as exhibit 10(q) to the company's form 10-K for the year ended April 27, 2003, filed on July 25, 2003, and is incorporated here by reference. |
| 10(r) | Sale and Purchase Agreement dated March 8, 2004, by and between Sara Lee Foundation and the company. |
| 18 | Letter on change in accounting principles |
| 21 | List of subsidiaries of the company |
| 23(a) | Consent of Independent Registered Public Accounting Firm in connection with the registration statements of Culp, Inc. on Form S-8 (File Nos. 33-13310, 33-37027, 33-80206, 33-62843, 333-27519, 333-59512, 333-59514 and 333-101850), dated March 20, 1987, September 18, 1990, June 13, 1994, September 22, 1995, May 21, 1997, April 25, 2001, April 25, 2001 and December 12, 2002. |
| 24(a) | Power of Attorney of Harry R. Culp, DDS, dated July 6, 2004 |
| 24(b) | Power of Attorney of Howard L. Dunn, dated July 6, 2004 |
| 24(c) | Power of Attorney of Patrick B. Flavin, dated July 7, 2004 |
| 24(d) | Power of Attorney of Kenneth W. McAllister, dated July 6, 2004 |
| 24(e) | Power of Attorney of Patrick H. Norton, dated July 8 , 2004 |
| 31(a) | Certification of Principal Executive Officer Pursuant to Section 302 of Sarbanes-Oxley Act of 2002. |
| 31(b) | Certification of Principal Financial Officer Pursuant to Section 302 of Sarbanes-Oxley Act of 2002. |
| 32(a) | Certification of Chief Executive Officer Pursuant to Section 906 of Sarbanes-Oxley Act of 2002. |
| 32(b) | Certification of Chief Financial Officer Pursuant to Section 906 of Sarbanes-Oxley Act of 2002. |

b) Reports on Form 8-K:

The company filed the following reports on Form 8-K during the quarter ended May 2, 2004:

(1) Form 8-K, dated February 24, 2004, included under Item 12, Results of Operations and Financial Condition, the company's press release for quarterly earnings and the financial information release relating to certain financial information for the quarter ended February 1, 2004.

(2) Form 8-K, dated March 12, 2004, included under Item 9, Regulation FD, the company's press release to disclose an agreement with Precision Fabrics to distribute flame-resistant fabrics to the bedding industry.

c) Exhibits:

The exhibits to this Form 10-K are filed at the end of this Form 10-K immediately preceded by an index. A list of the exhibits begins on page 63 under the subheading "Exhibits Index."

d) Financial Statement Schedules:

See Item 15(a) (2)

SIGNATURES

Pursuant to the requirements of Section 13 of the Securities Exchange Act of 1934, CULP, INC. has caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on the 16th day of July 2004.

CULP, INC.

By /s/ Robert G. Culp, III

Robert G. Culp, III
Chairman and Chief Executive Officer
(principal executive officer)

By: /s/ Franklin N. Saxon

Franklin N. Saxon
President and Chief Operating Officer (principal financial officer)

By: /s/ Kenneth R. Bowling

Kenneth R. Bowling
Vice President and Treasurer
(principal accounting officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated on the 16th day of July 2004.

| | |
|---|---|
| /s/ Robert G. Culp, III<br>Robert G. Culp, III<br>(Chairman of the Board of Directors) | /s/ Patrick H. Norton *<br>Patrick H. Norton<br>(Director) |
| /s/ Franklin N. Saxon<br>Franklin N. Saxon<br>(Director) | /s/ Harry R. Culp *<br>Harry R. Culp<br>(Director) |
| /s/ Howard L. Dunn, Jr.*<br>Howard L. Dunn, Jr.<br>(Director) | H. Bruce English<br>(Director) |
| /s/ Patrick B. Flavin*<br>Patrick B. Flavin<br>(Director) | |
| /s/ Kenneth W. McAllister*<br>Kenneth W. McAllister<br>(Director) | |

* By Franklin N. Saxon, Attorney-in-Fact, pursuant to Powers of Attorney filed with the Securities and Exchange Commission.

EXHIBITS INDEX

| Exhibit Number | Exhibit |
|---|---|
| 10(r) | Sale and Purchase Agreement dated March 8, 2004, by and between Sara Lee Foundation and the company. |
| 18 | Letter on change in accounting principles |
| 21 | List of subsidiaries of the company. |
| 23(a) | Consent of Independent Registered Public Accounting Firm in connection with the registration statements of Culp, Inc. on Form S-8 (File Nos. 33-13310, 33-37027, 33-80206, 33-62843, 333-27519, 333-59512, 333-59514 and 333-101850), dated March 20, 1987, September 18, 1990, June 13, 1994, September 22, 1995, May 21, 1997, April 25, 2001, April 25, 2001 and December 12, 2002. |
| 24(a) | Power of Attorney of Harry R. Culp, DDS, dated July 6, 2004 |
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| 31(a) | Certification of Principal Executive Officer Pursuant to Section 302 of Sarbanes-Oxley Act of 2002. |
| 31(b) | Certification of Principal Financial Officer Pursuant to Section 302 of Sarbanes-Oxley Act of 2002. |
| 32(a) | Certification of Chief Executive Officer Pursuant to Section 906 of Sarbanes-Oxley Act of 2002. |
| 32(b) | Certification of Chief Financial Officer Pursuant to Section 906 of Sarbanes-Oxley Act of 2002. |

# SALE AND PURCHASE AGREEMENT

THIS SALE AND PURCHASE AGREEMENT ("Agreement") is made and entered into as of the 8th day of March, 2004, by and between SARA LEE FOUNDATION, an Illinois not-for-profit corporation, acting for itself and any subsidiary or division that may hold legal title to the Property (as defined below), as seller (the "Seller"), and CULP INC., a North Carolina corporation, as buyer ("Buyer").

W I T N E S S E T H:

That for and in consideration of the mutual covenants and agreements herein contained, Seller and Buyer agree as follows:

1. CONVEYANCE. Seller agrees to sell and convey, and Buyer agrees to purchase and take title to, that certain parcel of improved real estate commonly known as 1823 Eastchester Drive, High Point, North Carolina, which real property and related improvements (collectively, the "Real Property") are more particularly legally described in Exhibit A attached hereto and hereby made a part hereof; together with those items of personal property specifically identified on Exhibit B (the "Personal Property"). The Real Property and the Personal Property are sometimes referred to herein as the "Property"). Seller shall sell and Buyer shall purchase the Property upon the terms and conditions herein set forth.

2. PURCHASE PRICE; EARNEST MONEY. (a) The purchase price of the Property shall be THREE MILLION EIGHT HUNDRED FIFTY THOUSAND AND NO/100THS DOLLARS ($3,850,000.00) ("Purchase Price"). The Purchase Price shall be paid at Closing (as defined in Paragraph 8 below) in the form of a wire transfer of immediately available United States funds transmitted to an account designated by Seller.

(b) Concurrently with its execution of this Agreement, Buyer shall deliver to the Title Company (as defined below), the sum of FIFTY THOUSAND AND NO/100THS DOLLARS ($50,000.00) as earnest money ("Earnest Money") pursuant to the Title Company's usual form of strict joint order escrow instructions. Buyer's Earnest Money deposit shall be made by wire transfer of immediately available United States funds. The Earnest Money shall be held by the Title Company and, at Buyer's option and expense, may be invested in U.S. Government obligations, certificates of deposit, money market funds, or such other interest bearing investments as Buyer shall determine, and all interest and other earnings thereon shall be paid to the party to whom the Earnest Money is payable pursuant to the terms of this Agreement, net of any investment fee charged by the Title Company to invest such funds. Subject to the terms, provisions and conditions hereof, if Closing occurs, the Earnest Money shall be a credit against the Purchase Price at Closing and the balance of the Purchase Price shall be paid at Closing as set forth in Paragraph 2(a) above. The Earnest Money shall be disbursed in accordance with Paragraph 10(c) hereof.

3. BROKERAGE. Buyer and Seller each hereby acknowledges, represents and warrants to the other that the entities entitled to a commission, finder's fee or other like compensation arising in any manner from this Agreement shall be Triad Commercial Properties, LLC ("TCP") and Price Commercial Properties ("PCP") (TCP and PCP together shall be referred to herein as the "Brokers" and separately, each shall be referred to as a "Broker"). The commission to be paid to such Brokers shall be paid by Seller as agreed to by Seller and Brokers, upon the Closing of the sale of the Property to Buyer. Each party hereby agrees to, and shall, indemnify and hold the other harmless from and against any and all claims, demands, liabilities, and causes of action, losses, expenses, fines, penalties and costs whatsoever (including without limitation attorneys' fees and court costs) for broker's fees, commissions, or charges which are asserted against the other party by any persons or parties, other than Brokers, who allege that they were engaged, retained by, or acted on behalf of, such party. In addition, each of Buyer and Seller hereby agrees to provide (or cause their respective Broker, if any, to provide) at Closing any and all broker's lien waiver documentation that may be required by the Title Company for title clearance.

4. TITLE. Buyer shall obtain at Buyer's expense a commitment for the issuance of a policy of owner's title insurance (the "Title Commitment") from a title insurer of Buyer's choice (the "Title Company"). Buyer shall direct the Title Company to provide a copy of the Title Commitment and all documents of record to Seller on the same date such documents are furnished to Buyer. If Buyer serves written notice (the "Title Notice") on Seller on or before the date that is ten (10) business days prior to the expiration of the Investigation Period (the "Objection Date") that the Title Commitment contains any matter, exception or exceptions which are not in good faith acceptable to Buyer for any reason (the "Unpermitted Exceptions"), then, within six (6) business days after receipt of such notice by Seller, which time period may be waived by Seller, (the "Cure Period") Seller may elect to attempt to cure such defects by (x) removing such Unpermitted Exceptions, or (y) causing the Title Insurer to provide an affirmative endorsement insuring Buyer over the effect of any such Unpermitted Exceptions and providing evidence of such removal or endorsement to Buyer. All exceptions not objected to by Buyer on or before the Objection Date as being Unpermitted Exceptions, or endorsed over as provided in (y) above are hereinafter referred to as "Permitted Exceptions". In addition, notwithstanding any objection by Buyer, the following items shall also be deemed Permitted Exceptions:

(a) general real estate taxes which are not yet due and payable;

(b) general and special assessments against the Property which are not yet due and payable;

(c) exceptions to title relating to any matters created by, through, or under the acts of Buyer, its successors and/or assigns, directors, officers, employees, agents, contractors, licensees, or engineers, or any of them in connection with the Investigations (as defined below);

(d) the printed exclusions and conditions and stipulations set forth in the Title Commitment; and

(e) any other exceptions to title approved in writing by Buyer.

If Seller is unable or unwilling to cause any or all of the Unpermitted Exceptions to be removed or insured over by endorsement as described above, Buyer shall have the right to either: (1) terminate this Agreement by sending written notice of such termination to Seller prior to the expiration of the Investigation Period, in which event, the Earnest Money shall be refunded to Buyer promptly as Buyer's sole and exclusive remedy, and, except as explicitly stated herein, thereafter neither Seller nor Buyer shall have any further obligations under this Agreement, provided, however, that the indemnities of Buyer and Seller set forth in Paragraph 3 and Paragraph 7 hereof and all other indemnities and agreements which expressly survive termination, shall survive the termination of this Agreement; or (2) waive its objection to such Unpermitted Exceptions and accept title to the Property subject thereto, in which case such Unpermitted Exceptions shall be deemed Permitted Exceptions. Notwithstanding anything contained herein to the contrary, Seller shall not be required to expend any funds whatsoever in an effort to remove Unpermitted Exceptions. Notwithstanding the foregoing, at or prior to Closing, Seller at Seller's expense shall remove or insure over, to Buyer's reasonable satisfaction, any Unpermitted Exceptions that relate to (1) financing liens, mechanics' and materialmen's liens caused by Seller or Sara Lee Corporation or either of their agents, (2) delinquent tax liens relating to the Property, or (3) other liens or encumbrances which secure other monetary obligations of Seller which are of a definite, undisputed and ascertainable amount. If Buyer has not delivered the Title Notice to Seller on or before the Objection Date, Buyer shall be deemed to have waived Buyer's rights to object to title matters or terminate this Agreement pursuant to the provisions of this Paragraph 4. On the Closing Date (as defined in Paragraph 8 below), Seller shall convey title to the Property free from defects, exceptions and encumbrances except for the Permitted Exceptions.

Should Buyer receive an updated Title Commitment or Survey (as defined below) following the expiration of the Investigation Period that discloses exceptions to title other than the Permitted Exceptions (the "Updated Exceptions") which are not reasonably acceptable to Buyer for Buyer's proposed use, then Buyer shall within five (5) days following its receipt of the updated Survey or updated Title Commitment notify Seller in writing of any such Updated Exceptions to which Buyer reasonably objects (any such notice, a "Defect Notice"). Within three (3) business days after Seller's receipt of any such Defect Notice from Purchaser, Seller shall elect either to (i) terminate this Agreement whereupon neither party shall have any further obligations hereunder, except for those that survive termination or (ii) attempt to cure such defects by (x) removing such defects or (y) causing the Title Company to provide an affirmative endorsement (reasonably acceptable to Buyer) insuring over the effect of any such defect. If Seller is unable to cure the Updated Exceptions identified in the Defect Notice within thirty (30) days following the originally scheduled Closing Date, then Purchaser may elect by written notice to Seller to (i) terminate this Agreement whereupon neither party shall have any further obligations hereunder, except for those that survive termination or (ii) waive its objection to such defects and close the transaction contemplated by the this Agreement without deduction or setoff from the Purchase Price. All Updated Exceptions identified in a Defect Notice that are endorsed over as provided in (y) above or not timely objected to by Buyer as required above are hereinafter also referred to as "Permitted Exceptions".

5. SURVEY. Buyer shall obtain at Buyer's expense a survey of the Property (the "Survey"), which shall (i) include or show the gross land area of the Property, and (ii) be reasonably acceptable to the Title Company for the purposes of deleting the standard preprinted survey exceptions. Buyer shall promptly provide a copy of the Survey to Seller upon receipt of same. If on or before the Objection Date Buyer provides written notice (the "Survey Notice") to Seller that the Survey contains any matters which are not reasonably acceptable to Buyer for Buyer's proposed use, then Seller, within the Cure Period, may elect to attempt to cure such defects and deliver a revised Survey to Buyer. If Buyer fails to timely deliver any written objections to the Survey to Seller on or before the Objection Date, then Buyer shall be deemed to have accepted and approved the Survey. If Seller is unable or unwilling to cure any or all of the defects indicated in the Survey Notice, Buyer shall have the right to either: (1) terminate this Agreement by sending written notice of such termination to Seller prior to the expiration of the Investigation Period, in which event, the Earnest Money shall be refunded to Buyer promptly as Buyer's sole and exclusive remedy, and, except as explicitly stated herein, thereafter neither Seller nor Buyer shall have any further obligations under this Agreement, provided, however, that the indemnities of Buyer and Seller set forth in Paragraph 3 and Paragraph 7 hereof and all other indemnities and agreements which expressly survive termination shall survive the termination of this Agreement; or (2) waive its objection to such matters and accept the Survey subject thereto. Notwithstanding anything contained herein to the contrary, Seller shall not be required to expend any funds whatsoever in an effort to cure any such defects in the Survey. If Buyer has not delivered the Survey Notice to Seller on or before the Objection Date, Buyer shall be deemed to have waived Buyer's rights to object to Survey matters or terminate this Agreement pursuant to the provisions of this Paragraph 5.

6. OBLIGATIONS TO CLOSE. Provided that Buyer has not timely terminated this Agreement pursuant to Paragraph 4, 5 or 7 of this Agreement, Buyer's obligation hereunder to close shall be subject only to (i) the Property being in substantially the same physical condition on the Closing Date as it is on the date of this Agreement, and (ii) the title to the Property being free from defects and encumbrances, except for the Permitted Exceptions or as otherwise expressly provided herein. If either condition is not fulfilled, then Buyer shall have the option to terminate this Agreement on or before the Closing Date by written notice given to the other party stating the reason for such termination, in which event, both parties shall be relieved of all further liability hereunder, provided, however, that the indemnities of Buyer and Seller set forth in Paragraph 3 and Paragraph 7 hereof and all other indemnities and agreements which expressly survive termination, shall survive the termination of this Agreement, and upon such termination the Earnest Money shall be refunded to Buyer in accordance with the provisions of Paragraph 10(c) hereof.

7. INVESTIGATIONS BY BUYER.

(a) Buyer shall have the right, for a sixty (60) day period after the date of this Agreement (the "Investigation Period") and at its sole cost and expense (unless otherwise specified herein), to perform whatever investigations and studies of the Real Property that Buyer deems advisable and appropriate, provided that no such investigations and studies shall interfere with the use and operation of the Real Property as currently used and operated or the rights of any tenant(s) (collectively, the "Investigations"). At Buyer's option, the Investigations shall include, but not be limited to, Buyer's right to have a qualified independent consultant chosen by Buyer (the "Consultant") to enter upon the Real Property, upon forty-eight (48) hours prior verbal notice to Seller (given to Brian Hunter at 312/558-8686), in order to inspect the Real Property. Seller may, in Seller's sole discretion, elect to have an agent of Seller accompany Buyer or Consultant during any such Investigations of the Real Property. The Investigations relating to the environmental condition of the Real Property may include engineering inspections and other examinations of the surface conditions of the Real Property, including investigations of the soil conditions of the Real Property and any improvements. Notwithstanding anything to the contrary contained herein, under no circumstances shall Buyer perform any invasive tests on the Property without first obtaining Seller's prior written consent (which consent shall not be unreasonably withheld or delayed but may be reasonably conditioned). Buyer shall have the right to terminate this Agreement prior to the expiration of the Investigation Period by causing written notice of termination to actually be received by Seller on or before 5:00 p.m. Central Time on the date of the expiration of the Investigation Period. In such event, (i) the Earnest Money shall be promptly refunded to Buyer in accordance with the provisions of Paragraph 10(c) hereof, and (ii) Buyer and Consultant, except as required by law or court order, shall disclose to no one, publicly or privately, any information with respect to the Property supplied by Seller or developed by or for Buyer, or Buyer's reason or reasons for terminating this Agreement. In such event, this non-disclosure agreement, covenant and obligation shall be a continuing agreement, covenant and obligation of Buyer and Consultant which shall survive the termination of this Agreement. In the event this Agreement is terminated in accordance with the above provisions of this Paragraph 7, except as otherwise expressly provided herein, neither party shall have any further liability or obligation to the other under this Agreement, provided, however, that the indemnities provided for in Paragraph 3 hereof and this Paragraph 7, and all other indemnities and agreements which expressly survive termination, shall survive the termination of this Agreement.

(b) Buyer shall, at its sole expense obtain and maintain, and shall cause Consultant to obtain and maintain, from a financially sound insurance company or companies acceptable to Seller, policies of insurance for the following types of coverage and with limits of liability not less than the minimum amounts set forth below.

(1) workers' compensation and occupational disease insurance with statutory limits and employers' liability insurance with limits of not less than $500,000; and

(2) comprehensive general public liability insurance with limits of not less than $5,000,000 combined single limit for claims arising from bodily injury and/or property damage, written on an "occurrence" basis and including coverage for products and completed operations, independent contractors, blanket broad form contractual liability, and explosion, collapse, and underground hazards.

Prior to initiating the Investigations, Buyer and Consultant shall provide Seller with a certificate(s) of insurance evidencing that the foregoing policies of insurance have been obtained and are in full force and effect and, except for Buyer's and Consultant's workers' compensation insurance coverage and Consultant's errors and omissions and pollution liability insurance coverage, that Seller has been named an additional insured under said policies. Said certificate(s) shall also show the expiration date of each policy and provide that Seller shall be given at least ten (10) days' prior written notice of any cancellation or material modification thereof. Neither the purchase of any policy of insurance nor the furnishing of evidence thereof to Seller pursuant hereto shall relieve Buyer of its indemnification obligations hereunder.

(c) If Buyer does not purchase the Property for any reason other than Seller's default hereunder, Buyer shall provide Seller with copies of all preliminary and final reports, results of the Investigations, including all test data and reports, and such other written information issued by Consultant in connection therewith. All information, test data, and reports resulting from the Investigations, together with any and all information, data and reports pertaining to the environmental condition of the Property provided to Buyer by Seller shall be kept strictly confidential by Buyer and shall not be used for any purpose other than the evaluation of the possible purchase of the Property. Under no circumstances shall any part of same be provided to any third party, exclusive of professional advisors engaged by Buyer to assist with this transaction, unless Seller has first been satisfied that proper arrangements have been made to preserve its confidentiality and Seller has expressly consented in writing to Buyer's release of the information to the other party. All necessary steps shall be taken by Buyer to keep the information in full and complete confidence and Buyer shall cause Consultant to keep the information in full and complete confidence. In the event of a breach, or attempted or contemplated breach of the foregoing obligations, Buyer hereby acknowledges that monetary damages alone will be inadequate to compensate Seller and, accordingly, Buyer agrees that, in such event, Seller will be entitled to injunctive relief to prevent the disclosure of the information, together with such other remedies as may be available to Seller either at law or in equity.

(d) Except as otherwise provided herein, the Investigations shall be conducted at Buyer's sole risk and expense. Buyer hereby forever indemnifies Seller from and against any and all liability suffered by Seller as a result of Buyer's or Consultant's (or their employees', agents', subcontractors' or representatives') activities upon the Property, including without limitation, the cost of correcting or compensating for injuries to persons, property, the environment, and any natural resources, and any fines or penalties arising out of or incidental to the performance of the Investigations, but excluding any liability resulting from the mere discovery of a condition on the Property not caused by Buyer, its Consultants or any agent of either of them. Promptly following the Investigations, the Property shall be restored by Buyer to the condition that existed prior thereto. In the event that Buyer fails to restore the Property to the condition that existed prior to the Investigations, Seller may (but shall not be obligated to) restore the Property to such condition and deduct the cost of such restoration from the Earnest Money. In such event, Buyer shall be responsible for restoring the Earnest Money to the amount required under Paragraph 2 hereof within five days after notice from Seller. The obligations of Buyer contained herein shall be continuing agreements, covenants and obligations of Buyer that survive the Closing and the termination of this Agreement.

8. CLOSING. The closing of the transaction contemplated hereunder (the "Closing") shall take place at the office of the Title Company on May 28, 2004, or such other mutually acceptable date as the parties may hereafter agree upon in writing (the "Closing Date"). On the Closing Date, Buyer, Seller and the Title Company (as escrowee) shall enter into closing escrow instructions substantially in the form attached hereto as Exhibit C ("Closing Escrow Instructions") to effectuate a closing through an escrow with the Title Company without a physical presence by the parties. At the Closing:

(a) Seller shall execute and deliver, or cause to be executed and delivered, a Special Warranty Deed, conveying the Real Property to Buyer, subject only to the Permitted Exceptions and such other title exceptions which Buyer has accepted or been deemed to have accepted pursuant to Paragraph 4 above;

(b) Seller shall execute and deliver, or cause to be executed and delivered, a Bill of Sale pertaining to the Personal Property;

(c) Seller shall execute and deliver, or cause to be executed and delivered, a certificate pursuant to the Foreign Investment in Real Property Transfer Act;

(d) Seller shall execute and deliver, or cause to be executed and delivered, a 1099 Solicitation Form;

(e) Buyer shall cause the Earnest Money to be disbursed in accordance with Paragraph 10(c) hereof and deposit the balance of the Purchase Price in accordance with Paragraph 2 hereof;

(f) Seller shall execute and deliver a customary owner's affidavit required by the Title Company;

(g) Seller and Buyer shall jointly execute and deliver a closing statement, in triplicate;

(h) Seller and Buyer shall each deliver to the other such other documents and instruments as may reasonably be required by the other party or the Title Company that may be necessary to close this transaction and enable the parties to complete the Closing;

(i) Seller shall deliver the keys (if any) to the Real Property to the Seller;

(j) Escrowee shall complete the Closing and record the Deed and other applicable closing documents pursuant to the closing escrow instructions;

(k) Seller shall pay any applicable state, county and municipal transfer stamps in connection with this transaction, except as otherwise required by statute; and

(l) Seller shall pay for one-half (1/2) of the Title Company's closing fees. Buyer shall pay for any and all costs and fees charged by the Title Company for the title examination, the Title Commitment, the issuance of an Owner's title insurance policy including the costs for extended coverage and for any and all endorsements beyond extended coverage, all loan charges and fees, and one-half (1/2) of the Title Company's closing fees.

9. APPORTIONMENT AND ADJUSTMENT. The following items are to be apportioned to, and adjusted between Seller and Buyer, as of the Closing Date, and are to be fully assumed and paid thereafter by Buyer:

(a) all utilities (if any);

(b) all real estate taxes and assessments, general and special, based on the most recent ascertainable bill therefor; and

(c) all other public or governmental charges or assessments against the Property, which are or may be payable (including, without limitation, metropolitan district, sanitary commission, or other benefit charges, assessments, liens, or encumbrances for sewer, water, drainage, or other public improvements completed or commenced on or prior to the date hereof or subsequent thereto, with Seller being responsible for any installments of assessments due prior to the Closing Date and Buyer responsible for any installments due on or after the Closing Date).

The adjustment of all such items shall be determined by apportionment as of the Closing Date (the "Apportionment Time"). If the amount of any apportioned item is not ascertainable at Closing, the adjustment thereof shall be on the basis of one hundred ten percent (110%) of the most recently ascertainable bill therefor, and such apportionment shall be final. If any refunds of real property taxes or assessments, water rates and charges or sewer taxes and rents shall be made after the Closing Date, the same shall be held in trust by Seller or Buyer, as the case may be, and shall first be applied to the unreimbursed costs incurred in obtaining the same, and the balance, if any, shall be paid to Seller (for the period prior to the Apportionment Time) and to Buyer (for the period after the Apportionment Time). Seller shall receive a credit at Closing for any prepaid taxes, utilities or assessments or deposit(s) made in connection therewith. Seller shall not be responsible for (and Buyer shall pay for) any additional costs of any prorated item based on the action of Buyer, including, but without limitation, improvements or alterations made by Buyer, loss of exemption or loss of tax credits.

10. REMEDIES.

(a) In the event Seller fails to keep or perform any of the covenants or obligations to be kept or performed by Seller under this Agreement ("Seller Default"), and the same shall continue for ten (10) days following written notice thereof to Seller from Buyer specifying such default, Buyer shall have the right, as its sole and exclusive remedy, to either (i) seek specific performance from Seller or (ii) terminate this Agreement and receive a refund of the Earnest Money, whereupon neither party shall have any further obligations hereunder, except those that expressly survive such termination. If specific performance of this Agreement is impossible due to Seller's conveyance of the Property to a third party in breach of this Agreement, Buyer may recover from Seller Buyer's reasonable, out-of-pocket, third-party expenses incurred in connection with this Agreement, not to exceed Twenty-Five Thousand and No/100ths Dollars ($25,000.00).

(b) In the event Buyer fails to keep or perform any of the covenants or obligations to be kept or performed by Buyer under this Agreement ("Buyer Default") and the same shall continue for ten (10) days following written notice thereof to Buyer from Seller specifying such default, Seller may terminate this Agreement and receive any and all Earnest Money. The parties acknowledge and agree that the actual damages in such event are uncertain in amount and difficult to ascertain, and that said amount of liquidated damages was reasonably determined. Notwithstanding the foregoing, Seller shall have the right to receive specific performance of Buyer's obligations hereunder.

(c) The following provision shall apply to the Earnest Money deposited by Buyer hereunder: from and after the date hereof, except (i) upon the occurrence of a Seller Default hereunder with respect to which Buyer elects to pursue the remedy of terminating the Agreement as set forth in Paragraph 10(a), or (ii) Buyer's timely election to terminate this Agreement pursuant to the provisions of Paragraphs 4, 5 or 7 hereof or (iii) as provided in Paragraph 23 below, the Earnest Money shall be nonrefundable to Buyer and shall be payable to Seller, and provided that the transaction contemplated hereunder closes, the Earnest Money shall be credited against the Purchase Price at the Closing.

11. CONDITION OF THE PROPERTY. Possession of the Property shall be delivered by Seller to Buyer at Closing. Buyer agrees to accept the Property at such time on an "as-is," "where is," and "with all faults" basis and condition. Seller shall have no obligation to remediate or improve the Property, including but not limited to the environmental condition of the Property, or any existing improvements located thereon. Buyer expressly acknowledges and agrees that Seller has not and does not make any representation, covenant, or warranty, express or implied, regarding the condition of the Property (including the environmental condition) (although Seller does make the representation and warranty regarding notices as contained in paragraph 21(c) below [the "Notice Representation"]) or the fitness of the Property for any intended or particular use, any and all such representations, covenants, and warranties, express or implied, being hereby expressly denied by Seller and waived by Buyer. Buyer represents and warrants that, prior to the Closing, but subject to the express terms and conditions hereof, Buyer shall have had the opportunity to make or cause to be made all such investigations, examinations, assessments, and audits of the Property as Buyer wishes to make or have made, including without limitation the Investigations provided for in Paragraph 7 hereof, the review of title to the Property under Paragraph 4 hereof and the review and knowledge of any adverse matters disclosed by the Survey acquired pursuant to Paragraph 5 hereof. If Closing occurs, subject to the Notice Representation, Buyer assumes the risk that adverse physical characteristics and existing conditions may not have been or may not be revealed by the foregoing, and Buyer waives all claims, objections to, or complaints about physical characteristics and existing conditions of the Property, including, without limitation, subsurface conditions and the potential for solid and hazardous wastes and substances, or toxic wastes and substances, to be present in, on, under, or related to the Property. Subject to the Notice Representation, Buyer agrees that, by acquiring title to the Property, Buyer thereby forever remises, releases, waives, and discharges all claims, causes of action, and demands against Seller, under any federal, state or local environmental laws, rules, regulations, ordinances, and orders (including, without limitation, the Comprehensive Environmental Response, Compensation and Liability Act, 42 U.S.C. section 9601 et seq or any state counterpart or equivalent), in law or in equity, which Buyer has or shall, can, or may have or acquire, including but not limited to cross-claims, (but excluding third-party claims, interpleader claims, and claims for contribution and indemnification), arising from or relating to any and all conditions of the Property, including but not limited to the environmental condition of the Property. In any action by Buyer, this Agreement may be pleaded by Seller as a defense or by way of counterclaim or cross-complaint.

12. ASSIGNMENT. The provisions of this Agreement shall be binding upon and shall inure to the benefit of the parties hereto and their respective successors and assigns. The Seller may assign any of its rights or interests hereunder to any affiliate of Seller. The Buyer may not assign any of its rights or interest

hereunder without first obtaining the prior written consent of Seller, which consent may be withheld in the sole and absolute discretion of Seller.

13. CUMULATIVE RIGHTS. All rights, privileges, and remedies of each of the parties provided for in this Agreement shall be cumulative, and the exercise of one remedy provided for in any paragraph of this Agreement shall not be deemed to be a waiver of all or any other rights, remedies, or privileges provided for herein.

14. INDEPENDENT CONTRACTORS. It is expressly understood and agreed that each party hereto is an independent contracting party and that in no event shall this Agreement be construed as creating a joint venture or partnership.

15. ALTERATION. This Agreement embodies the complete agreement between the parties hereto and cannot be altered, changed, or modified except by written instrument executed by each of Buyer and Seller.

16. NOTICE. Any notice, request, demand, instruction or other document to be given or served hereunder or under any document or instrument executed pursuant hereto shall be in writing and shall be delivered personally, by nationally recognized overnight courier service or, by telecopy. Any such notice shall be effective (i) upon receipt if delivered personally, (ii) on the next business day after deposit with a nationally recognized overnight courier service, prepaid, or (iii) upon confirmation of complete receipt if given by telecopy. A party may change its address for receipt of notices by service of a notice of such change in accordance herewith:

To Buyer:

Culp, Inc.
P.O. Box 2686
101 South Main Street
High Point, North Carolina 27261
Attn: Kenneth M. Ludwig
Telephone: (336) 888-6282
Telecopy: (336) 887-7089

with a copy to:

Robinson Bradshaw & Hinson, P.A.
101 North Tryon Street, Suite 1900
Charlotte, North Carolina 28246
Attention: Julie C. Chiu, Esq.
Telephone: (704) 377-8348
Telecopy: (704) 373-3948

To Seller:

Sara Lee Foundation
Three First National Plaza
Chicago, Illinois 60602-4260
Attn: Helen N. Kaminski, Esq.
Telephone: (312) 558-8525
Telecopy: (312) 558-8687

with a copy to:

Piper Rudnick LLP
203 North LaSalle Street, Suite 1800
Chicago, Illinois 60601
Attn: Louis S. Cohen, Esq.
Telephone: (312) 368-2171
Telecopy: (312) 236-7516

17. INTENTIONALLY DELETED.

18. COUNTERPARTS. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original but all of which together shall constitute one and the same instrument.

19. GOVERNING LAW. This Agreement shall be governed by and construed in accordance with the laws of the State in which the Real Property is located.

20. TIME OF THE ESSENCE. Time is of the essence in this Agreement and each and every term and condition hereof. If any date for performance of any action or matter set forth in this Agreement falls on a weekend or national holiday, such date shall automatically by deemed by the parties to be required to be taken or performed on the next succeeding business day.

21. SELLER'S REPRESENTATIONS, WARRANTIES AND COVENANTS.

(a) Seller represents and warrants to Buyer that Seller has full legal power and authority to enter into and perform this Agreement. This Agreement and all transactions contemplated hereby have been or will be fully authorized on behalf of Seller, the person or persons executing this Agreement on behalf of Seller have been duly authorized by all appropriate action of Seller to execute this Agreement and have been or will be duly authorized to execute such other documents and to take such other action as is necessary or desirable to consummate the transactions contemplated hereby, and such transactions will not result in a violation of any agreement or document under which Seller is organized or operating, or any other agreement to which Seller is a party or by which it is bound or subject; and this Agreement, when executed, shall constitute the valid and binding obligation of Seller.

(b) Following the full execution of this Agreement, Seller shall use commercially reasonable efforts to deliver to Buyer true, correct, and complete copies of any engineering reports, plans, environmental reports, title commitments, title policies and surveys relating to the Property in Seller's or Sara Lee Corporation's possession; any written expense information relating to the last twelve (12) months of the operation of the Property in the possession of Seller or Sara Lee Corporation (or its affiliates); and a certificate of insurance evidencing Seller's hazard insurance covering the Property.

(c) To Seller's actual knowledge, Seller has not received any written notice from any governmental authority having jurisdiction over Seller or the Property of any uncured violation of any rule, regulation, code, resolution, ordinance, statute or law involving the use, maintenance, operation or condition of the Property or any of the improvements located thereon.

(d) Seller covenants that, until Closing, it shall maintain the same hazard insurance on the Property that it maintains as of the date of this Agreement.

The foregoing representations and warranties shall survive the Closing for a period of six (6) months.

22. BUYER'S REPRESENTATION AND WARRANTY.

(a) Buyer represents and warrants to Seller that Buyer has full legal power and authority to enter into and perform this Agreement. This Agreement and all transactions contemplated hereby have been or will be fully authorized on behalf of Buyer, the person or persons executing this Agreement on behalf of Buyer have been duly authorized by all appropriate action of Buyer to execute this Agreement and have been or will be duly authorized to execute such other documents and to take such other action as is necessary or desirable to consummate the transactions contemplated hereby, and such transactions will not result in a violation of any agreement or document under which Buyer is organized or operating, or any other agreement to which Buyer is a party or by which it is bound or subject; and this Agreement, when executed, shall constitute the valid and binding obligation of Buyer.

23. CONDEMNATION; DAMAGE.

(a) In the event that prior to the Closing, the Property is condemned in whole or in part or if the improvements located thereon are damaged by fire or other casualty to the extent that the value of the condemnation award or the cost to repair such damage shall be One Hundred Thousand and No/100ths Dollars ($100,000.00) or more, then, and in any of such events, Seller shall promptly notify Buyer in writing of such condemnation or casualty loss. Buyer shall then have the right, upon written notice to Seller, delivered within ten (10) days after receipt of said notice from Seller, to terminate this Agreement and thereupon the parties shall be released and discharged from any further obligations each to the other; provided, however, that the indemnitees of Buyer and Seller set forth in Paragraph 3 and Paragraph 7 hereof and all other indemnitees and agreements which expressly survive termination, shall survive termination of this Agreement and the Earnest Money (and any interest thereon) provided herein shall be returned to the Buyer. If Buyer does not elect to so terminate this Agreement within the said ten (10) day period, the Closing shall be held at any time thereafter upon at least five (5) days prior written notice from Seller to Buyer (provided in no event will Buyer be required to close prior to the Closing Date originally scheduled), and the Purchase Price shall not be reduced, but Seller shall at Closing (i) assign to Buyer all of Seller's right, title and interest in and to all insurance proceeds resulting from the damage or destruction and/or condemnation award and (ii) credit to Buyer the amount of any deductible under Seller's insurance policy.

(b) In the event the improvements are damaged by fire or other casualty or a portion of the Property is condemned to the extent that the cost of repairing the same or the value of the condemnation award shall be less than One Hundred Thousand and No/100ths Dollars ($100,000.00), the Closing shall occur pursuant to the terms hereof without any delay or reduction of Purchase Price, and Seller shall at Closing, (i) assign to Buyer all of Seller's right, title and interest in and to all insurance proceeds resulting from the damage or destruction and/or condemnation awards and (ii) credit to Buyer the amount of any deductible under Seller's insurance policy.

24. DISPUTE. In the event of a dispute relating to this Agreement, the nonprevailing party in such dispute shall pay the prevailing party's reasonable attorney's fees, expenses and court costs.

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IN WITNESS WHEREOF, the parties hereto have hereunto set their hands to this Sale and Purchase Agreement as of the date and year first above written.

BUYER:

CULP INC., a North Carolina corporation

By: /s/ Kenneth M. Ludwig
-----------------
Name: Kenneth M. Ludwig
Title: Senior Vice President

SELLER:

SARA LEE FOUNDATION, an Illinois not-for-profit corporation

By: /s/ Robin S.Tryloff

Name: Robin S.Tryloff

Title: President and Executive Director

EXHIBIT A

(TO SALE AND PURCHASE AGREEMENT)

Legal Description of the Property

Beginning at a point in the new northwest right-of-way line of Eastchester Drive (N.C. Highway 68) located North 49 degrees 48' 28" West 12.0 feet from an iron in the old northwest right-of-way line of Eastchester Drive marking the easternmost corner of the property of Buelah G. Smith (Tax Map 340-2, Lot 10) running thence with the northeast line of said property of Buelah G. Smith and falling in with the northeast line of W. Vernon Duncan (Tax Map 340-2, Lot 28) North 49 degrees 48' 28" West 689.31 feet to an iron marking the southernmost corner of property of City of High Point (Tax Map 340-2, Lot 24) thence with the East line of said property in the City of High Point North 08 degrees 20' 21" East 316.48 feet to an iron; thence with a southeast line of said property of the City of High Point North 66 degrees 37' 03" East 147.65 feet to an iron marking the westernmost corner of property of J.C. Coggins (Tax Map 340-2, Lot 19) thence with the southwest line of said property of J.C. Coggins South 49 degrees 39' 51" East 791.50 feet to a point in the new northwest right-of-way line of Eastchester Drive located North 49 degrees 39' 51" West 12.0 feet from an iron in the old northwest right-of-way line of Eastchester Drive marking the southernmost corner of said property of J.C. Coggins; thence with said new northwest right-of-way line South 40 degrees 19' 11" West 399.06 feet to the point and place of beginning.

EXHIBIT B

(TO SALE AND PURCHASE AGREEMENT)

Items to be included within the meaning of "Personal Property"

All personal property (including office cubicles and furnishings, but excluding all art work) at the Property as of January 30, 2004.

EXHIBIT C

(TO SALE AND PURCHASE AGREEMENT)

CLOSING ESCROW INSTRUCTIONS

Escrow No.:____________________
Escrow Officer:________________
Telephone:_____________________
Title Commitment No.:__________

______________, 2004

_________ Title Insurance Company
_________________________________
_________________________________

Re: Escrow Instructions

Ladies & Gentlemen:

As used herein, the following terms shall have the following meanings:

Seller: Sara Lee Foundation, an Illinois not-for-profit corporation

Buyer: Culp Inc., a North Carolina corporation

Property: That certain parcel of land and improvements commonly known as 1823 Eastchester Drive, High Point, North Carolina, and legally described in Attachment A attached hereto and made a part hereof.

Permitted Exceptions: Title exceptions set forth in Attachment B attached hereto and made a part hereof.

Seller's Attorneys: Piper Rudnick LLP
203 North LaSalle Street, Suite 1800
Chicago, Illinois 60601
Attn: Louis S. Cohen, Esq.
Telephone: (312) 368-2171
Telecopy: (312) 236-7516

Buyer's Attorneys: Robinson Bradshaw & Hinson, P.A.
101 North Tryon Street, Suite 1900
Charlotte, North Carolina 28246
Attention: Julie C. Chiu, Esq.
Telephone: (704) 377-8348
Telecopy: (704) 373-3948

Escrowee: ___________________
_____________________________
_____________________________

Telephone:______________
Telecopy: ______________

Purchase Agreement: Sale and Purchase Agreement dated as of March ___, 2004 ("Purchase Agreement")

Closing Date: May ___, 2004

A. Seller's Deposits. On or before the Closing Date, Seller's Attorneys will deposit with you, on behalf of Seller, the following ("Seller's Deposits"):

1. Special Warranty Deed conveying fee simple title to the Property to Buyer;
2. Owner's Affidavit;
3. Internal Revenue Service Waiver under FIRPTA;
4. Form 1099 Solicitation; and
5. Bill of Sale.

B. Buyer's Deposits. On or before the Closing Date, Buyer's Attorneys will deposit with you, on behalf of Buyer, the sum of Three Million Eight Hundred Fifty Thousand and No/100ths Dollars ($3,850,000.00), plus or minus the proration amounts and other credits and deposits set forth in Joint Deposit 1 below, if any, plus an amount sufficient to pay any of Buyer's title, escrow, recording and other closing costs, if any, as hereafter provided, by cashier's or certified check; or by wire transfer of good funds ("Buyer's Deposits").

C. Joint Deposits. On or before the Closing Date, Seller's Attorneys and Buyer's Attorneys will, on behalf of Seller and Buyer, respectively, jointly deposit with you the following ("Joint Deposits"):

1. Closing Statement, in triplicate; and
2. All required state and county transfer/transaction tax

declaration(s) and any required municipal transfer/transaction tax declarations, in triplicate.

D. After (i) all of the above deposits have been made, and (ii) you are prepared to issue the title insurance policy described below, you are to record Seller's Deposit 1 at once. When you are prepared to issue your ALTA Form B Owner's Title Insurance Policy in the amount of $3,850,000.00 showing title to the Property subject only to the Permitted Exceptions, you are then authorized and directed to proceed as follows in the order listed:

1. Pay the net prorations, if any, to Buyer pursuant to Joint Deposit 1, from which you are to deduct Buyer's title, escrow and recording charges;

2. Pay to Seller by wired funds transmitted to an account designated by Seller the balance remaining, less Seller's share of closing charges;

3. Deliver the Owner's Title Insurance Policy; originals of Seller's Deposits 2, 3, 4 and 5; copies of other Seller's Deposits; and copies of the Joint Deposits to Buyer's Attorneys;

4. Deliver original of Joint Deposits, and a copy of Buyer's Deposits to Seller's Attorneys; and

5. Deliver to Seller's Attorneys and Buyer's Attorneys an accounting of all funds received and distributed.

E. In the event Seller's Deposits are received, but Buyer's Deposits are not received within the time limit herein specified, you are directed to continue to comply with the instructions contained herein until you are in receipt of a written demand from Seller's Attorneys for the return of Seller's Deposits. Upon receipt of said demand, you are directed to notify Buyer's Attorneys at the address shown herein by United States certified mail, return receipt requested; or by a nationally recognized overnight express courier service, that said demand has been made on you, with a copy of said notice simultaneously sent to Buyer's Attorneys by telecopy to the number set forth on the first page of these Escrow Instructions. In the event Buyer does not cure its default hereunder by making its deposits on or before five (5) business days after the date your notice is deposited in the United States mail, then upon further demand from Seller without notice to any other party, you are directed to return Seller's Deposits to Seller's Attorneys and to hold any remaining deposits on the order of the respective depositor or depositors thereof. For purposes of this Paragraph E and Paragraph F below, "Seller's Deposits" shall be deemed to include the Joint Deposits.

F. In the event Buyer's Deposits are received, but Seller's Deposits are not received within the time limit herein specified, you are directed to continue to comply with the instructions contained herein until you are in receipt of a written demand from Buyer's Attorneys for the return of Buyer's Deposits. Upon receipt of said demand, you are directed to notify Seller's Attorneys at the address shown herein by United States certified mail, return receipt requested; or by a nationally recognized overnight express courier service, that the demand has been made on you, with a copy of said notice simultaneously sent to Seller's Attorneys by telecopy to the number set forth on the first page of these Escrow Instructions. In the event Seller does not cure its default hereunder by making its deposits on or before five (5) business days after the date your notice is deposited in the United States mail, then upon further demand from Buyer without notice to any other party, you are directed to return Buyer's Deposits to Buyer's Attorneys, and to hold any remaining deposits on the order of the respective depositor or depositors thereof.

G. In the event Escrowee is not prepared to issue its Owner's Title Insurance Policy as provided herein on the date on which the last of the Seller's Deposits, Buyer's Deposits and the Joint Deposits have been received herein, you are hereby authorized and directed to continue to comply with these Escrow Instructions until the receipt of a written demand from any party hereto for the return of escrow deposits made by said party. Upon receipt of such a demand, you are hereby authorized and directed to notify the other party through its attorneys at the address shown herein by United States certified mail, return receipt requested, that said demand has been made on you, with a copy of said notice simultaneously sent to such party's attorneys by telecopy to the applicable number set forth on the first page of these Escrow Instructions. In the event that you are still not prepared to issue your Owner's Title Policy as provided herein within five (5) business days after the date your notice is deposited in the United States mail, then upon further demand from the party originally requesting the return of its escrow deposits, you are hereby authorized to return to the party making such demand the escrow deposits made by such party without notice to any other party and to hold the remaining escrow deposits subject to the order of the respective depositor or depositors thereof.

H. If the Escrow Instructions direct you to continue to comply with instructions following expiration of a time limit for making a deposit until demand is received from the other party, unless otherwise provided herein, the deposit may be made and accepted at any time prior to receipt of the demand, and the default will be cured by said deposit.

No claim of a default shall be valid if the party making same is in default, unless said default is caused by a failure of the other party to take some action required by the Escrow Instructions.

Whenever under the terms and provisions of these Escrow Instructions the time for performance of a condition falls upon a Saturday, Sunday or holiday, such time for performance shall be extended to the next business day.

I. Seller shall pay for one-half (1/2) of the closing and escrow costs, and one-half (1/2) of the New York-style escrow fees (if any). Buyer shall pay for any and all costs and fees charged for the title examination, title commitment, the issuance of an Owner's title insurance policy including the costs for extended coverage and the cost of any and all endorsements beyond extended coverage, all loan charges and fees, one-half (1/2) of closing and escrow costs, one-half (1/2) of the New York-style escrow fees (if any) and the recordation of Seller's Deposit 1.

J. Deposits made pursuant to these instructions may be invested on behalf of any party or parties hereto, provided, that any direction to Escrowee for such investment shall be expressed in writing and contain the consent of all other parties to this Escrow. Escrowee will, upon request, furnish information concerning its procedures and fee schedules for investment.

Except as to deposits of funds for which Escrowee has received express written direction concerning investment or other handling, the parties hereto agree that Escrowee shall be under no duty to invest or reinvest any deposits at any time held by it hereunder; and, further, that Escrowee may commingle such deposits with other deposits or with its own funds in the manner provided for the administration of funds under any corporate fiduciary act under the laws of the State of North Carolina and may use any part or all of such funds for its own benefit without obligation to any party for interest or earnings derived thereby, if any. Provided, however, nothing herein shall diminish Escrowee's obligation to apply the full amount of the deposits in accordance with the terms of these instructions.

[Balance of Page Intentionally Left Blank]

In the event Escrowee is requested to invest deposits hereunder, Escrowee is not to be held responsible for any loss of principal or interest which may be incurred as a result of making the investments or redeeming said investment for the purposes of this Escrow.

Sincerely yours,

FOR SELLER:

_____________________________

By: _________________________

FOR BUYER:

_____________________________

By: _________________________

ACCEPTED:

______________ TITLE INSURANCE COMPANY

By: _________________________
Escrow Officer
_______________, 2004

## ATTACHMENT A

(TO EXHIBIT C TO SALE AND PURCHASE AGREEMENT)

## LEGAL DESCRIPTION

## ATTACHMENT B

(TO EXHIBIT C TO SALE AND PURCHASE AGREEMENT)

## PERMITTED EXCEPTIONS

Exhibit 18

KPMG LETTERHEAD

July 15, 2004

The Board of Directors
Culp, Inc.
P.O. Box 2686
High Point, North Carolina 27261

Dear Directors:

We have audited the consolidated balance sheets of Culp, Inc. and subsidiaries (the "Company") as of May 2, 2004 and April 27, 2003, and the related consolidated statements of income (loss), shareholders' equity and cash flows for each of the years in the three-year period ended May 2, 2004, and have reported thereon under date of June 4, 2004. The aforementioned consolidated financial statements and our audit report thereon are included in the Company's annual report on Form 10-K for the year ended May 2, 2004. As stated in Note 1 to those consolidated financial statements, the Company changed its method of accounting for inventories from the lower of last-in, first-out (LIFO) cost or market to the lower of first-in, first-out (FIFO) cost or market and states that the newly adopted accounting principle is preferable in the circumstances as it provides a better matching of revenue and expenses. Additionally, the change will enable the financial reporting to parallel the way management assesses the financial and operating performance of the Company's segments. In accordance with your request, we have reviewed and discussed with Company officials the circumstances and business judgment and planning upon which the decision to make this change in the method of accounting was based.

With regard to the aforementioned accounting change, authoritative criteria have not been established for evaluating the preferability of one acceptable method of accounting over another acceptable method. However, for purposes of the Company's compliance with the requirements of the Securities and Exchange Commission, we are furnishing this letter.

Based on our review and discussion, with reliance on management's business judgment and planning, we concur that the newly adopted method of accounting is preferable in the Company's circumstances.

Very truly yours,

\S\ KPMG LLP
Greensboro, North Carolina

Exhibit 21

# LIST OF SUBSIDIARIES OF CULP, INC.

| Name of Subsidiary | Jurisdiction of Incorporation |
|---|---|
| Culp Fabrics (Shanghai) Co., Ltd. | People's Republic of China |
| Culp International Trading (Shanghai) Co., Ltd. | People's Republic of China |
| Culp International Holdings Ltd. | Cayman Islands |
| Rayonese Textile Inc. | Canada |
| 3096726 Canada Inc. | Canada |

Exhibit 23(a)

# CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We consent to incorporation by reference in the registration statements (numbers 333-59512, 333-59514, 333-27519, 333-101805, 33-13310, 33-37027, 33-80206, and 33-62843) on Form S-8 of Culp, Inc. of our report dated June 4, 2004, relating to the consolidated balance sheets of Culp, Inc. and subsidiaries as of May 2, 2004 and April 27, 2003, and the related consolidated statements of income (loss), shareholders' equity and cash flows for each of the years in the three-year period ended May 2, 2004, which report appears in the May 2, 2004 annual report on Form 10-K of Culp, Inc. Our report refers to a change from the lower of last-in, first-out (LIFO) cost or market to the lower of first-in, first-out (FIFO) cost or market of valuing inventory.

\S\ KPMG LLP

Greensboro, North Carolina
July 15, 2004

Exhibit 24(a)

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS that the undersigned director of CULP, INC., a North Carolina corporation, hereby constitutes and appoints FRANKLIN N. SAXON the true and lawful agent and attorney-in-fact to sign for the undersigned as a director of the Corporation the Corporation's Annual Report on Form 10-K for the year ended May 2, 2004 to be filed with the Securities and Exchange Commission, Washington, D.C., under the Securities Exchange Act of 1934, as amended, and to sign any amendment or amendments to such Annual Report, hereby ratifying and confirming all acts taken by such agent and attorney-in-fact, as herein authorized.

/s/ Harry R. Culp, DDS

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Harry R. Culp, DDS

Date: July 6, 2004

Exhibit 24(b)

# POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS that the undersigned director of CULP, INC., a North Carolina corporation, hereby constitutes and appoints FRANKLIN N. SAXON the true and lawful agent and attorney-in-fact to sign for the undersigned as a director of the Corporation the Corporation's Annual Report on Form 10-K for the year ended May 2, 2004 to be filed with the Securities and Exchange Commission, Washington, D.C., under the Securities Exchange Act of 1934, as amended, and to sign any amendment or amendments to such Annual Report, hereby ratifying and confirming all acts taken by such agent and attorney-in-fact, as herein authorized.

/s/ Howard L. Dunn
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Howard L. Dunn

Date: July 6, 2004

Exhibit 24(c)

# POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS that the undersigned director of CULP, INC., a North Carolina corporation, hereby constitutes and appoints FRANKLIN N. SAXON the true and lawful agent and attorney-in-fact to sign for the undersigned as a director of the Corporation the Corporation's Annual Report on Form 10-K for the year ended May 2, 2004 to be filed with the Securities and Exchange Commission, Washington, D.C., under the Securities Exchange Act of 1934, as amended, and to sign any amendment or amendments to such Annual Report, hereby ratifying and confirming all acts taken by such agent and attorney-in-fact, as herein authorized.

/s/ Patrick B. Flavin
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Patrick B. Flavin

Date: July 7, 2004

Exhibit 24(d)

# POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS that the undersigned director of CULP, INC., a North Carolina corporation, hereby constitutes and appoints FRANKLIN N. SAXON the true and lawful agent and attorney-in-fact to sign for the undersigned as a director of the Corporation the Corporation's Annual Report on Form 10-K for the year ended May 2, 2004 to be filed with the Securities and Exchange Commission, Washington, D.C., under the Securities Exchange Act of 1934, as amended, and to sign any amendment or amendments to such Annual Report, hereby ratifying and confirming all acts taken by such agent and attorney-in-fact, as herein authorized.

/s/ Kenneth W. McAllister
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Kenneth W. McAllister

Date: July 6, 2004

Exhibit 24(e)

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS that the undersigned director of CULP, INC., a North Carolina corporation, hereby constitutes and appoints FRANKLIN N. SAXON the true and lawful agent and attorney-in-fact to sign for the undersigned as a director of the Corporation the Corporation's Annual Report on Form 10-K for the year ended May 2, 2004 to be filed with the Securities and Exchange Commission, Washington, D. C., under the Securities Exchange Act of 1934, as amended, and to sign any amendment or amendments to such Annual Report, hereby ratifying and confirming all acts taken by such agent and attorney-in-fact, as herein authorized.

/s/ Patrick H. Norton
-----------------
Patrick H. Norton

Date: July 8, 2004

Exhibit 31(a)

# CERTIFICATION

I, Robert G. Culp, III, Chairman of the Board and Chief Executive Officer (principal executive officer) of Culp, Inc., certify that:

1. I have reviewed this Annual Report on Form 10-K of Culp, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 16, 2004 By: /s/ Robert G. Culp, III
Robert G. Culp, III
Chairman of the Board and Chief
Executive Officer (principal executive
officer)

Exhibit 31(b)

CERTIFICATION

I, Franklin N. Saxon, President and Chief Operating Officer (principal financial officer) of Culp, Inc., certify that:

1. I have reviewed this Annual Report on Form 10-K of Culp, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 16, 2004    By: /s/ Franklin N. Saxon
Franklin N. Saxon
President and Chief Operating Officer (principal financial officer)

Exhibit 32(a)

Certification Pursuant to
18 U.S.C. Section 1350,
as Adopted Pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the Annual Report of Culp, Inc. (the "Company") on Form 10-K for the period ended May 2, 2004 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Robert G. Culp,III, Chairman of the Board and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ Robert G. Culp, III

Chairman of the Board and
Chief Executive Officer

July 16, 2004

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906 has been provided to Culp, Inc. and will be retained by Culp, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 32(b)

Certification Pursuant to
18 U.S.C. Section 1350,
as Adopted Pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the Annual Report of Culp, Inc. (the "Company") on Form 10-K for the period ended May 2, 2004 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Franklin N. Saxon, President and Chief Operating Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ Franklin N. Saxon

President and
Chief Operating Officer

July 16, 2004

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906 has been provided to Culp, Inc. and will be retained by Culp, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.