

Fellow Shareholders

We are pleased to report that fiscal 2010 was a year of significant growth and progress for Culp. In spite of a challenging economic environment, we increased our annual sales, delivered an excellent operating performance, strengthened our balance sheet substantially, further enhanced our competitive position and significantly improved our earnings and return on capital. Overall, our solid performance for the year reflects the benefits of a leaner and more agile operating platform, along with the success of our sales and marketing initiatives. In combination, these factors are allowing us to serve our customers well, achieve increasing profitability in a tough and uncertain business environment, and at the same time position Culp for further profitable growth as the home furnishings industry recovers. Above all, Culp has confirmed its leadership position as a financially stable and trusted supplier with a proven ability to execute for our customers.

Mattress Fabrics Segment

For the first half of fiscal 2010, our mattress fabric sales reflected the uncertain economy and the weak consumer demand for bedding. We began to see a reversal of these demand trends in the second half of the year as consumers returned to the marketplace, and our sales performance improved accordingly. Our mattress fabrics operations performed very well with solid year-over-year improvement in margins and return on capital. These results reflect the benefits of our recent operating initiatives and our ongoing capital investments to develop an efficient and scalable manufacturing platform. During the fourth quarter of fiscal 2010, we completed the installation of state-of-the-art finishing equipment for our growing knit business. Additionally, we further expanded our capacity for both our knit and woven product lines, as well as completed an energy efficiency initiative in our Canadian operation that will have an environmental benefit and reduce our operating costs going forward. While we are pleased with the trends in this business, we are experiencing increased pricing pressures and higher material costs, which will make it more challenging to improve operating margins. As we move into fiscal 2011, we are making the appropriate capital investments for modernizing and expanding our woven and knit capacities. Above all, we will focus on execution for our customers with outstanding service, reliable delivery performance and consistent quality and value.

Upholstery Fabrics Segment

Our upholstery fabrics business made substantial progress throughout fiscal 2010 and we are pleased with the improvement in sales, profitability and return on capital. Our sales for the year marked the first annual gain for this business segment in ten years. We are especially encouraged by the extent of our sales gains throughout our customer base, including progress into the local China market. At the same time, we have returned Culp's upholstery fabrics business to solid profitability. After a multi-year restructuring process, we have established a leaner and more agile manufacturing platform, including our wholly-owned China operation which is scalable but not capital intensive. We have also developed a complementary strategy to grow our business in our one remaining U.S. manufacturing facility. With the restructuring activities behind us and a maturing China operation, we shifted our focus in fiscal 2010 to product development, sales and marketing initiatives, and delivery performance. Customer response has been very favorable and we believe we have made excellent progress in each of these key areas. For fiscal 2011, we will continue to focus on these same objectives, which will be just as relevant going forward as they were a year ago. As we move into fiscal 2011, we are experiencing higher material costs, and we are taking steps to mitigate these increases.

Balance Sheet

Throughout fiscal 2010, we have strengthened our balance sheet and generated significant cash flow in this tough economic environment. Notably, at the end of the year, our balance sheet reflected \$21.3 million in cash and cash equivalents and short-term investments, up from \$11.8 million at the end of fiscal 2009. For the year, cash flow from operations was \$21.6 million. \$18.5 million of cash flow from operations came from net income plus depreciation and other non-cash items. Over the same time, we have reduced our total debt to \$11.7 million, compared with \$16.4 million at the end of fiscal 2009, and incurred \$7.4 million in capital expenditures. All of our debt remains unsecured, and our next major scheduled principal payment of \$2.2 million is not due until August 2011.

Capital Allocation Strategy

With the increase in our cash position and reduction in our total debt, we now have the highest net cash position (cash minus debt) in the company's history, and are set to build upon this in the foreseeable future. Our strong financial position is a key advantage in these uncertain economic times and it provides us with greater operating flexibility to pursue our growth initiatives. As we look ahead and consider our capital allocation strategy, we believe a key means of building shareholder value is to deploy our increasing amounts of internally - generated capital in our two existing businesses at the same high rates of return. For fiscal 2011, our specific capital allocation priorities are as follows:

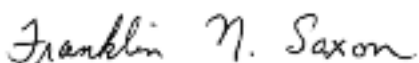
- First, we seek to fund working capital requirements for organic growth. Growing internally with adequate margins usually offers the highest returns on capital with the least risk.
- Second, we intend to fund capital expenditures in mattress fabrics, (both for maintenance and expansion related projects,) as we did in fiscal 2010. Over the last several years, we have earned excellent returns on our capital expenditure projects in this business. For our upholstery fabrics business, we expect only minimal capital expenditure requirements in the future because our business model is not capital intensive; rather, it is based upon a network of long-term, vertically-integrated mill partners in China.
- Third, we will continue to carefully evaluate additional strategic acquisition opportunities for our mattress fabrics business. Over the past four years, we have spent approximately \$20 million for two successful acquisitions in this business, which have added significantly to shareholder value. We intend to be patient and disciplined with any capital committed in this manner.
- Fourth, we believe it is a prudent strategy to continue to build our cash position with excellent organic growth opportunities and potential external growth investments in an environment of significant economic uncertainties.

Looking Ahead

We believe that macro-economic trends, including unemployment, consumer credit concerns and a volatile housing market, will continue to influence consumer behavior, and the demand outlook for furniture and bedding remains difficult to predict. However, we are encouraged by certain trends in our businesses. We look forward to the year ahead and remain confident in our ability to further strengthen our "economic moats". We have worked hard to create a scalable and vertical manufacturing platform in both businesses that allows us to serve our customers very well, achieve increasing profitability in a challenging business environment, and at the same time, position Culp for further profitable growth, as the home furnishings industry recovers. As we begin fiscal 2011, we have a focused strategy, lean and agile operations, excellent platforms for growth in both businesses, and the financial strength to fund our strategic initiatives. Equally as important, we have the support of a highly talented team of dedicated associates, and a proven management team and board of directors, who continue to move our company forward. Above all, we are focused on outstanding execution for our customers as a financially stable and trusted supplier of innovative fabrics, delivery performance and quality.

Thank you for your continued support of Culp.

Sincerely,



Franklin N. Saxon
President and Chief Executive Officer

August 18, 2010



Robert G. Culp, III
Chairman of the Board