UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549

# FORM 10-Q

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

For the quarterly period ended January 26, 2003

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)

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 whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

YES      NO X

Common shares outstanding at January 26, 2003: 11,486,709
Par Value: $.05

## INDEX TO FORM 10-Q
For the period ended January 26,2003

Item 1: Financial Statements

CULP, INC.
CONSOLIDATED STATEMENTS OF INCOME (LOSS)
FOR THE THREE MONTHS AND NINE MONTHS ENDED JANUARY 26, 2003 AND JANUARY 27, 2002

(Amounts in Thousands, Except for Per Share Data)

| | THREE MONTHS ENDED (UNAUDITED) | | | | |
|---|---|---|---|---|---|
| | Amounts | | | Percent of Sales | |
| | January 26, 2003 | January 27, 2002 | % Over (Under) | 2003 | 2002 |
| Net sales | $ 79,292 | 90,618 | (12.5)% | 100.0 % | 100.0 % |
| Cost of sales | 65,504 | 77,110 | (15.1)% | 82.6 % | 85.1 % |
| Gross profit | 13,788 | 13,508 | 2.1 % | 17.4 % | 14.9 % |
| Selling, general and administrative expenses | 9,798 | 11,038 | (11.2)% | 12.4 % | 12.2 % |
| Restructuring expense and asset impairment charges | (354) | 0 | (100.0)% | (0.4)% | 0.0 % |
| Income from operations | 4,344 | 2,470 | 75.9 % | 5.5 % | 2.7 % |
| Interest expense | 1,665 | 1,820 | (8.5)% | 2.1 % | 2.0 % |
| Interest income | (143) | (42) | 240.5 % | (0.2)% | (0.0)% |
| Other expense (income), net | 192 | 435 | (55.9)% | 0.2 % | 0.5 % |
| Income before income taxes | 2,630 | 257 | 923.3 % | 3.3 % | 0.3 % |
| Income taxes * | 963 | 87 | 1,006.9 % | 36.6 % | 34.0 % |
| Net Income | $ 1,667 | 170 | 880.6 % | 2.1 % | 0.2 % |
| Net Income per share-basic | $0.15 | $0.02 | 650.0 % | | |
| Net Income per share-diluted | $0.14 | $0.02 | 600.0 % | | |
| Average shares outstanding-basic | 11,485 | 11,221 | 2.4 % | | |
| Average shares outstanding-diluted | 11,714 | 11,304 | 3.6 % | | |

| | NINE MONTHS ENDED (UNAUDITED) | | | | |
|---|---|---|---|---|---|
| | Amounts | | | Percent of Sales | |
| | January 26, 2003 | January 27, 2002 | % Over (Under) | 2003 | 2002 |
| Net sales | $ 248,753 | 273,481 | (9.0)% | 100.0 % | 100.0 % |
| Cost of sales | 207,368 | 233,642 | (11.2)% | 83.4 % | 85.4 % |
| Gross profit | 41,385 | 39,839 | 3.9 % | 16.6 % | 14.6 % |
| Selling, general and administrative expenses | 29,716 | 33,823 | (12.1)% | 11.9 % | 12.4 % |
| Restructuring expense and asset impairment charges | 13,006 | 1,303 | 898.2 % | 5.2 % | 0.5 % |
| Income (loss) from operations | (1,337) | 4,713 | (128.4)% | (0.5)% | 1.7 % |
| Interest expense | 5,244 | 5,851 | (10.4)% | 2.1 % | 2.1 % |
| Interest income | (414) | (99) | 318.2 % | (0.2)% | (0.0)% |
| Other expense (income), net | 645 | 1,772 | (63.6)% | 0.3 % | 0.6 % |
| Loss before income taxes | (6,812) | (2,811) | (142.3)% | (2.7)% | (1.0)% |
| Income taxes * | (2,804) | (956) | 193.3 % | 41.2 % | 34.0 % |
| Loss before cumulative effect of accounting change | (4,008) | (1,855) | (116.1)% | (1.6)% | (0.7)% |
| Cumulative effect of accounting change, net of income taxes | (24,151) | 0 | | | |
| Net loss | $ (28,159) | (1,855) | | | |

| | | | | |
|---|---|---|---|---|
| Basic loss per share: | | | | |
| Loss before cumulative effect of accounting change | $ | (0.35) | (0.17) | (111.7)% |
| Cumulative effect of accounting change | | (2.11) | 0.00 | (100.0)% |
| Net loss | | (2.46) | (0.17) | (1,387.6)% |
| Diluted loss per share: | | | | |
| Loss before cumulative effect of accounting change | $ | (0.35) | (0.17) | (111.7)% |
| Cumulative effect of accounting change | | (2.11) | 0.00 | (100.0)% |
| Net loss | | (2.46) | (0.17) | (1,387.6)% |
| Average shares outstanding-basic | | 11,450 | 11,221 | 2.0 % |
| Average shares outstanding-diluted | | 11,450 | 11,221 | 2.0 % |

* Percent of sales column for income taxes is calculated as a % of income (loss) before income taxes.

CULP, INC.
CONSOLIDATED BALANCE SHEETS
JANUARY 26, 2003, JANUARY 27, 2002, AND APRIL 28, 2002
Unaudited
(Amounts in Thousands)

| | | Amounts | | Increase (Decrease) | | |
|---|---|---|---|---|---|---|
| | | January 26, 2003 | January 27, 2002 | Dollars | Percent | * April 28, 2002 |
| Current assets | | | | | | |
| Cash and cash investments | $ | 38,480 | 10,359 | 28,121 | 271.5 % | 31,993 |
| Accounts receivable | | 32,427 | 46,171 | (13,744) | (29.8)% | 43,366 |
| Inventories | | 53,560 | 59,398 | (5,838) | (9.8)% | 57,899 |
| Other current assets | | 15,339 | 9,323 | 6,016 | 64.5 % | 13,413 |
| Total current assets | | 139,806 | 125,251 | 14,555 | 11.6 % | 146,671 |
| Property, plant & equipment, net | | 85,396 | 102,457 | (17,061) | (16.7)% | 89,772 |
| Goodwill | | 9,240 | 47,432 | (38,192) | (80.5)% | 47,083 |
| Other assets | | 2,311 | 1,641 | 670 | 40.8 % | 4,187 |
| Total assets | $ | 236,753 | 276,781 | (40,028) | (14.5)% | 287,713 |
| Current liabilities | | | | | | |
| Current maturities of long-term debt | $ | 13,133 | 3,127 | 10,006 | 320.0 % | 1,483 |
| Accounts payable | | 21,924 | 21,336 | 588 | 2.8 % | 24,327 |
| Accrued expenses | | 14,646 | 13,652 | 994 | 7.3 % | 16,460 |
| Accrued restructuring | | 8,465 | 1,363 | 7,102 | 521.1 % | 2,445 |
| Total current liabilities | | 58,168 | 39,478 | 18,690 | 47.3 % | 44,715 |
| Long-term debt | | 83,008 | 106,960 | (23,952) | (22.4)% | 107,001 |
| Deferred income taxes | | 3,502 | 10,330 | (6,828) | (66.1)% | 16,932 |
| Total liabilities | | 144,678 | 156,768 | (12,090) | (7.7)% | 168,648 |
| Shareholders' equity | | 92,075 | 120,013 | (27,938) | (23.3)% | 119,065 |
| Total liabilities and shareholders' equity | $ | 236,753 | 276,781 | (40,028) | (14.5)% | 287,713 |
| Shares outstanding | | 11,487 | 11,221 | 266 | 2.4 % | 11,320 |

* Derived from audited financial statements.

CULP, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS ENDED JANUARY 26, 2003 AND JANUARY 27, 2002
Unaudited
(Amounts in Thousands)

| | | NINE MONTHS ENDED | |
|---|---|---|---|
| | | Amounts | |
| | | January 26, 2003 | January 27, 2002 |
| Cash flows from operating activities: | | | |
| Net loss | $ | (28,159) | (1,855) |
| Adjustments to reconcile net loss to net cash provided by operating activities: | | | |
| Cumulative effect of accounting change, net of income taxes | | 24,151 | 0 |
| Depreciation | | 10,554 | 13,214 |
| Amortization of intangible and other assets | | 286 | 1,177 |
| Amortization of stock based compensation | | 158 | 92 |
| Restructuring expense | | 13,006 | 1,303 |
| Changes in assets and liabilities: | | | |
| Accounts receivable | | 10,939 | 11,678 |
| Inventories | | 4,339 | 599 |
| Other current assets | | (1,885) | (1,453) |
| Other assets | | 295 | (19) |
| Accounts payable | | (5,477) | (1,768) |
| Accrued expenses | | (1,551) | (1,156) |
| Accrued restructuring | | (2,792) | (2,163) |
| Income taxes payable | | 0 | (1,268) |
| Net cash provided by operating activities | | 23,864 | 18,381 |
| Cash flows from investing activities: | | | |
| Capital expenditures | | (9,076) | (3,393) |
| Net cash used in investing activities | | (9,076) | (3,393) |
| Cash flows from financing activities: | | | |
| Principal payments of long-term debt | | (12,343) | (1,569) |
| Change in accounts payable-capital expenditures | | 3,074 | (4,267) |
| Proceeds from common stock issued | | 968 | 0 |
| Net cash used in financing activities | | (8,301) | (5,836) |
| Increase in cash and cash investments | | 6,487 | 9,152 |
| Cash and cash investments at beginning of period | | 31,993 | 1,207 |
| Cash and cash investments at end of period | $ | 38,480 | 10,359 |

CULP, INC.
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(Unaudited)

(Dollars in thousands, except share and per share data)

| | Common Stock | | Capital Contributed in Excess of Par Value | Retained Earnings | Accumulated Other Comprehensive Income | Total Shareholders' Equity |
|---|---|---|---|---|---|---|
| | Shares | Amount | | | | |
| Balance, April 29, 2001 | 11,221,158 | $ 561 | 36,915 | 84,326 | | $ 121,802 |
| Net loss | | | | (3,440) | | (3,440) |
| Net gain on cash flow hedges | | | | | 7 | 7 |
| Common stock issued in connection with stock option plans | 98,426 | 5 | 691 | | | 696 |
| Balance, April 28, 2002 | 11,319,584 | $ 566 | 37,606 | 80,886 | 7 | $ 119,065 |
| Net loss | | | | (28,159) | | (28,159) |
| Net gain on cash flow hedges | | | | | 43 | 43 |
| Common stock issued in connection with stock option plans | 167,125 | 8 | 1,118 | | | 1,126 |
| Balance, Janaury 26, 2003 | 11,486,709 | $ 574 | 38,724 | 52,727 | 50 | $ 92,075 |

Culp, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

## 1. Basis of Presentation

The accompanying unaudited consolidated financial statements of Culp, Inc. and subsidiary include all adjustments, which are, in the opinion of management, necessary for fair presentation of the results of operations and financial position. All of these adjustments are of a normal recurring nature except as disclosed in notes 2, 8 and 12 to the consolidated financial statements. Results of operations for interim periods may not be indicative of future results. The unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements, which are included in the company's annual report on Form 10-K filed with the Securities and Exchange Commission on July 26, 2002 for the fiscal year ended April 28, 2002.

## 2. Accounts Receivable

A summary of accounts receivable follows (dollars in thousands):

| | January 26, 2003 | April 28, 2002 |
|---|---|---|
| Customers | $ 34,933 | $ 46,886 |
| Allowance for doubtful accounts | (1,625) | (2,465) |
| Reserve for returns and allowances | (881) | (1,055) |
| | $ 32,427 | $ 43,366 |

During fiscal 2003, the company placed significant focus on reducing outstanding accounts receivable, including a concerted effort to collect past due accounts, shorten payment terms by offering a cash discount and resolve old items within receivable accounts. In the third quarter, due to the decrease in past due receivable balances, there was a net reduction of $435,000 in the allowance for doubtful accounts. This compares with bad debt expense of $703,000 in the year earlier period. Additionally, as a result of this effort, the company has resolved $370,000 in old, open credits with customers which were credited to net sales during the quarter.

## 3. Inventories

Inventories are carried at the lower of cost or market. Cost is determined for substantially all inventories using the LIFO (last-in, first-out) method.

A summary of inventories follows (dollars in thousands):

| | January 26, 2003 | April 28, 2002 |
|---|---|---|
| Raw materials | $ 24,824 | $ 27,081 |
| Work-in-process | 4,029 | 3,830 |
| Finished goods | 24,952 | 27,233 |
| Total inventories valued at FIFO | 53,805 | 58,144 |
| Adjustments of certain inventories to LIFO | (245) | (245) |
| | $ 53,560 | $ 57,899 |

## 4. Accounts Payable

A summary of accounts payable follows (dollars in thousands):

| | January 26, 2003 | April 28, 2002 |
|---|---|---|
| Accounts payable-trade | $ 17,470 | $ 22,947 |
| Accounts payable-capital expenditures | 4,454 | 1,380 |
| | $ 21,924 | $ 24,327 |

5. Accrued Expenses

A summary of accrued expenses follows (dollars in thousands):

| | January 26, 2003 | April 28, 2002 |
|---|---|---|
| Compensation, commissions and related benefits | $ 8,326 | $ 10,122 |
| Interest | 2,465 | 1,111 |
| Other | 3,855 | 5,227 |
| | $ 14,646 | $ 16,460 |

6. Long-Term Debt

A summary of long-term debt follows (dollars in thousands):

| | January 26, 2003 | April 28, 2002 |
|---|---|---|
| Unsecured term notes | $ 75,000 | $ 75,000 |
| Industrial revenue bonds | 19,712 | 30,612 |
| Canadian government loan | 1,429 | 1,852 |
| Obligations to sellers | 0 | 1,020 |
| | 96,141 | 108,484 |
| Less current maturities | (13,133) | (1,483) |
| | $ 83,008 | $ 107,001 |

In August 2002, the company entered into an agreement with its principal bank lender that provides for a revolving loan commitment of $15.0 million, including letters of credit up to $2.5 million. The agreement provides an additional $21.0 million in letters of credit supporting the industrial revenue bonds described below. Borrowings under the facility generally carry 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 January 26, 2003, there were $855,000 in outstanding letters of credit in support of inventory purchases and no borrowings outstanding under the agreement. Letter of credit and commitment fees are also determined by the company's debt/EBITDA ratio, as defined by the agreement. The credit facility expires in August 2004.

The unsecured term notes have an average remaining term of 6 years. The principal payments become due from March 2006 to March 2010. Interest is payable semi-annually at a fixed coupon rate of 7.76%.

The industrial revenue bonds (IRBs) are generally due in balloon maturities which occur at various dates from 2009 to 2013. The IRBs are collateralized by letters of credit for the outstanding balance of the IRBs and certain interest payments accrued thereunder. As of January 26, 2003, the interest rate on outstanding IRBs was 3.75%, including the letter of credit fee percentage.

On March 3, 2003, the company elected to prepay $12.7 million of IRB debt. Accordingly, this amount has been reclassified as current maturities of long-term debt. The remaining $7.0 million in IRB debt is due to be repaid in 2009.

The company's loan agreements require, among other things, that the company maintain compliance with certain financial ratios. At January 26, 2003, the company was in compliance with these financial covenants.

The principal payment requirements of long-term debt during the next five fiscal years are: 2003 - $0; 2004 - $476,000; 2005 - $476,000; 2006 - $11,477,000; and 2007 - $11,000,000.

7. Cash Flow Information

Payments (refunds) for interest and income taxes for the nine months ended January 26, 2003 and January 27, 2002 follow (dollars in thousands):

| | 2003 | 2002 |
|---|---|---|
| Interest | $ 3,954 | $ 4,977 |
| Income taxes (refunds) | (1,746) | 1,553 |

8. Restructuring and Asset Impairment Charges

A summary of accrued restructuring reserve activity follows:

Chattanooga 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 involves (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 the second quarter of fiscal 2003, the total restructuring and related charges incurred were $13.2 million, of which approximately $2.9 million represented non-cash items relating to fixed asset write-downs included in restructuring expense and $1.2 million represented machinery and equipment relocation costs included in cost of sales. During the third quarter of fiscal 2003, related charges of $751,000 representing machinery and equipment relocation costs and inventory mark-downs were included in cost of sales. Additional related charges of approximately $750,000 are estimated to be recorded over the next three months.

As of January 26, 2003, there were no assets classified as held for sale in relation to the Chattanooga 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 2003 | $ 1,972 | $ 7,194 | $ 9,166 |
| Paid in fiscal 2003 | (1,103) | (536) | (1,639) |
| Balance, January 26, 2003 | $ 869 | $ 6,658 | $ 7,527 |

Wet Printed Flock Restructuring

In April 2002, management approved a plan to exit the wet printed flock upholstery fabric business. The exit plan involved closing a printing facility and flocking operation within the Culp Velvets/Prints (CVP) division, reduction in related selling and administrative expenses and termination of 25 employees. The total charge for the exit plan was $9.7 million, of which approximately $8.2 million represented non-cash items relating to fixed asset and inventory write-downs.

During the second quarter of 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.

During the third quarter of fiscal 2003, as a result of management's continual evaluation of the restructuring accrual, the reserve was reduced $313,000 for employee termination benefits to reflect current estimates of future health care claims. Additionally, the reserve was reduced $42,000 for lease termination and other exit costs to reflect current estimates of future security expenses and other costs.

As of January 26, 2003, assets classified as held for sale, including a building, machinery and equipment, of $485,000 are included in other assets. Management is actively marketing these assets and anticipates the successful disposal of these assets. There were no assets classified as held for sale at January 27, 2002.

The following summarizes the activity in the CVP 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 | (424) | (111) | (535) |
| Balance, January 26, 2003 | $ 100 | $ 452 | $ 552 |

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 within the Culp Yarn division, (3) an extensive reduction in selling, general and administrative expenses including the termination of 110 employees and (4) a comprehensive SKU reduction initiative related to finished goods and raw materials in CDF. For fiscal 2001, the total restructuring and related charges incurred were $7.4 million, of which approximately $3.4 million represented non-cash items relating to fixed asset and inventory write-downs, and $931,000 represented machinery and equipment relocation costs included in cost of sales. During the first quarter of fiscal 2002, the total restructuring and related charges incurred were $2.3 million, of which $160,000 represented non-cash items relating to fixed asset write-downs included in restructuring expense and $1.0 million represented machinery and equipment relocation costs included in cost of sales. During the second quarter of fiscal 2002, restructuring related charges of $158,000 were incurred and represented machinery and equipment relocation costs included in cost of sales.

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

As of January 26, 2003 and January 27, 2002, there were no assets classified as held for sale in relation to the CDF restructuring.

The following summarizes the activity in the CDF 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 | (137) | (481) | (618) |
| Balance, January 26, 2003 | $ 100 | $ 286 | $ 386 |

9. 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 total comprehensive income for the three months ended January 26, 2003 and January 27, 2002 follows (dollars in thousands):

| | 2003 | 2002 |
|---|---|---|
| Net income | $ 1,667 | $ 170 |
| Gain (loss) on foreign currency contracts, net of taxes: | | |
| Net changes in fair value | 99 | (60) |
| Net gains (losses) reclassified into earnings | (85) | 13 |
| | $ 1,681 | $ 123 |

A summary of total comprehensive loss for the nine months ended January 26, 2003 and January 27, 2002 follows (dollars in thousands):

| | 2003 | 2002 |
|---|---|---|
| Net loss | $ (28,159) | $(1,855) |
| Gain (loss) on foreign currency contracts, net of taxes: | | |
| Net changes in fair value | 49 | (56) |
| Net gains (losses) reclassified into earnings | (6) | 30 |
| | $ (28,116) | $(1,881) |

Gains on cash flow hedges reflected in other comprehensive loss above are expected to be recognized in results of operations over the next three months.

10. Income (Loss) per Share

Basic income (loss) per share is computed using the weighted-average number of shares outstanding during the period. Diluted 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 income (loss) per share follows:

| (in thousands) | Three Months Ended | |
|---|---|---|
| | January 26, 2003 | January 27, 2002 |
| Weighted average common shares outstanding, basic | 11,485 | 11,221 |
| Effect of dilutive stock options | 229 | 83 |
| Weighted average common shares outstanding, diluted | 11,714 | 11,304 |

Options to purchase 1,718,125 shares and 987,926 shares of common stock were not included in the computation of diluted income per share for the three months ended January 26, 2003 and January 27, 2002, respectively, because the exercise price of the options was greater than the average market price of the common shares.

Weighted average shares used in the computation of basic and diluted loss per share for the nine months ended January 26, 2003 and January 27, 2002 do not include stock options because the effect would be antidilutive.

11. Segment Information

The company's operations are classified into two business segments: upholstery fabrics and mattress ticking. The upholstery fabrics segment principally manufactures and sells woven jacquards and dobbies, heat-transfer prints, and woven and tufted velvets primarily to residential and commercial (contract) furniture manufacturers. The mattress ticking segment principally manufactures and sells woven jacquards, heat-transfer prints and pigment prints to bedding manufacturers.

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

Sales and gross profit for the company's operating segments for the three months ended January 26, 2003 and January 27, 2002 follow (dollars in thousands):

| | 2003 | 2002 |
|---|---|---|
| Net sales | | |
| Upholstery Fabrics | $ 55,909 | $ 65,844 |
| Mattress Ticking | 23,383 | 24,774 |
| | $ 79,292 | $ 90,618 |
| Gross Profit | | |
| Upholstery Fabrics | $ 8,088 | $ 6,828 |
| Mattress Ticking | 5,700 | 6,680 |
| | $ 13,788 | $ 13,508 |

Sales and gross profit for the company's operating segments for the nine months ended January 26, 2003 and January 27, 2002 follow (dollars in thousands):

| | 2003 | 2002 |
|---|---|---|
| Net sales | | |
| Upholstery Fabrics | $ 174,269 | $ 197,869 |
| Mattress Ticking | 74,484 | 75,612 |
| | $ 248,753 | $ 273,481 |
| Gross Profit | | |
| Upholstery Fabrics | $ 23,739 | $ 19,561 |
| Mattress Ticking | 17,646 | 20,278 |
| | $ 41,385 | $ 39,839 |

Identifiable assets, consisting of accounts receivable, inventories and goodwill for the company's operating segments as of January 26, 2003 and January 27, 2002 follow (dollars in thousands):

| | 2003 | 2002 |
|---|---|---|
| Upholstery Fabrics | $ 66,839 | $ 123,374 |
| Mattress Ticking | 28,388 | 28,737 |
| | $ 95,227 | $ 153,001 |

12. Recently Adopted Accounting Standard

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

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

| (in thousands, except per share data) | Three Months Ended January 27, 2002 | Nine Months Ended January 27, 2002 |
|---|---|---|
| Reported net income (loss) | $ 170 | $ (1,855) |
| Goodwill amortization, net of tax | 230 | 690 |
| Adjusted net income (loss) | 400 | (1,165) |
| Basic | | |
| Reported net income (loss) per share | 0.02 | (0.17) |
| Adjusted net income (loss) per share | 0.04 | (0.11) |
| Diluted | | |
| Reported net income (loss) per share | 0.02 | (0.17) |
| Adjusted net income (loss) per share | 0.04 | (0.11) |

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 the Culp Decorative Fabrics (CDF) division 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 as determined using several different valuation methods, including comparable companies, comparable transactions and discounted cash flow analysis, was determined to be less than its 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 goodwill by division is: Culp Decorative Fabrics - $4.4 million, Culp Yarn - $700,000 and Culp Home Fashions - $4.1 million.

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13. Recent Accounting Pronouncements

In December 2002, the Financial Accounting Standards Board issued SFAS No.148, "Accounting for Stock-Based Compensation - Transition and Disclosure, an amendment of FASB Statement No. 123." This statement provides alternative methods of transition for a voluntary change to the fair value method of accounting for stock-based employee compensation. In addition, SFAS No.148 requires prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The disclosure provisions of the statement are effective for financial statements for fiscal years ending after December 15, 2002 and interim periods beginning after December 15, 2002. The adoption of SFAS 148 will require enhanced disclosures for the Company's stock-based employee compensation plans.

In November 2002, FASB issued Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness to Others, an interpretation of FASB Statements No. 5, 57 and 107 and a rescission of FASB Interpretation No. 34." This Interpretation elaborates on the disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under guarantees issued. The Interpretation also clarifies that a guarantor is required to recognize, at inception of a guarantee, a liability for the fair value of the obligation undertaken. The initial recognition and measurement provisions of the Interpretation are applicable to guarantees issued or modified after December 15, 2002 and are not expected to have a material effect on the Company's financial statements. The disclosure requirements are effective for financial statements of interim and annual periods ending after December 15, 2002.

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Item 2.

## Management's Discussion and Analysis of Financial Condition and Results of Operations

### 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 and other exhibits included elsewhere in this report.

### Overview

Culp is one of the largest integrated marketers in the world for upholstery fabrics for furniture and mattress fabrics (ticking) for bedding. The company's fabrics are used primarily in the production of residential and contract upholstered furniture and bedding products, including sofas, recliners, chairs, love seats, sectionals, sofa-beds, office seating and mattress sets. Although Culp markets fabrics at most price levels, the company emphasizes fabrics that have broad appeal in the promotional and popular-priced categories of furniture and bedding.

The company's operating segments are upholstery fabrics and mattress ticking, with related divisions organized within those segments. In upholstery fabrics, Culp Decorative Fabrics markets jacquard and dobby woven fabrics for residential and contract furniture. Culp Velvets/Prints markets a broad range of printed and velvet fabrics used primarily for residential and juvenile furniture. Culp Yarn manufactures specialty filling yarn that is primarily used by Culp. In mattress ticking, Culp Home Fashions markets a broad array of fabrics used by bedding manufacturers.

The following tables set forth the company's sales and gross profit by segment/division, excluding restructuring related charges, and international sales by geographic area for the three and nine months ended January 26, 2003 and January 27, 2002.

(Amounts in thousands)

THREE MONTHS ENDED (UNAUDITED)

| Segment/Division Sales | | Amounts January 26, 2003 | Amounts January 27, 2002 | % Over (Under) | Percent of Total Sales 2003 | Percent of Total Sales 2002 |
|---|---|---|---|---|---|---|
| Upholstery Fabrics | | | | | | |
| Culp Decorative Fabrics | $ | 31,734 | 35,878 | (11.6)% | 40.0 % | 39.6 % |
| Culp Velvets/Prints | | 22,819 | 28,648 | (20.3)% | 28.8 % | 31.6 % |
| Culp Yarn | | 1,356 | 1,318 | 2.9 % | 1.7 % | 1.5 % |
| | | 55,909 | 65,844 | (15.1)% | 70.5 % | 72.7 % |
| Mattress Ticking | | | | | | |
| Culp Home Fashions | | 23,383 | 24,774 | (5.6)% | 29.5 % | 27.3 % |
| | * $ | 79,292 | 90,618 | (12.5)% | 100.0 % | 100.0 % |

| Segment Gross Profit | | | | | Gross Profit Margin | |
|---|---|---|---|---|---|---|
| Upholstery Fabrics (1) | $ | 8,839 | 6,829 | 29.4 % | 15.8 % | 10.4 % |
| Mattress Ticking | | 5,700 | 6,679 | (14.7)% | 24.4 % | 27.0 % |
| | $ | 14,539 | 13,508 | 7.6 % | 18.3 % | 14.9 % |

NINE MONTHS ENDED (UNAUDITED)

| Segment/Division Sales | | Amounts January 26, 2003 | Amounts January 27, 2002 | % Over (Under) | Percent of Total Sales 2003 | Percent of Total Sales 2002 |
|---|---|---|---|---|---|---|
| Upholstery Fabrics | | | | | | |
| Culp Decorative Fabrics | $ | 100,324 | 109,531 | (8.4)% | 40.3 % | 40.1 % |
| Culp Velvets/Prints | | 69,243 | 84,522 | (18.1)% | 27.8 % | 30.9 % |
| Culp Yarn | | 4,702 | 3,816 | 23.2 % | 1.9 % | 1.4 % |
| | | 174,269 | 197,869 | (11.9)% | 70.1 % | 72.4 % |
| Mattress Ticking | | | | | | |
| Culp Home Fashions | | 74,484 | 75,612 | (1.5)% | 29.9 % | 27.6 % |
| | * $ | 248,753 | 273,481 | (9.0)% | 100.0 % | 100.0 % |

| Segment Gross Profit | | | | | Gross Profit Margin | |
|---|---|---|---|---|---|---|
| Upholstery Fabrics (1) | $ | 25,649 | 20,696 | 23.9 % | 14.7 % | 10.5 % |
| Mattress Ticking | | 17,647 | 20,278 | (13.0)% | 23.7 % | 26.8 % |
| | $ | 43,296 | 40,974 | 5.7 % | 17.4 % | 15.0 % |

* U.S. sales were $71,130 and $79,539 for the third quarter of fiscal 2003 and fiscal 2002, respectively; and $218,957 and $233,617 for the nine months of fiscal 2003 and 2002, respectively. The percentage decrease in U.S. sales was 10.6% for the third quarter and a decrease of 6.3% for the nine months.

(1) Excludes restructuring related charges of $751,000 for the third quarter of fiscal 2003; and excludes $1.9 million and $1.2 million for the first nine months of fiscal 2003 and 2002, respectively.

(Amounts in thousands)

THREE MONTHS ENDED (UNAUDITED)

| Geographic Area | | Amounts January 26, 2003 | Amounts January 27, 2002 | % Over (Under) |
|---|---|---|---|---|
| North America (Excluding USA) | $ | 6,648 | 6,613 | 0.5 % |
| Europe | | 274 | 472 | (41.9)% |
| Middle East | | 260 | 598 | (56.5)% |
| Far East & Asia | | 765 | 2,924 | (73.8)% |
| South America | | 94 | 155 | (39.4)% |
| All other areas | | 121 | 318 | (61.9)% |
| | $ | 8,162 | 11,079 | (26.3)% |
| Percent of total sales | | 10.3% | 12.2% | |

NINE MONTHS ENDED (UNAUDITED)

| Geographic Area | | Amounts January 26, 2003 | Amounts January 27, 2002 | % Over (Under) |
|---|---|---|---|---|
| North America (Excluding USA) | $ | 22,622 | 23,023 | (1.7)% |
| Europe | | 535 | 2,115 | (74.7)% |
| Middle East | | 1,907 | 4,804 | (60.3)% |
| Far East & Asia | | 3,748 | 8,414 | (55.5)% |
| South America | | 508 | 490 | 3.7 % |
| All other areas | | 476 | 1,018 | (53.2)% |
| | $ | 29,796 | 39,864 | (25.3) % |
| Percent of total sales | | 12.0% | 14.6% | |

International sales, and the percentage of total sales, for each of the last three fiscal years follows: fiscal 2000-$111,104 (23%); fiscal 2001 - $77,824 (19%) and fiscal 2002 - $53,501 (14%).

Three and Nine Months ended January 26, 2003 compared with Three and Nine Months ended January 27, 2002

For the third quarter, net sales decreased 12.5% to $79.3 million; and the company reported net income of $1.7 million, or $0.14 per share diluted versus net income of $170,000, or $0.02 per share diluted in the third quarter of fiscal 2002. Excluding restructuring and related charges and credits, earnings for the third quarter of fiscal 2003 were $1.9 million, or $0.16 per share diluted versus net income of $400,000, or $0.04 per share diluted in the third quarter of fiscal 2002, excluding goodwill amortization. For the first nine months of fiscal 2003, net sales decreased 9.0% to $248.8 million, and the company reported a net loss before cumulative effect of accounting change of $4.0 million, or $0.35 per share diluted versus a net loss of $1.9 million, or $0.17 per share diluted a year ago. Excluding restructuring and related charges and credits, net income for the first nine months of fiscal 2003 was $5.1 million, or $0.43 per share diluted versus $447,000, or $0.04 per share diluted for 2002, excluding goodwill amortization. The company reported further improvement in its balance sheet by reducing funded debt by $12.3 million during the first nine months of fiscal 2003 and ending the quarter with $38.5 million in cash and cash investments.

During fiscal 2003, the company has placed significant focus on reducing outstanding accounts receivable, including a concerted effort to collect past due accounts, shorten payment terms by offering a cash discount and resolve old items within receivable accounts. As of January 26, 2003, accounts receivable decreased 29.8% from the year earlier levels. In the third quarter, due to the decrease in past due receivable balances, there was a net reduction of $435,000 in the allowance for doubtful accounts. This compares with bad debt expense of $703,000 in the year earlier period. Additionally, as a result of this effort, the company has resolved $370,000 in old, open credits with customers, which were credited to net sales during the quarter.

## Restructuring Actions

The financial results for the third quarter include a total of $751,000 in restructuring related charges, which were classified in cost of sales, and a $354,000 credit classified under the restructuring expense line item. The restructuring related charges of $751,000 represent inventory markdowns and equipment relocation costs associated with the closing of the Chattanooga, Tennessee facility within the Culp Decorative Fabrics division in October 2002. The restructuring credit represents the reversal of previously accrued personnel costs, principally extended health care benefit expense, relating to the exit of the wet printed flock business during April 2002.

The Culp Decorative Fabrics (CDF) restructuring actions are expected to significantly improve gross margins within the division, while allowing the ability to meet foreseeable levels of demand on a substantially lower cost base. The initiative is projected to result in annual cost savings of approximately $12 to $15 million, beginning in the third quarter of fiscal 2003. Approximately $8.0 million of these savings relate to fixed manufacturing costs, and the remaining $4.0 to $7.0 million relate to variable manufacturing costs. Savings from lower fixed manufacturing costs, which were achieved due to the closing of the Chattanooga, Tennessee operation at the end of the second quarter, began being realized and contributed to the third quarter results. However, while there has been some progress on savings with variable manufacturing costs, the company expects these benefits to begin being realized over the next two quarters as operations within CDF achieve higher levels of efficiency.

The remaining elements from the CDF Chattanooga restructuring initiative to be completed are as follows: (1) achieve targeted levels of operating efficiency for the looms transferred into the Pageland operation, which is projected to take until the end of the first quarter of fiscal 2004; (2) transfer certain finishing and warping equipment to other CDF plants by the end of this fiscal year; and (3) complete the capital expenditure projects related to the restructuring.

Another important element of the CDF restructuring initiative was a major reduction in the complexity of the dobby upholstery product line, which has led to the elimination of approximately 1,500 low volume stock keeping units (SKUs) representing about 70% of the finished goods SKUs (but only 10% of sales) in that product category. This initiative is now substantially complete and has been accomplished without significant disruptions of customer relationships.

The CDF restructuring is expected to result in total restructuring and related charges of approximately $15 million, with approximately $14 million having been incurred in the second and third quarters of this fiscal year. The company currently estimates that this restructuring will result in additional charges of approximately $750,000 during the fourth quarter of the fiscal year, most of which relate to equipment relocation costs.

## UPHOLSTERY FABRIC SEGMENT

NET SALES -- Upholstery fabric sales for the third quarter of fiscal 2003 decreased 15.1% to $55.9 million. Domestic upholstery fabric sales decreased 11.9% to $50.9 million, due primarily to overall weakness in consumer demand for upholstered furniture, and other factors discussed below. International sales decreased 37.9% to $5.0 million, due primarily to the exiting of the wet printed flock fabric business in April 2002. For the first nine months of fiscal 2003, upholstery fabric sales decreased 11.9% to $174.3 million due to lower consumer demand and issues addressed below.

In addition to overall softness in demand during the quarter, the sales decrease in upholstery fabrics is attributable to the company's strategy to focus on improving the profitability of its sales mix by reducing or eliminating products generating little or no profit. In the Culp Velvets/Prints division, the company discontinued its unprofitable wet printed flock business at the end of last fiscal year. This product line produced annual sales last year of approximately $17 million with approximately $2 million in operating losses. In the CDF division, the company discontinued about half of its finished goods SKUs (or approximately 10,000) over the last year, most of which were small volume items and were costly to produce. These discontinued SKUs include the dobby product line SKUs that were recently eliminated as part of the Chattanooga restructuring. The company expects this process of identifying and dropping its low profit items to continue through the balance of this fiscal year.

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

GROSS PROFIT -- In spite of weak furniture demand, the upholstery fabric segment improved its gross profit dollars and margins significantly. Excluding restructuring related charges of $751,000 for the third quarter of fiscal 2003, gross profit dollars and margin increased to $8.8 million and 15.8% from $6.8 million and 10.4% in the third quarter of last year. For the first nine months of fiscal 2003, excluding restructuring related charges, gross profit dollars and margin improved to $25.6 million and 14.7% compared to $20.7 million and 10.5% the previous year. The key factors behind this gain was a sharp improvement in CDF due to: (1) a more profitable sales mix; (2) the increasing productivity benefits from the CDF 2001 restructuring; and (3) the fixed cost reduction benefits from the Chattanooga closure.

The company is optimistic that gross profit dollars and margins in the upholstery fabric segment will continue to improve over the next few quarters, driven principally by the progress within the CDF division. More specifically, within CDF the company is focused on (1) creating and selling products with better margins; (2) continuing to reduce low profit SKUs; and (3) improving manufacturing performance in terms of productivity and inventory obsolescence

MATTRESS TICKING SEGMENT

NET SALES -- Mattress fabric (ticking) sales for the third quarter of fiscal 2003 decreased 5.6% to $23.4 million. Sales to U.S. bedding manufacturers fell 7.2% to $20.3 million, while sales to international customers increased by 5.9% to $3.1 million. For the first nine months of fiscal 2003, mattress fabric sales were slightly lower than last year, down 1.5% to 74.5 million. The sales decrease is due to overall weakness in consumer demand for mattresses.

GROSS PROFIT -- The mattress fabric segment (Culp Home Fashions or CHF) reported for the third quarter of fiscal 2003 gross profit dollars and margins of $5.7 million and 24.4%, respectively, both down from $6.7 million and 27.0% during the corresponding quarter of the prior year. For the first nine months of fiscal 2003, gross profit dollars and margin decreased to $17.6 million and 23.7% from $20.3 and 26.8% the previous year. The key factors impacting gross profit were lower sales and the residual impact from a high cost European sourcing agreement that ended October 31, 2002. During the quarter the division worked down its inventory position of these products by reducing production. CHF entered into this agreement with the supplier in October 2001 as part of the termination of a long-term supply relationship. The agreement provided, among other things, that the company maintain a certain level of weekly purchases through October 31, 2002. Therefore, for the first half of this fiscal year, 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. The company had planned during the last fiscal year for the termination of this supply agreement by initiating a plan to increase capacity in the U.S. and Canadian plants beginning in the first quarter and ending by January 2003. This capacity expansion project accounts for approximately $4.5 million of the company's fiscal 2003 capital spending. This supply agreement was concluded on October 31, 2002.

The company is currently evaluating the potential impact on profits based on a decision by a major mattress ticking customer to begin production of one-sided mattresses. This decision could potentially lower demand for the company's mattress ticking products. However, management believes that any significant impact on demand would not occur until early fiscal 2004. Additionally, the company is currently examining alternatives to increase customer diversification to offset this potential decrease in demand.

OTHER CORPORATE EXPENSES

Selling, General and Administrative Expenses. SG&A expenses for the third quarter declined $1.2 million, or 11.2%, from the prior year, and as a percent of net sales, SG&A expenses increased to 12.4% from 12.2%. SG&A expenses in the third quarter included a net reduction of $435,000 in the allowance for doubtful accounts, due to a decrease in past due receivable balances. This compares with bad debt expense of $703,000 in the year-earlier period. Year to date SG&A expenses were lower than the previous year by $4.1 million due primarily to lower bad debt expense.

Interest Expense (Income). Interest expense for the third quarter declined to $1.7 million from $1.8 million due to significantly lower borrowings outstanding, offset somewhat by an increase in the interest rate on the company's $75.0 million term loan. Interest income increased to $143,000 from $42,000 due to significantly higher invested cash as compared with the prior year. For the first nine months of fiscal 2003, interest expense declined to $5.2 million from $5.9 the previous year, while interest income increased to $414,000 from $99,000 versus the prior year.

Other Expense. Other expense for the third quarter of fiscal 2003 totaled $192,000 compared with $435,000 in the prior year. For the first nine months of fiscal 2003, other expense totaled $645,000 compared to $1.8 million last year. The decrease was principally due to the adoption of SFAS No. 142, which discontinued the amortization of goodwill. Goodwill amortization during the third quarter and first nine months of fiscal 2002 was $350,000 and $1,050,000, respectively.

Income Taxes. Excluding the cumulative effect of accounting change and restructuring and related charges, the effective tax rate for the first nine months of fiscal 2003 was 37.0% compared to 34.0% the prior year.

Liquidity and Capital Resources

Liquidity. Cash and cash investments as of January 26, 2003 increased to $38.5 million from $32.0 million at the end of fiscal 2002, reflecting cash flow from operations of $23.9 million for the first nine months of fiscal 2003, capital expenditures of $9.1 million, debt repayment of $12.3 million, stock issuance from the sale of exercised stock options of $1.0 million and an increase in accounts payable for capital expenditures of $3.1 million.

Accounts receivable as of January 26, 2003 decreased 29.8% from the year-earlier level, due principally to the decline in international sales with their related longer credit terms, repayment of past due balances and an increase in the number of customers taking the cash discount for shorter payment terms. Days sales outstanding totaled 34 days at January 26, 2003 compared with 43 a year ago and 36 at last fiscal year end. Inventories at the close of the third quarter decreased 9.8% from a year ago. Inventory turns for the third quarter were 4.8 versus 5.1 for the year-earlier period. Operating working capital (comprised of accounts receivable, inventory and accounts payable) was $64.1 million at January 26, 2003, down from $84.2 million a year ago.

EBITDA for the third quarter of fiscal 2003 was $8.1 million compared with $6.9 million in the prior year. EBITDA includes earnings before interest, income taxes, depreciation, amortization, all restructuring and related charges, certain non-cash charges and cumulative effect of accounting change, as defined by the company's credit agreement.

Financing Arrangements. As of the end of the third quarter, the company had reduced funded debt by $12.3 million from last fiscal year end. Funded debt equals long-term debt plus current maturities. Funded debt was $96.1 million at January 26, 2003, compared with $108.5 million at fiscal 2002 year end. The company's funded debt-to-capital ratio was 51.1% at January 26, 2003. Since the end of fiscal 2000 (two and three fourths years), the company has substantially reduced its funded debt by a total of $41.3 million or 30.1%.

The company also reports its leverage statistics in terms of funded debt, net of cash and cash investments, under the assumption it could use the cash to repay debt at any time. Funded debt, net of cash and cash investments, was $57.7 million at January 26, 2003 compared with $76.5 million at fiscal 2002 year end. In addition, funded debt, net of cash and cash investments, to capital employed ratio was 38.5% and funded debt, net of cash and cash investments, to EBITDA was 1.54, which is substantially lower than the highest point level of 4.28 at January 2001.

The company entered into a new loan agreement during August 2002 with its principal bank lender that provides, among other things, for: (1) a two year $34.7 million credit facility, which includes a $15.0 million revolving credit line and $19.7 million for letters of credit for the company's industrial revenue bonds (IRBs) excluding interest, (2) lower interest rates based upon a pricing matrix, and (3) improved financial covenants. The IRBs are collateralized by letters of credit for the outstanding balance of the IRBs and certain interest payments accrued thereunder. Interest on the outstanding IRBs as of January 26, 2003 was 3.75%, including the letter of credit fee percentage. Also, the loan agreement specifically allows for the fiscal 2003 Culp Decorative Fabrics restructuring and related charges (see discussion above).

The company's loan agreements require, among other things, that the company maintain compliance with certain financial ratios. The company's principal financial covenants are (1) funded debt to EBITDA; (2) EBILTDA to interest expense plus leases; (3) funded debt to total capital; (4) funded debt to tangible capital; and (5) minimum tangible shareholders' equity. EBILTDA includes earnings before interest, income taxes, lease expense, depreciation, amortization, all restructuring and related charges, certain non-cash charges and cumulative effect of accounting change, as defined by the company's credit agreement. As of January 26, 2003, the company was in compliance with these financial covenants.

The company initiated the early repayment of $12.7 million of its IRBs on March 3, 2003. Effective with this repayment of IRBs, under the terms of the company's bank loan agreement, the liens on the company's assets pledged as collateral for the company's outstanding loans are required to be removed. In addition, with these debt retirements, the company will have reduced its funded debt by $25.0 million during fiscal 2003.

The remaining funded debt after repayment of these IRBs will be comprised of a $75.0 million term loan, with a fixed interest rate of 7.76%, $7.0 million in remaining IRBs and a $1.4 million, non-interest bearing term loan with the Canadian government. The first scheduled principal payment on the $75.0 million term loan is due March 2006, three years away, and it amounts to $11.0 million. The Canadian government loan is repaid in annual installments of approximately $450,000 per year.

The company plans to maintain a cash reserve of at least $25.0 million for the foreseeable future. Cash accumulated above this level will likely be used to repay the remaining $7.0 million in IRBs over the next several quarters. The company has chosen to repay the outstanding IRBs first due to high prepayment fees and costs associated with the $75 million term loan.

Capital Expenditures. Capital spending for the first nine months of fiscal 2003 was $9.1 million. The company's original budget for capital spending for all of fiscal 2003 was $8.5 million, compared with $4.7 million in fiscal 2002. As part of the fiscal 2003 restructuring plan in the Culp Decorative Fabrics division, the company increased the budget by $4.5 million to $13.0 million. Depreciation for the third quarter of fiscal 2003 totaled $3.4 million, and is projected at $14.0 million for the full fiscal year.

Free Cash Flow. Free cash flow was $17.9 million for the first nine months of fiscal 2003 compared with $10.7 million for the same period of the prior year. The company defines free cash flow as cash from operations, less capital expenditures, plus or minus the change in accounts payable for capital expenditures. The key reasons for this improvement were continued improvement in accounts receivable collections, lower inventory levels, higher profits and the benefit from deferred payment terms for capital expenditures.

BUSINESS OUTLOOK

For the fourth quarter of fiscal 2003, the company believes consolidated sales will decline in the same range as the third quarter decrease of 12.5% while gross profit margins are expected to approximate last year's fourth quarter gross margin of 21.8%, excluding restructuring and related charges, resulting in lower gross profit dollars. More than offsetting this gross profit dollar decrease, total SG&A, interest and other expenses are expected to decline approximately $4.0 million in the fourth quarter, absent any large unusual items, from a total of $17.3 million in last year's fourth quarter. The cost reduction is due to several factors: (1) lower incentive compensation; (2) an unusually high bad debt expense of $1.2 million in last year's fourth quarter; (3) various reductions in other SG&A expenses; and (4) lower net interest expense. The lower incentive compensation expense reflects the fact that the entire fiscal 2002 amount was recorded in the fourth quarter since the company was operating at a net loss through the third quarter and therefore did not meet incentive targets. However, this year's expense was accrued more ratably over the four quarterly periods as incentive targets were realized. Therefore, with gross profit margin about the same on lower sales, and substantially lower costs, the company is comfortable with the range of published analyst's earnings estimates of $0.40 to $0.43 per share for the fourth quarter of fiscal 2003, excluding any restructuring and related charges or large unusual items. Net earnings for the fourth quarter of last year were $4.4 million, or $0.38 per share, excluding restructuring and related charges and goodwill amortization.

The company's financial results over the last few quarters and its business outlook clearly demonstrate the company's strategic focus on: (1) improving the profitability of its sales mix; (2) increasing margins and return on capital employed; and (3) generating free cash flow and strengthening its balance sheet.

Inflation

The cost of the company's raw materials has been generally stable during the past several quarters. However, recently the company has experienced price increases from certain raw material vendors and freight carriers due to rising oil prices. Any prolonged and substantial increase in oil prices has the potential to negatively impact profits in future quarters. The company is currently evaluating these price increases and may decide to raise its prices to customers in order to lesson the impact of increased costs on profitability. Other factors that reasonably can be expected to influence margins in the future include trends in other operating costs and overall competitive conditions.

Seasonality

The company's business is moderately seasonal, with increased sales during the second and fourth fiscal quarters. This seasonality results from one-week closings of the company's manufacturing facilities, and the facilities of most of its customers in the United States, during the first and third quarters for the holiday weeks including July 4th and Christmas.

Critical Accounting Policies and Recent Accounting Developments

The company considered the disclosure requirements of Financial Reporting Release No. 60 regarding critical accounting policies and Financial Reporting Release No. 61 regarding liquidity and capital resources, certain trading activities and related party/certain other disclosures, and concluded that there were no material changes during the first nine months of fiscal 2003 that would warrant further disclosure beyond those matters previously disclosed in the company's Annual Report on Form 10-K for the year ended April 28, 2002, except for the areas noted below:

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.

Goodwill

As of April 29, 2002, Culp adopted SFAS No. 142, "Goodwill and Other Intangible Assets." SFAS No. 142 represents a substantial change in how goodwill is accounted for. SFAS No. 142 requires that goodwill no longer be amortized and that goodwill be tested for impairment by comparing the reporting unit's carrying value to its fair value as of April 29, 2002. SFAS No. 142 requires that any goodwill impairment loss recognized as a result of initial application is reported as of the first quarter of fiscal 2003 as a change in accounting principle, and that the income per share effects of the accounting change be separately disclosed.

For 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 because of the significance of the goodwill associated with the division and due to its operating performance for fiscal 2001 and 2002. 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 - $4.4 million, Culp Yarn - $0.7 million and Culp Home Fashions - $4.1 million.

### Forward-Looking Information

This Report contains statements that may be deemed "forward-looking statements" within the meaning of the federal securities laws, including the Private Securities Litigation Reform Act of 1995 (Section 27A of the Securities Act of 1933 and Section 27A of the Securities and Exchange Act of 1934). Such statements are inherently subject to risks and uncertainties. Further, forward-looking statements are intended to speak only as of the date on which they are made. Forward-looking statements are statements that include projections, expectations or beliefs about future events of results or otherwise are not statements of historical fact. Such statements are often but not always characterized by qualifying words such as "expect," "believe," "estimate," "plan" and "project" and their derivatives, and include but are not limited to statements about expectations for the company's future sales, gross profit margins, SG&A or other expenses, and earnings, as well as any statements regarding the company's view of estimates of the company's future results by analysts. Factors that could influence the matters discussed in such statements include the level of housing starts and sales of existing homes, consumer confidence, trends in disposable income, and general economic conditions. Decreases in these economic indicators could have a negative effect on the company's business and prospects. Likewise, increases in interest rates, particularly home mortgage rates, and increases in consumer debt or the general rate of inflation, could affect the company adversely. Because of the significant percentage of the company's sales derived from international shipments, strengthening of the U. S. dollar against other currencies could make the company's products less competitive on the basis of price in markets outside the United States. Additionally, economic and political instability in international areas could affect the demand for the company's products. 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.

## Item 3. Quantitative and Qualitative Disclosures About Market Risk

The company is exposed to market risk from changes in interest rates on debt and foreign currency exchange rates. The company's market risk sensitive instruments are not entered into for trading purposes. The company has not experienced any significant changes in market risk since January 26, 2003.

The company's exposure to interest rate risk consists of floating rate debt based on the London Interbank Offered Rate plus an adjustable margin under the company's revolving credit agreement and variable rate debt in connection with industrial revenue bonds. The annual impact on the company's results of operations of a 100 basis point interest rate change on the January 26, 2003 outstanding balance of the variable rate debt would be approximately $197,000.

The company's exposure to fluctuations in foreign currency exchange rates is due primarily to a foreign subsidiary domiciled in Canada and firmly committed and anticipated purchases of certain machinery, equipment and raw materials in foreign currencies. The company's Canadian subsidiary uses the United States dollar as its functional currency. The company generally does not use financial derivative instruments to hedge foreign currency exchange rate risks associated with the Canadian subsidiary. However, the company generally enters into foreign exchange forward and option contracts as a hedge against its exposure to currency fluctuations on firmly committed and anticipated purchases of certain machinery, equipment and raw materials. The amount of Canadian-denominated sales and manufacturing costs are not material to the company's consolidated results of operations; therefore, a 10% change in the exchange rate at January 26, 2003 would not have a significant impact on the company's results of operations or financial position. Additionally, as the company utilizes foreign currency instruments for hedging anticipated and firmly committed transactions, a loss in fair value for those instruments is generally offset by increases in the value of the underlying exposure.

## Item 4. Controls and Procedures

Within 90 days of the filing of this report, the company conducted a review and evaluation of its disclosure controls and procedures, under the supervision and with the participation of the company's Chief Executive Officer and Chief Financial Officer. Based upon this review, the Chief Executive Officer and Chief Financial Officer concluded that the company's disclosure controls and procedures were adequate and effective to ensure that information required to be disclosed is recorded, processed, summarized, and reported in a timely manner.

There were no significant changes in the company's internal controls or in other factors that could significantly affect these controls subsequent to the date of the evaluation described above, nor were there any significant deficiencies or material weaknesses in the controls which required corrective action.

Item 6. Exhibits and Reports on Form 8-K

The following exhibits are filed as part of this report.

| | |
|---|---|
| 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 included 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) | 2002 Stock Option Plan |
| 99(a) | Certification of Chief Executive Officer Pursuant to Section 906 of Sarbanes-Oxley Act of 2002. |
| 99(b) | Certification of Chief Financial Officer Pursuant to Section 906 of Sarbanes-Oxley Act of 2002. |

(b) Reports on Form 8-K:

The following reports on Form 8-K were filed during the period covered by this report:

(1) Form 8-K dated November 25, 2002, included under Item 5, Other Events, the Company's press release for quarterly earnings and the Financial Information Release relating to certain financial information for the quarter and six months ended October 27, 2002.

SIGNATURE

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

CULP, INC.
(Registrant)

Date: March 12, 2003 By: /s/ Franklin N. Saxon

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Franklin N. Saxon
Executive Vice President and Chief Financial Officer

(Authorized to sign on behalf of the registrant and also signing as principal financial officer)

CERTIFICATIONS

I, Robert G. Culp, III, Chairman of the Board and Chief Executive Officer of Culp, Inc., certify that:

1. I have reviewed this quarterly report on Form 10-Q of Culp, Inc.;

2. Based on my knowledge, this quarterly 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 quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly 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 quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

a) designed such disclosure controls and procedures 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 quarterly report is being prepared;
b) evaluated the effective of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: March 12, 2003

/s/ Robert G. Culp, III
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Robert G. Culp, III
Chairman of the Board and
Chief Executive Officer

I, Franklin N. Saxon, Executive Vice President and Chief Financial Officer of Culp, Inc., certify that:

1. I have reviewed this quarterly report on Form 10-Q of Culp, Inc.;

2. Based on my knowledge, this quarterly 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 quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly 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 quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

a) designed such disclosure controls and procedures 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 quarterly report is being prepared;
b) evaluated the effective of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: March 12, 2003

/s/ Franklin N. Saxon
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Franklin N. Saxon
Executive Vice President and
Chief Financial Officer

CULP, INC.
2002 STOCK OPTION PLAN

ARTICLE I

GENERAL PROVISIONS

1.1 Purpose of the Plan. This Plan is intended to promote the interests of the Company by giving eligible persons who provide services to the Company the opportunity to acquire a proprietary interest, or otherwise increase their proprietary interest, in the Company as an incentive to continue their employment or service. Capitalized terms used in the Plan shall have the meanings given to them in Appendix A attached hereto.

1.2 Administration of the Plan.

(a) The Plan shall be administered by the Board; provided, however, that any or all administrative functions otherwise exercisable by the Board may be delegated to the Committee. Members of the Committee shall serve for such period of time as the Board may determine and shall be subject to removal by the Board at any time. The Board also may, at any time, terminate the functions of the Committee and reassume all powers and authority previously delegated to the Committee. The Board or the Committee, as the Plan Administrator, shall have full power and authority (subject to the provisions of the Plan) to establish such rules and regulations as it may deem appropriate for the proper administration of the Plan and to make such determinations under, and issue such interpretations of, the Plan and any outstanding Options thereunder as it may deem necessary or advisable. Decisions of the Plan Administrator shall be final and binding on all parties who have an interest in the Plan or any Option issued hereunder.

(b) Subject to the terms of the Plan, the Plan Administrator shall have full power and authority to determine which eligible persons will receive Option grants, the time or times when such grants will be made, the number of shares to be covered by each grant, the status of each Option as either an Incentive Option or a Non-Qualified Option, the time or times when each Option is exercisable, the vesting schedule (if any) applicable to granted Options, the maximum term for which an Option shall remain outstanding, and all other terms and conditions of an Option granted under the Plan.

1.3 Eligibility. Only Employees are eligible to receive grants of Incentive Options. The persons eligible to receive grants of Non-Qualified Options are (a) Employees, (b) non-employee members of the Board or the board of directors of any Parent or Subsidiary, and (c) consultants and other independent advisors who provide services to the Company (or any Parent or Subsidiary). Additionally, the maximum number of shares of Common Stock that may be covered by an Option granted to any one individual shall be 50,000 shares during any one calendar year period.

1.4 Stock Subject to the Plan. The stock issuable under the Plan shall be shares of authorized but unissued Common Stock. The maximum number of shares of Common Stock that may be issued under the Plan shall not exceed 1,000,0000 shares, and all such shares shall be available for issuance pursuant to the grant of Incentive Options. Shares of Common Stock subject to outstanding Options shall be available for subsequent issuance under the Plan to the extent any Options expire or terminate for any reason prior to their exercise in full.

1.5 Adjustments in Common Stock. Should any change be made to the Common Stock by reason of any stock split, stock dividend, recapitalization, combination of shares, exchange of shares or other similar change, the Plan Administrator shall cause appropriate adjustments to be made to (a) the maximum number and/or class of securities issuable under the Plan and (b) the number and/or class of securities and the exercise price per share in effect under each outstanding Option, in order to prevent the dilution or enlargement of benefits thereunder. The adjustments determined by the Plan Administrator shall be final, binding and conclusive.

ARTICLE II

OPTION GRANT PROGRAM

2.1 Grant of Options Generally. Each Option granted under this Plan shall have such terms and conditions as approved by the Plan Administrator. Subject to the provisions of this Plan, each Option shall be evidenced by one or more documents in the form approved by the Plan Administrator, and no grant shall be effective unless and until both the Company and the person to whom the Option is being granted shall have executed such documents as required by the Plan Administrator.

2.2 Exercise Price. The exercise price per share of each Option shall be fixed by the Plan Administrator and, subject to the terms and conditions set forth herein, may be equal to or greater than the Fair Market Value per share of Common Stock on the Option grant date.

2.3 Vesting, Exercise and Term of Options. Each Option shall vest and be exercisable at such time or times and for such number of shares as shall be determined by the Plan Administrator and set forth in the documents evidencing the Option grant. No Option, however, shall have a term in excess of ten (10) years from the Option grant date.

2.4 Exercise Procedures.

(a) Subject to Section 2.7, an Option may be exercised only by the Optionee to whom such Option was granted under the Plan. An Option shall be exercisable at such time or times as set forth herein and in the documents evidencing the grant of the Option. Notwithstanding anything in the Plan to the contrary, the Plan Administrator, in its sole discretion, may at any time and from time to time accelerate the date for exercising all or any part of an Option. In no event, however, may an Option be exercised after the expiration of its fixed term.

(b) Each Option granted under the Plan shall be deemed exercised when the holder thereof (i) shall indicate the decision to do so in writing delivered to the Company, (ii) shall at the same time tender to the Company payment in full of the exercise price for the shares for which the Option is exercised in accordance with Section 2.4(c), (iii) shall tender to the Company in accordance with the Plan Administrator's instructions payment in full of all federal and state withholding or other employment taxes applicable to the taxable income, if any, of the holder resulting from such exercise, (iv) shall execute an option exercise agreement in form and substance satisfactory to the Plan Administrator, and (v) shall comply with such other requirements as the Plan Administrator may establish.

(c) In connection with the exercise of any Option, the Optionee shall pay the exercise price to the Company in cash, by check, or in such other manner as permitted by the Plan Administrator, which may include the surrender of shares of Common Stock or other unexercised Options held by the Optionee. Notwithstanding the foregoing, should the Common Stock be registered under Section 12 of the Exchange Act at the time an Option is exercised, then the exercise price may also be paid as follows:

(i) in shares of Common Stock held for the requisite period necessary to avoid a charge to the Company s earnings for financial reporting purposes and valued at Fair Market Value on the exercise date, or

(ii) through a special sale and remittance procedure pursuant to which the Optionee shall concurrently provide irrevocable instructions (A) to a Company-designated brokerage firm to effect the immediate sale of the purchased shares and remit to the Company, out of the sale proceeds available on the settlement date, sufficient funds to cover the aggregate exercise price payable for the purchased shares and (B) to the Company to deliver the certificates for the purchased shares directly to such brokerage firm in order to complete the sale.

(d) An Option granted under the Plan may be exercised for any lesser number of shares than the full amount for which it could be exercised. Such a partial exercise shall not affect the right to exercise the Option for the remaining shares from time to time in accordance with the Plan and the documents evidencing the grant of the Option.

2.5 Effect of Termination of Service. The following provisions shall govern the exercise of Options held by an Optionee at the time of such Optionee's cessation of Service or death:

(a) should the Optionee cease to remain in Service for any reason other than death, Permanent Disability or Misconduct, then the Optionee shall have a period of three (3) months following the date of cessation of Service or such longer period determined by the Plan Administrator, in its sole discretion, to exercise each outstanding Option held by such Optionee;

(b) should the Optionee's Service terminate by reason of Permanent Disability, then the Optionee shall have a period of twelve (12) months following the date of cessation of Service or such longer period determined by the Plan Administrator, in its sole discretion, to exercise each outstanding Option held by such Optionee;

(c) if the Optionee dies while holding an outstanding Option, then the personal representative of his or her estate or the Person or Persons to whom the Option is transferred pursuant to the Optionee's will or the laws of inheritance shall have twelve (12) months following the date of cessation of Service or such longer period determined by the Plan Administrator, in its sole discretion, to exercise each outstanding Option held by the Optionee;

(d) should the Optionee's Service be terminated for Misconduct, then all outstanding Options held by the Optionee shall terminate immediately and cease to remain outstanding, regardless of whether any Options have vested; and

(e) during the applicable post-Service exercise period, an Option may be exercised only if it has vested and for no more than the aggregate number of shares for which the vested Option is exercisable on the date of the Optionee's cessation of Service. The Option shall, immediately upon the Optionee's cessation of Service, terminate and cease to be outstanding with respect to any and all Option shares for which the Option is not otherwise exercisable at that time. Upon the expiration of the applicable exercise period or (if earlier) upon the expiration of the Option term, the Option shall terminate and cease to be outstanding.

2.6 Stockholder Rights. The holder of an Option shall have no stockholder rights with respect to the shares subject to the Option until such Person shall have exercised the Option in accordance with Section 2.4 and become the record holder of the purchased shares. Each Person who validly exercises an Option and is issued shares of Common Stock by the Company shall be subject to all of the terms and conditions set forth in the applicable purchase agreement to be executed by such person upon exercise.

2.7 Transferability of Options.

(a) Except as set forth in Section 2.7(b), Options may be transferred only by will or the laws of inheritance upon the death of an Optionee. Otherwise, no Option may be assigned, pledged, hypothecated or transferred in any manner. Upon any attempt to assign, pledge, hypothecate or transfer an Option, such Option shall immediately be cancelled and terminated.

(b) The Plan Administrator, may, in its sole discretion, permit a Non-Qualified Option to be assigned in whole or in part during the Optionee's lifetime as a gift to (i) one or more members of the Optionee's immediate family, (ii) a trust in which Optionee and/or one or more of such family members hold more than fifty percent (50%) of the beneficial interest, or (iii) an entity in which more than fifty percent (50%) of the voting interests are owned by the Optionee and/or one or more of such family members. The terms applicable to the assigned Non-Qualified Option shall be the same as those in effect for such Option immediately prior to the assignment, as more fully set forth herein and in the documents evidencing the grant of the Option.

2.8 Incentive Options. All Incentive Options shall be subject to the terms set forth in this Section 2.8. Options that are not specifically designated as Incentive Options in the documentation evidencing the grant of such Options, or that are specifically designated as Non-Qualified Options, shall not be subject to the terms of this Section 2.8.

(a) Eligibility. Incentive Options may be granted only to Employees.

(b) Exercise Price. An Incentive Option's exercise price per share of Common Stock shall not be less than one hundred percent (100%) of the Fair Market Value per share of Common Stock on the date such Option is granted.

(c) Dollar Limitation. The aggregate Fair Market Value of the shares of Common Stock (determined as of the respective date or dates of grant) for which one or more Incentive Options granted to any Employee under the Plan (or any other option plan of the Company or any Parent or Subsidiary) may for the first time become exercisable during any one calendar year shall not exceed One Hundred Thousand Dollars ($100,000). To the extent an Employee holds two or more Incentive Options which become exercisable for the first time in the same calendar year, the foregoing limitation on the exercisability of such Incentive Options shall be applied on the basis of the order in which such Options are granted.

(d) Ten Percent (10%) Stockholder. If an Employee to whom an Incentive Option is granted is a Ten Percent (10%) Stockholder, then the Incentive Option's exercise price per share of Common Stock shall not be less than one hundred ten percent (110%) of the Fair Market Value per share of Common Stock on the Option grant date, and the Incentive Option's term shall not exceed five years from the date of grant.

2.9 Change of Control Transactions.

(a) The Plan Administrator may, in its sole and absolute discretion, determine that any outstanding Option shall become fully exercisable on an accelerated basis immediately prior to a Change of Control, notwithstanding the fact that any portion of such Option shall not have vested.

(b) Unless otherwise determined by the Plan Administrator, (i) upon consummation of a Change of Control in which the Company is not the surviving entity, all outstanding Options, to the extent not exercised, shall terminate and cease to be outstanding, except to the extent assumed by the successor corporation (or parent thereof), and (ii) upon consummation of a Change of Control in which the Company is the surviving entity, all outstanding Options, to the extent not exercised, shall remain outstanding in full force and effect on the same terms and conditions.

(c) The Plan Administrator shall have the discretion at any time to provide for the immediate termination of any consent, repurchase or first refusal rights of the Company with respect to the shares subject to those Options upon the occurrence of a Change of Control, whether or not the Options are to be assumed by any successor corporation (or parent thereof).

(d) In the event that any Option shall survive and remain outstanding after a Change of Control, the Plan Administrator shall have full power and authority at any time to structure or amend an Option so that it will automatically vest on an accelerated basis should the Optionee's Service terminate by reason of an Involuntary Termination within a designated period following the effective date of the Change of Control.

(e) The portion of any Incentive Option accelerated in connection with a Change of Control shall remain exercisable as an Incentive Option only to the extent the applicable One Hundred Thousand Dollars ($100,000) limitation is not exceeded. To the extent such dollar limitation is exceeded, the accelerated portion of an Option shall be exercisable as a Non-Qualified Option and shall be treated as such under the federal tax laws.

(f) The grant of Options under the Plan shall in no way affect the right of the Company to adjust, reclassify, reorganize or otherwise change its capital or business structure or to merge, enter into a share exchange, dissolve, liquidate or sell or transfer all or any part of its business or assets.

ARTICLE III

MISCELLANEOUS

3.1 Compliance with Securities Laws. The Plan Administrator shall take such action as may be necessary to cause the administration of this Plan, including the grant of Options and the issuance of shares of Common Stock pursuant to the exercise thereof, to be made in compliance with all federal and state securities laws.

3.2 Effective Date and Term.

(a) The Plan shall become effective when adopted by the Board, but no Option granted under the Plan may be exercised, and no shares shall be issued pursuant to the exercise of any Options, until the Plan is approved by the Company's stockholders. Additionally, no Incentive Option shall be deemed to have been granted unless and until this Plan is approved by the Company's stockholders. If such stockholder approval is not obtained within twelve (12) months after the date of the Board's adoption of the Plan, then all Options previously granted under the Plan shall terminate and cease to be outstanding, and no further Options shall be granted and no shares shall be issued pursuant to the exercise of any Options.

(b) No further Options may be granted under the Plan upon the earlier of (a) the expiration of the ten (10)-year period from the date the Plan is adopted by the Board, (b) the date on which all shares available for issuance under the Plan shall have been issued or (c) the termination of all outstanding Options in connection with an Change of Control in which the Company is not the surviving entity or otherwise. All Options outstanding upon the expiration of the ten (10)-year period referenced in subclause (a) above shall continue to have full force and effect in accordance with the provisions of the documents evidencing the grant of such Options.

3.3 Amendment of the Plan. The Board shall have complete and exclusive power and authority to amend or modify the Plan in any or all respects. However, no such amendment or modification shall adversely affect any rights and obligations in respect of any outstanding Options unless the holder thereof consents to such amendment or modification. In addition, certain amendments may require stockholder approval pursuant to applicable laws or regulations.

3.4 Governing Law. This Plan shall be governed and construed in accordance with the laws of the State of North Carolina.

3.5 Severability. If any provision of this Plan or the application thereof to any person or circumstance shall be invalid or unenforceable to any extent, the remainder of this Plan and the application of such provision to other persons or circumstances shall not be affected thereby and shall be enforced to the greatest extent permitted by law.

3.6 Section Titles. The headings herein are inserted as a matter of convenience only and do not define, limit or describe the scope of this Plan or the intent of the provisions hereof.

3.7 No Employment or Service Rights. Nothing in the Plan shall confer upon any Optionee the right to continue in Service for any period of specific duration or interfere with or otherwise restrict in any way the rights of the Company (or any Parent or Subsidiary employing or retaining such person) or of the Optionee, which rights are hereby expressly reserved by each, to terminate such person's Service at any time for any reason, with or without cause.

3.8 Notices. Any notice required to be given or delivered to the Company under the Plan shall be in writing addressed to the Company at its principal corporate offices. Any notice required to be given to an Optionee shall be in writing and addressed to the address indicated on the option agreement executed by the Optionee in connection with an Option grant. All notices shall be deemed effective upon personal delivery or upon deposit in the U.S. mail, postage prepaid and properly addressed to the party to be notified.

# APPENDIX A

## Defined Terms

The following terms shall have the following meanings under the Plan:

"Board" means the Board of Directors of the Company.

"Code" means the Internal Revenue Code of 1986, as amended.

"Committee" means the Company's compensation committee or a committee of one or more Board members appointed by the Board to exercise one or more administrative functions under the Plan.

"Common Stock" means the common stock, $0.05 par value, of the Company.

"Company" means Culp, Inc., a North Carolina corporation, and any successor corporation to all or substantially all the assets or voting stock of Culp, Inc. that shall by appropriate action adopt the Plan.

A "Change of Control" shall be deemed to have occurred on:

(a) the date on which any "person" or "group" (as such terms are used in Sections 13(d) and 14(d) of the Exchange Act), other than the Company or any entity owned, directly or indirectly, by the stockholders of the Company in substantially the same proportions as their ownership of Common Stock, becomes the beneficial owner (as defined in Rules 13d-3 and 13d-5 under the Exchange Act) of shares representing more than 40% of the combined voting power of the then-outstanding securities entitled to vote generally in the election of directors of the Company; or

(b) the date on which (i) the Company merges with any other entity, (ii) the Company enters into a statutory share exchange with another entity, or (iii) the Company conveys, transfers or leases all or substantially all of its assets to any person; provided, however, that in the case of subclauses (i) and (ii), a Change of Control shall not be deemed to have occurred if the stockholders of the Company immediately before such transaction own, directly or indirectly immediately following such transaction, more than 60% of the combined voting power of the outstanding securities of the corporation resulting from such transaction in substantially the same proportions as their ownership of securities immediately before such transaction.

"Employee" means an individual who is in the employ of the Company (or any Parent or Subsidiary), subject to the control and direction of the employer entity as to both the work to be performed and the manner and method of performance.

"Exercise Date" means the date on which the Company shall have received written notice of the exercise of an Option.

"Exchange Act" means the Securities Exchange Act of 1934, as amended.

"Fair Market Value" per share of Common Stock on any relevant date shall be the average closing selling price per share of Common Stock for the ten (10) business days preceding the date in question on the Stock Exchange determined by the Plan Administrator to be the primary market for the Common Stock, as such price is officially quoted in the composite tape of transactions on such exchange.

"Incentive Option" means an Option that satisfies the requirements of Section 422 of the Code.

"Involuntary Termination" means the termination of the Service of any individual by reason of:

(i) such individual's involuntary dismissal or discharge by the Company (or any successor corporation or any Parent or Subsidiary, as applicable) for reasons other than Misconduct, or

(ii) such individual's voluntary resignation following (A) a change in his or her position with the Company (or any successor corporation or any Parent or Subsidiary, as applicable) which materially reduces his or her duties and responsibilities or the level of management to which he or she reports, (B) a reduction in his or her level of compensation (including base salary, fringe benefits and target bonuses under any corporate-performance based bonus or incentive programs) by more than fifteen percent (15%) or (C) a relocation of such individual's place of employment by more than fifty (50) miles, provided and only if such change, reduction or relocation is effected without the individual's consent; provided, however, that at the time of such resignation, the Company (or any successor corporation or any Parent or Subsidiary, as applicable) would not have reason to terminate such individual's employment for Misconduct.

"Misconduct" means (i) the commission of any act of fraud, embezzlement or dishonesty by a person against the Company (or any successor corporation or any Parent or Subsidiary, as applicable), (ii) any unauthorized use or disclosure by such person of confidential information or trade secrets of the Company (or any successor corporation or any Parent or Subsidiary, as applicable), (iii) intoxication with alcohol or drugs while conducting employer business during regular business hours, (iv) a conviction of, or a plea of guilty or nolo contendre by, such person for a criminal felony conviction, (v) the continued failure or inability of such person to fulfill the essential functions of his or her employment, or (vi) any other misconduct by such person that causes or would reasonably be expected to cause material harm to the business of the Company (or any successor corporation or any Parent or Subsidiary, as applicable), as reasonably determined in good faith by the Board.

"Non-Qualified Option" means an Option that does not satisfy the requirements of Section 422 of the Code.

"Option" means an Incentive Stock Option or Non-Qualified Option granted under the Plan.

"Optionee" means any person to whom an Option is granted under the Plan.

"Parent" means any corporation or limited liability company (other than the Company) in an unbroken chain of entities ending with the Company, provided each entity in the unbroken chain (other than the Company) owns, at the time of the determination, stock possessing fifty percent (50%) or more of the total combined voting power of all equity interests in one of the other entities in such chain.

"Permanent Disability" means the inability of a person to perform the essential functions of the person's duties as an Employee by reason of any medically determinable physical or mental impairment that is expected to result in such person's death or has lasted or can be expected to last for a period of six (6) consecutive months or more, as reasonably determined by the Board.

"Plan" means the Culp, Inc. 2002 Stock Option Plan, as set forth herein.

"Plan Administrator" means either the Board or the Committee acting in its capacity as administrator of the Plan.

"Service" means the provision of services to the Company (or any Parent or Subsidiary) by a person in the capacity of an Employee, a non-employee member of the board of directors or a consultant or independent advisor, except to the extent otherwise specifically provided in the documents evidencing the Option grant or stock issuance.

"Stock Exchange" means either the American Stock Exchange or the New York Stock Exchange.

"Subsidiary" means any corporation or limited liability company with respect to which the company owns, directly or indirectly, stock or other equity interests possessing fifty percent (50%) or more of the total combined voting power of all classes of equity.

"Ten Percent (10%) Stockholder" means the owner of stock (as determined under Section 424(d) of the Code) possessing more than ten percent (10%) of the total combined voting power of all classes of stock of the Company (or any Parent or Subsidiary).

Exhibit 99(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 Quarterly Report of Culp, Inc. (the "Company") on Form 10-Q for the period ended January 26, 2003 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
March 12, 2002

Exhibit 99(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 Quarterly Report of Culp, Inc. (the "Company") on Form 10-Q for the period ended January 26, 2003 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Franklin N. Saxon, Executive Vice President and Chief Financial 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

Executive Vice President and
Chief Financial Officer
March 12, 2002