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 27, 2002

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

Common shares outstanding at January 27, 2002: 11,221,158
Par Value: $.05

INDEX TO FORM 10-Q
For the period ended January 27, 2002

Item 1: Financial Sattements

CULP, INC.
CONSOLIDATED STATEMENTS OF INCOME (LOSS)
FOR THE THREE MONTHS AND NINE MONTHS ENDED JANUARY 27, 2002 AND JANUARY 28, 2001
(Amounts in Thousands, Except for Per Share Data)

	THREE MONTHS ENDED (UNAUDITED)				
	Amounts			Percent of Sales	
	January 27, 2002	January 28, 2001	% Over (Under)	2002	2001
Net sales	$ 90,618	95,880	(5.5)%	100.0 %	100.0 %
Cost of sales	77,110	86,047	(10.4)%	85.1 %	89.7 %
Gross profit	13,508	9,833	37.4 %	14.9 %	10.3 %
Selling, general and administrative expenses	11,038	12,480	(11.6)%	12.2 %	13.0 %
Restructuring expense	0	2,504	0.0 %	0.0 %	2.6 %
Income (loss) from operations	2,470	(5,151)	148.0 %	2.7 %	(5.4)%
Interest expense	1,820	2,222	(18.1)%	2.0 %	2.3 %
Interest income	(42)	(18)	133.3 %	(0.0)%	(0.0)%
Other expense (income), net	435	811	(46.4)%	0.5 %	0.8 %
Income (loss) before income taxes	257	(8,166)	103.1 %	0.3 %	(8.5)%
Income taxes	87	(2,696)	103.2 %	34.0 %	33.0 %
Net income (loss)	$ 170	(5,470)	103.1 %	0.2 %	(5.7)%
Net income per share	$0.02	($0.49)	104.1 %		
Net income per share, assuming dilution	$0.02	($0.49)	104.1 %		
Average shares outstanding	11,221	11,211	0.1 %		
Average shares outstanding, assuming dilution	11,304	11,211	0.8 %		

	NINE MONTHS ENDED (UNAUDITED)				
	Amounts			Percent of Sales	
	January 27, 2002	January 28, 2001	% Over (Under)	2002	2001
Net sales	$ 273,481	308,739	(11.4)%	100.0 %	100.0 %
Cost of sales	233,642	267,845	(12.8)%	85.4 %	86.8 %
Gross profit	39,839	40,894	(2.6)%	14.6 %	13.2 %
Selling, general and administrative expenses	33,823	39,749	(14.9)%	12.4 %	12.9 %
Restructuring expense	1,303	2,504	(48.0)%	0.5 %	0.8 %
Income (loss) from operations	4,713	(1,359)	(446.8)%	1.7 %	(0.4)%
Interest expense	5,851	6,830	(14.3)%	2.1 %	2.2 %
Interest income	(99)	(40)	147.5 %	(0.0)%	(0.0)%
Other expense (income), net	1,772	2,127	(16.7)%	0.6 %	0.7 %
Loss before income taxes	(2,811)	(10,276)	72.6 %	(1.0)%	(3.3)%
Income taxes	(956)	(3,392)	71.8 %	34.0 %	33.0 %
Net loss	$ (1,855)	(6,884)	73.1 %	(0.7)%	(2.2)%
Net loss per share	($0.17)	($0.61)	72.1 %		
Net loss per share, assuming dilution	($0.17)	($0.61)	72.1 %		
Average shares outstanding	11,221	11,209	0.1 %		
Average shares outstanding, assuming dilution	11,221	11,209	0.1 %		

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

CULP, INC.
CONSOLIDATED BALANCE SHEETS
JANUARY 27, 2002, JANUARY 28, 2001, APRIL 29, 2001
Unaudited
(Amounts in Thousands)

	Amounts		Increase (Decrease)		
	January 27, 2002	January 28, 2001	Amount	Percent	* April 29, 2001
Current assets					
Cash and cash investments	$ 10,359	292	10,067	3,447.6 %	1,207
Accounts receivable	46,171	54,474	(8,303)	(15.2)%	57,849
Inventories	59,398	67,156	(7,758)	(11.6)%	59,997
Other current assets	9,323	13,706	(4,383)	(32.0)%	7,856
Total current assets	125,251	135,628	(10,377)	(7.7)%	126,909
Property, plant & equipment, net	102,457	116,207	(13,750)	(11.8)%	112,322
Goodwill	47,432	48,827	(1,395)	(2.9)%	48,478
Other assets	1,641	2,256	(615)	(27.3)%	1,871
Total assets	$ 276,781	302,918	(26,137)	(8.6)%	289,580
Current liabilities					
Current maturities of long-term debt	$ 3,127	2,159	968	44.8 %	2,488
Accounts payable	21,336	27,084	(5,748)	(21.2)%	27,371
Accrued expenses	15,015	15,417	(402)	(2.6)%	17,153
Income taxes payable	0	0	0	0.0 %	1,268
Total current liabilities	39,478	44,660	(5,182)	(11.6)%	48,280
Long-term debt	106,960	119,213	(12,253)	(10.3)%	109,168
Deferred income taxes	10,330	17,459	(7,129)	(40.8)%	10,330
Total liabilities	156,768	181,332	(24,564)	(13.5)%	167,778
Shareholders' equity	120,013	121,586	(1,573)	(1.3)%	121,802
Total liabilities and shareholders' equity	$ 276,781	302,918	(26,137)	(8.6)%	289,580
Shares outstanding	11,221	11,211	10	0.1 %	11,221

* Derived from audited financial statements.

CULP, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS ENDED JANUARY 27, 2002 AND JANUARY 28, 2001
Unaudited
(Amounts in Thousands)

		NINE MONTHS ENDED	
		Amounts	
		January 27, 2002	January 28, 2001
Cash flows from operating activities:			
Net loss	$	(1,855)	(6,884)
Adjustments to reconcile net loss to net cash provided by operating activities:			
Depreciation		13,214	14,781
Amortization of intangible and other assets		1,177	1,196
Amortization of deferred compensation		92	303
Restructuring expense		1,303	2,504
Changes in assets and liabilities:			
Accounts receivable		11,678	20,749
Inventories		599	7,315
Other current assets		(1,453)	(3,357)
Other assets		(19)	226
Accounts payable		(1,768)	(4,536)
Accrued expenses		(3,319)	(8,076)
Income taxes payable		(1,268)	0
Net cash provided by operating activities		18,381	24,221
Cash flows from investing activities:			
Capital expenditures		(3,393)	(6,532)
Sales of investments related to deferred compensation plan		0	4,547
Net cash used in investing activities		(3,393)	(1,985)
Cash flows from financing activities:			
Proceeds from issuance of long-term debt		0	564
Principal payments on long-term debt		(1,569)	(16,678)
Change in accounts payable-capital expenditures		(4,267)	(5,667)
Dividends paid		0	(1,177)
Proceeds from common stock issued		0	7
Net cash used in financing activities		(5,836)	(22,951)
Increase (decrease) in cash and cash investments		9,152	(715)
Cash and cash investments at beginning of period		1,207	1,007
Cash and cash investments at end of period	$	10,359	292

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

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

	Common Stock Shares	Common Stock Amount	Capital Contributed in Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
Balance, April 30, 2000	11,208,720	$ 560	$ 35,266	$ 93,814	$	$ 129,640
Cash dividends ($0.105 per share)				(1,177)		(1,177)
Net loss				(8,311)		(8,311)
Common stock issued in connection with stock option plans	12,438	1	1,649			1,650
Balance, April 29, 2001	11,221,158	561	36,915	84,326		121,802
Net loss				(1,855)		(1,855)
Other comprehensive loss:						
Loss on cash flow hedges, net of taxes					(26)	(26)
Common stock issued in connection with stock option plans			92			92
Balance, January 27, 2002	11,221,158	$ 561	$ 37,007	$ 82,471	$ (26)	$ 120,013

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 note 8 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, 2001 for the fiscal year ended April 29, 2001.

2. Accounts Receivable

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

	January 27, 2002	April 29, 2001
Customers	$ 49,096	$ 60,218
Allowance for doubtful accounts	(2,000)	(1,282)
Reserve for returns and allowances	(925)	(1,087)
	$ 46,171	$ 57,849

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 27, 2002	April 29, 2001
Raw materials	$ 30,393	$ 31,489
Work-in-process	3,989	4,748
Finished goods	25,404	24,148
Total inventories valued at FIFO	59,786	60,385
Adjustments of certain inventories to LIFO	(388)	(388)
	$ 59,398	$ 59,997

4. Accounts Payable

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

	January 27, 2002	April 29, 2001
Accounts payable-trade	$ 20,181	$ 21,949
Accounts payable-capital expenditures	1,155	5,422
	$ 21,336	$ 27,371

5. Accrued Expenses

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

	January 27, 2002	April 29, 2001
Compensation, commissions and related benefits	$ 6,639	$ 7,806
Interest	2,267	1,367
Restructuring	1,363	2,383
Other	4,746	5,597
	$ 15,015	$ 17,153

6. Long-Term Debt

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

	January 27, 2002	April 29, 2001
Senior unsecured notes	$ 75,000	$ 75,000
Industrial revenue bonds	30,612	30,612
Canadian government loan	1,798	2,347
Revolving credit facility	999	999
Obligations to sellers	1,678	2,698
	110,087	111,656
Less current maturities	(3,127)	(2,488)
	$ 106,960	$ 109,168

The senior unsecured notes have an average remaining term of 7 years. The principal payments become due from March 2006 to March 2010 with interest payable semi-annually. The note purchase agreements were amended as of January 31, 2002 to amend certain covenants, including the replacement of the minimum consolidated net worth test with a minimum tangible net worth test. Additionally, the amendment increased the fixed coupon rate from 6.76% to 7.76%.

The company's revolving credit agreement (the "Credit Agreement") provides a revolving credit facility with two banks in the United States. Effective March 2002, the Credit Agreement provides for a revolving loan commitment of $10,000,000. The agreement requires payment of a quarterly facility fee. On borrowings outstanding at January 27, 2002, the interest rate was 5.909%. The Credit Agreement was amended in March 2002 to extend the termination date from April 2002 to June 2002.

The company's $2,000,000 revolving line of credit expires in April 2002. At January 27, 2002, no borrowings were outstanding under the revolving line of credit.

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 due thereunder. As of January 27, 2002, the interest rate on outstanding IRBs was 5.40%, including the letter of credit fee percentage.

The company's loan agreements require, among other things, that the company maintain compliance with certain financial ratios. At January 27, 2002, the company was in compliance with these financial covenants.

At January 27, 2002, the company had two interest rate swap agreements with a bank. The following table summarizes certain data regarding the interest rate swaps:

notional amount	interest rate	expiration date
$ 5,000,000	6.9%	June 2002
$ 5,000,000	6.6%	July 2002

During the first nine months of fiscal 2002, the company recorded a mark-to-market loss of $176,000 because the interest rate swaps no longer serve as a hedge due to the repayment of debt in fiscal 2001. Management believes the risk of incurring losses resulting from the inability of the bank to fulfill its obligation under the interest rate swap agreements to be remote and that any losses incurred would be immaterial.

The principal payment requirements of long-term debt during the next five fiscal years are: 2002 - $0; 2003 - $3,126,000; 2004 - $449,000; 2005 - $450,000; and 2006 - $11,450,000.

7. Cash Flow Information

Payments for interest and income taxes during the period were (dollars in thousands):

	2002	2001
Interest	$ 4,977	$ 5,650
Income taxes	1,553	319

8. Restructuring

To reduce costs and improve efficiency, the company initiated a restructuring plan in January 2001 to streamline the corporate structure, consolidate manufacturing operations and close certain facilities. The company recorded restructuring charges of $6.5 million in fiscal 2001 and an additional amount of $1.3 million, primarily related to health care costs for terminated personnel, in the first quarter of fiscal 2002. A portion of this total restructuring charge, related to the write-down of inventories ($0.9 million), was classified as a component of cost of sales in fiscal 2001. In addition, the company recognized restructuring-related charges, primarily costs related to moving equipment, of $.2 million in the second quarter fiscal 2002, $1.0 million in the first quarter of fiscal 2002 and $0.9 million in fiscal 2001.

The following summarizes the fiscal 2001 and 2002 restructuring activity (dollars in thousands):

	2001 Charges	2001 Non-Cash Write-Downs	Paid in 2001	April 29, 2001 Reserve Balance	2002 Charges	2002 Non-Cash Write-Downs	Paid in 2002	Jan 27, 2002 Reserve Balance
Non-cash write-downs of fixed assets to net realizable value	$ 2,540	2,540	-	-	160	160	-	-
Non-cash write-downs of inventories	874	874	-	-	-	-	-	-
Employee termination Benefits	969	-	491	478	925	-	795	608
Lease termination and other exit costs	2,116	-	211	1,905	218	-	1,368	755
	$ 6,499	$ 3,414	$ 702	$ 2,383	$ 1,303	$ 160	$ 2,163	$ 1,363

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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 (loss) for the three months ended January 27, 2002 and January 28, 2001 follows (dollars in thousands):

	2002	2001
Net lncome (Loss)	$ 170	$ (5,470)
Gain (Loss) on foreign exchange forward contracts, net of taxes:		
Net changes in fair value	(60)	0
Net gains reclassified into earnings	13	0
	$ 123	$ (5,470)

A summary of total comprehensive loss for the nine months ended January 27, 2002 and January 28, 2001 follows (dollars in thousands):

	2002	2001
Net loss	$ (1,855)	$ (6,884)
Gain (Loss) on foreign exchange forward contracts, net of taxes:		
Net changes in fair value of derivatives	(56)	0
Net gains reclassified into earnings	30	0
	$ (1,881)	$ (6,884)

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

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10. Derivatives

In June 2001, the Financial Accounting Standards Board ("FASB") issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." SFAS No. 133, as amended by SFAS No. 137 and SFAS No. 138, requires the company to recognize all derivative instruments on the balance sheet at fair value. These statements also establish new accounting rules for hedging instruments, which depend on the nature of the hedge relationship. A fair value hedge requires that the effective portion of the change in the fair value of a derivative instrument be offset against the change in the fair value of the underlying asset, liability, or firm commitment being hedged through earnings. A cash flow hedge requires that the effective portion of the change in the fair value of a derivative instrument be recognized in Other Comprehensive Income ("OCI"), a component of Stockholders' Equity, and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. The ineffective portion of a derivative instrument's change in fair value is immediately recognized in earnings.

Cash Flow Hedging Strategy

During 2001, the company adopted a policy to manage the exposure related to forecasted purchases of inventories denominated in the EURO through use of forward exchange contracts and options. At January 27, 2002, the duration of these contracts is nine months.

The company adopted SFAS No. 133 as amended, effective April 30, 2001. The effect of this adoption was not material for the nine months ended January 27, 2002.

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11. Earnings per Share

Basic earnings per share is computed using the weighted-average number of shares outstanding during the period. Diluted earnings per share uses the weighted-average number of shares outstanding during the period plus the additional common shares that would be outstanding during the period if the dilutive potential common shares issuable under employee and director stock options were issued. Weighted average shares used in the computation of basic and diluted earnings per share are as follows:

(in thousands)	Three Months Ended	
	January 27, 2002	January 28, 2001
Weighted average common shares outstanding (basic)	11,221	11,211
Effect of stock options	83	0
Weighted average common shares outstanding (diluted)	11,304	11,211

12. 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, wet and 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 27, 2002 and January 28, 2001 are as follows (dollars in thousands):

	2002	2001
Net sales		
Upholstery Fabrics	$ 65,844	$ 72,297
Mattress Ticking	24,774	23,583
	$ 90,618	$ 95,880
Gross Profit		
Upholstery Fabrics	$ 6,828	$ 4,158 [1]
Mattress Ticking	6,680	5,675
	$ 13,508	$ 9,833

Sales and gross profit for the company's operating segments for the nine months ended January 27, 2002 and January 28, 2001 are as follows (dollars in thousands):

	2002	2001
Net sales		
Upholstery Fabrics	$ 197,869	$ 230,222
Mattress Ticking	75,612	78,517
	$ 273,481	$ 308,739
Gross Profit		
Upholstery Fabrics	$ 19,561 [1]	$ 21,426 [1]
Mattress Ticking	20,278	19,468
	$ 39,839	$ 40,894

[1] Includes restructuring-related charges of $0.7 million for the three months ended January 28, 2001; and $1.2 million and $0.7 million for the nine months ended January 27, 2002 and January 28, 2001, respectively.

Identifiable assets, including accounts receivable, inventories and goodwill, for the company's operating segments as of January 27, 2002 and January 28, 2001 are as follows (dollars in thousands):

	2002	2001
Upholstery Fabrics	$ 129,920	$ 49,954 [1]
Mattress Ticking	31,978	17,202 [1]
	$ 155,898	$ 67,156

[1] Includes inventories only for fiscal 2001.

CULP, INC.
SALES BY PRODUCT GROUP
FOR THE THREE MONTHS AND NINE MONTHS ENDED JANUARY 27, 2002 AND JANUARY 28, 2001
(Amounts in thousands)

THREE MONTHS ENDED (UNAUDITED)

	Amounts			Percent of Total Sales	
Product Group	January 27, 2002	January 28, 2001	% Over (Under)	2002	2001
Upholstery Fabrics					
Culp Decorative Fabrics	$ 35,878	40,955	(12.4) %	39.6 %	42.7 %
Culp Velvets/Prints	28,648	28,631	0.1 %	31.6 %	29.9 %
Culp Yarn **	1,318	2,711	(51.4) %	1.5 %	2.8 %
	65,844	72,297	(8.9) %	72.7 %	75.4 %
Mattress Ticking					
Culp Home Fashions	24,774	23,583	5.1 %	27.3 %	24.6 %
	* $ 90,618	95,880	(5.5) %	100.0 %	100.0 %

NINE MONTHS ENDED (UNAUDITED)

	Amounts			Percent of Total Sales	
Product Group	January 27, 2002	January 28, 2001	% Over (Under)	2002	2001
Upholstery Fabrics					
Culp Decorative Fabrics	$ 109,531	129,280	(15.3) %	40.1 %	41.9 %
Culp Velvets/Prints	84,522	90,778	(6.9) %	30.8 %	29.4 %
Culp Yarn **	3,816	10,164	(62.5) %	1.4 %	3.3 %
	197,869	230,222	(14.1) %	72.4 %	74.6 %
Mattress Ticking					
Culp Home Fashions	75,612	78,517	(3.7) %	27.6 %	25.4 %
	* $ 273,481	308,739	(11.4) %	100.0 %	100.0 %

* U.S. sales were $79,539 and $77,360 for the third quarter of fiscal 2002 and fiscal 2001, respectively; and $233,617 and $246,672 for the nine months of fiscal 2002 and 2001, respectively. The percentage increase in U.S. sales was 2.8% for the third quarter and a decrease of 5.3% for the nine months.

** The fiscal 2001 sales for Culp Yarn include sales from exited businesses due to restructuring of $1.7 million in the third quarter and $6.3 million in the first nine months.

CULP, INC.
INTERNATIONAL SALES BY GEOGRAPHIC AREA
FOR THE THREE MONTHS AND NINE MONTHS ENDED JANUARY 27, 2002 AND JANUARY 28, 2001
(Amounts in thousands)

	THREE MONTHS ENDED (UNAUDITED)				
	Amounts			Percent of Total Sales	
Geographic Area	January 27, 2002	January 28, 2001	% Over (Under)	2002	2001
North America (Excluding USA)	$ 6,613	8,226	(19.6)%	59.7 %	44.4 %
Europe	472	1,669	(71.7)%	4.3 %	9.0 %
Middle East	598	3,924	(84.8)%	5.4 %	21.2 %
Far East & Asia	2,924	4,277	(31.6)%	26.4 %	23.1 %
South America	155	147	5.6 %	1.4 %	0.8 %
All other areas	318	277	14.7 %	2.9 %	1.5 %
	$ 11,079	18,520	(40.2)%	100.0 %	100.0 %

	NINE MONTHS ENDED (UNAUDITED)				
	Amounts			Percent of Total Sales	
Geographic Area	January 27, 2002	January 28, 2001	% Over (Under)	2002	2001
North America (Excluding USA)	$ 23,023	26,177	(12.0)%	57.9 %	42.2 %
Europe	2,115	4,928	(57.1)%	5.3 %	7.9 %
Middle East	4,804	14,456	(66.8)%	12.1 %	23.3 %
Far East & Asia	8,414	13,103	(35.8)%	21.1 %	21.1 %
South America	490	732	(33.1)%	1.2 %	1.2 %
All other areas	1,018	2,671	(61.9)%	2.6 %	4.3 %
	$ 39,864	62,067	(35.8)%	100.0 %	100.0 %

International sales, and the percentage of total sales, for each of the last five fiscal years follows: fiscal 1997-$101,571 (25%); fiscal 1998-$137,223 (29%); fiscal 1999-$113,354 (23%); fiscal 2000-$111,104 (23%); and fiscal 2001-$77,824 (19%). International sales for the third quarter represented 12.2% and 19.3% for 2002 and 2001, respectively. Year-to-date international sales represented 14.6% and 20.1% of total sales for 2002 and 2001, respectively.

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 is one of the leading global producers of mattress fabrics (ticking). 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.

Culp's worldwide leadership as a marketer of upholstery fabrics and mattress ticking has been achieved through internal expansion and the integration of strategic acquisitions.

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.

Restructuring Actions

During fiscal 2001, the company initiated a restructuring plan intended to lower operating expenses, increase manufacturing utilization, raise productivity and position the company to operate profitably within an environment of reduced demand. The plan involved the consolidation of certain fabric manufacturing capacity within the Culp Decorative Fabrics division, closing one of the company's four yarn manufacturing plants within Culp Yarn, and an extensive reduction in selling, general and administrative expenses. The company also recognized certain inventory write-downs related to the closed facilities as part of this initiative. While the physical relocation and movement of machinery and equipment involved in the restructuring has been essentially completed and the related fixed manufacturing cost savings achieved, the company still has much improvement to make to reach targeted productivity and variance levels as well as stock keeping unit (sku) reduction goals in the Culp Decorative Fabrics division. The total charge from the restructuring, cost reduction and inventory write-down initiatives was $9.9 million, about $3.6 million of which represented non-cash items. The company recognized $7.4 million of restructuring and related charges during fiscal 2001, and $2.5 million in the first nine months of fiscal 2002. No restructuring and related charges were recorded in the third quarter of fiscal 2002. Restructuring and related charges for fiscal 2002 were recorded as $1.3 million in the line item "Restructuring expense" and $1.2 million in "Cost of sales." The costs reflected in "Cost of sales" are principally related to the relocation of manufacturing equipment. The company's restructuring plan targeted annualized cost reductions of at least $14 million when the full benefit of this program is realized. Management believes the company now has a sound footprint of efficient, world-class facilities utilizing state-of-the-art equipment that position Culp well to meet the demands by manufacturers for shorter lead times, reliable delivery schedules and appealing designs.

Three Months and Nine Months ended January 27, 2002 compared with Three Months and Nine Months ended January 28, 2001

Net Sales. Compared with the year-earlier period, the company's net sales declined only 5.5% for the third quarter of fiscal 2002, versus 13.1% for the second quarter of fiscal 2002, 15.1% for the first quarter of fiscal 2002, and 21.9% for the fourth quarter of fiscal 2001. This quarterly trend indicates that the sales decline bottomed in the fourth quarter of fiscal 2001. Based upon current business conditions, the company is optimistic that this improving sales trend can continue.

Compared with fiscal 2001, upholstery fabric sales for the third quarter of fiscal 2002 decreased 8.9% to $65.8 million, and decreased 14.1% to $197.9 million for the first nine months of fiscal 2002 (See Sales by Product Group schedule on Page I-13). Reflecting a continuation of the trends identified in the first half of fiscal 2002, the upholstery fabric sales decrease in the third quarter represents: (1) a sharp reduction (42.1%, or $5.9 million) in international sales, principally reflecting the high value of the U.S. dollar relative to international currencies; (2) a decrease in external yarn sales (51.4% or $1.4 million) due to the company's internal consumption of more of the yarn division's output and its exit from certain yarn businesses as part of the restructuring plan; and (3) a decrease in sales to contract furniture customers ($1.1 million). A significant factor contributing to the decline in international sales is the persistent weakness in demand for the company's wet print flock fabrics, which has negatively impacted the profitability of the Culp Velvets/Prints product group. Management continues to assess its plan for addressing this under-performing product line. Sales to U.S. residential furniture manufacturers in the third quarter of fiscal 2002 increased 3.9% or $2.0 million compared with the third quarter of fiscal 2001. The company believes that it is improving its market share in the U.S. residential market because of well-received fabric placements in the Culp Decorative Fabrics and Culp Velvets/Prints product groups.

Compared with fiscal 2001, sales of mattress ticking for the third quarter of fiscal 2002 increased 5.1% to $24.8 million, and decreased 3.7% to $75.6 million for the first nine months of fiscal 2002. The year-to-date decline in mattress ticking also reflects a strong decrease in international sales. Sales to U.S. bedding manufacturers increased 14.1% to $21.8 million in the third quarter of fiscal 2002, reversing a trend of sales decreases in the first two quarters, and increased 1.8% to $66.0 million for the first nine months of fiscal 2002. The company believes that it is gaining market share in the U.S. bedding market because of well received ticking placements in the Culp Home Fashions product group.

Gross Profit and Cost of Sales. Gross profit increased 37.4% for the third quarter of fiscal 2002 compared with the year-earlier period and increased as a percentage of net sales to 14.9% from 10.3%. The increase in gross profit percentage reflects the benefit of the restructuring steps and other actions that have been taken to reduce expenses. The company realized significant gross profit increases over the third quarter of last year in Culp Home Fashions (mattress ticking), Culp Velvets/Prints and Culp Yarn. During the quarter the company began to realize lower variances and improved manufacturing productivity in the Culp Decorative Fabrics product group, a positive trend that management expects to continue in the fourth quarter. Even on a sales decline of 12.4%, Culp Decorative Fabrics achieved higher gross margins over the third quarter of last year.

Selling, General and Administrative Expenses. Reflecting the impact of the company's actions to reduce expenses, SG&A expenses for the third quarter declined 11.6% from the prior year. SG&A expenses in the third quarter included bad debt expense of $703,000 compared with $31,600 in the year-earlier period. Without the additional bad debt expense, SG&A expenses were reduced by $2.1 million, or 17.2%, and were 11.4% of net sales. For the first nine months of fiscal 2002, bad debt expense totaled $2.9 million. Without the additional bad debt expense, SG&A expenses for the first nine months were reduced by $8.9 million, or 22.3%, and were 11.3% of net sales. The increase in bad debt expense from a year ago reflects primarily write-offs of one bedding and two residential furniture customers as well as an increase in the allowance for doubtful accounts.

Interest Expense. Interest expense for the third quarter declined 18.1% from $2.2 million to $1.8 million due to significantly lower borrowings outstanding, offset somewhat by a substantial increase in interest rates.

Other Expense. Other expense (income) for the third quarter of fiscal 2002 totaled $435,000 compared with $811,000 in the prior year. The decrease reflects primarily the elimination of the nonqualified deferred compensation plan terminated in January 2001 as a part of the company's cost reduction initiatives.

Income Taxes. The effective tax rate for the first nine months of fiscal 2002 was 34.0% compared with 33.0% for the year-earlier period.

Liquidity and Capital Resources

Liquidity. Cash and cash investments as of January 27, 2002 increased to $10.4 million from $1.2 million at fiscal year-end, reflecting cash flow from operations of $18.4 million for the first nine months of fiscal 2002, which exceeded capital expenditures of $3.4 million and debt repayment of $5.8 million.

Operating working capital (comprised of accounts receivable, inventory and accounts payable) was $84.2 million at January 27, 2002, down from $94.5 million a year earlier.

The company has reduced funded debt by $11.3 million or 9.3% from the third quarter of last year. Funded debt equals long-term debt plus current maturities. Funded debt was $110.1 million at January 27, 2002, compared with $121.4 million a year ago and $111.7 million at fiscal year end. Compared with 50.0% a year ago, the company's funded debt-to-capital ratio was 47.8% at January 27, 2002.

EBITDA for the third quarter of fiscal 2002 increased to $6.9 million compared with $2.5 million for the third quarter of last year, and increased to $19.9 million for the first nine months of fiscal 2002 compared with $16.0 million in the year-earlier period. EBITDA includes earnings before interest, income taxes, depreciation, amortization, all restructuring and related charges and certain non-cash charges, as defined by the company's credit agreement.

Free cash flow (defined as cash available for debt repayment, dividends and/or stock issuance) totaled $10.7 million and $16.6 million for the first nine months of 2002 and 2001, respectively.

Financing Arrangements. Culp has $75 million of senior unsecured notes with an average remaining term of seven years. In January 2002, the company amended the note purchase agreements to amend certain covenants, including the replacement of the minimum net worth covenant with a minimum tangible net worth covenant. The amendment increased the fixed coupon rate from 6.76% to 7.76%.

In addition, the company has a revolving credit facility, which was reduced from $20 million to $10 million in March 2002. The facility, which expires in June 2002, requires quarterly payments of interest on all outstanding borrowings and a quarterly facility fee. In January 2001, the company amended the credit facility to include terms that restrict the payment of cash dividends and share repurchases at this time, limit capital expenditures, and increase the interest rate on the facility. The interest rate matrix is based on the company's funded debt to EBITDA ratio, as defined by the facility, such that a lower ratio allows for a lower interest rate. As of January 27, 2002, the company had outstanding balances of approximately $1 million under the credit facility with an interest rate of 5.909% (LIBOR plus 4.00%). The interest rate is projected to be reduced to LIBOR plus 3.50% in the fourth quarter based on a lower funded debt to EBITDA ratio.

The company also has a total of $30.6 million in currently outstanding industrial revenue bonds ("IRBs") and a $1.8 million non-interest bearing Canadian government loan, which have been used to finance capital expenditures. The IRBs are collateralized by letters of credit for the outstanding balance of the IRBs and certain interest payments due thereunder. The January 2001 amendment to the credit facility increased the letter of credit fees, which are also based on the company's funded debt to EBITDA ratio. Interest on the outstanding IRBs as of January 27, 2002 was 5.40% (tax-exempt adjustable rate plus the letter of credit spread of 4.00%). The interest rate is projected to be reduced to the tax-exempt adjustable rate plus 3.50% in the fourth quarter based on a lower funded debt to EBITDA ratio.

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. As of January 27, 2002, the company was in compliance with these financial covenants.

As of January 27, 2002, the company had two interest rate swap agreements with a $10 million notional amount. During the first nine months of fiscal 2002, the company recorded a mark-to-market loss of $.2 million because the interest rate swaps no longer serve as a hedge due to the repayment of debt. The company also enters into foreign exchange forward and option contracts to hedge against currency fluctuations with respect to firm commitments and anticipated transactions to purchase certain machinery, equipment and raw materials in foreign currencies.

Capital Expenditures. The company maintains an ongoing program of capital expenditures designed to increase capacity as needed, enhance manufacturing efficiencies through modernization and increase the company's vertical integration. The company's budget for capital spending for fiscal 2002 is $4.5 million, compared with $8.1 million in fiscal 2001. Depreciation for the first nine months of fiscal 2002 totaled $13.2 million.

The company believes that its cash investments, cash flows from operations and funds available under existing credit facilities will be sufficient to fund capital expenditures and working capital requirements for the foreseeable future.

Inflation

The cost of the company's raw materials is remaining generally stable. Factors that reasonably can be expected to influence margins in the future include changes in raw material prices, trends in other operating costs and overall competitive conditions.

Seasonality

The company's business is 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

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

Accounts Receivable - Allowance for Doubtful Accounts

Substantially all the company's accounts receivable are due primarily from residential furniture manufacturers and bedding manufacturers. Ownership of these manufacturers is increasingly concentrated and in certain cases leveraged. As of January 27, 2002, accounts receivable from residential and contract furniture manufacturers totaled approximately $34.5 million and from bedding manufacturers approximately $14.6 million. Approximately $11.7 million of the total accounts receivable was due from international customers. Additionally, as of January 27, 2002, the aggregate accounts receivable balance of the company's ten largest customers was $23.1 million, or 47% of trade accounts receivable.

During fiscal 2001 and 2002, there has been significant change in the home furnishings industry, including the bankruptcy of several of the largest home furnishings retail chains. This in turn has affected the furniture and bedding manufacturers who are the company's primary customers. As a result, Culp has experienced significantly higher credit losses in fiscal 2002 and has made substantial additional provisions to the allowance for doubtful accounts. Bad debt expense for the first nine months of fiscal 2002 totaled $2.9 million compared to $189,000 in the year-earlier period.

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

Inventory Valuation

The company operates generally as a make-to-order business; however, the company also stocks products for certain customers in order to meet delivery schedules. In addition, the company stocks its most popular fabrics in its regional distribution facilities. Although management closely monitors demand in each product area to decide which patterns and styles to hold in inventory, the gradual, yet constant shifts in consumer preferences expose the company to write-downs of inventory.

Substantially all inventories are valued at the lower of last-in, first-out (LIFO) cost or market. Management continually examines inventory to determine if there are indicators that the carrying value exceeds its net realizable value. Experience has shown that the most significant indicator of the need for inventory write-downs is the age of the inventory. As a result, the company provides inventory valuation write-downs based upon set percentages for inventory aging categories, generally using 6, 9 and 12 month categories. While management believes that adequate write-downs for inventory obsolescence have been made in the consolidated financial statements, consumer tastes and preferences will continue to change and the company could experience additional inventory write-downs in the future.

Revenue Recognition

Revenue is recognized from product sales upon shipment to customers from the company's various distribution centers. Provision is made currently for estimated product returns, claims and allowances. Management considers historical claims and return experience, among other things, when establishing the allowance for returns and allowances. While management believes that adequate allowance has been established for returns and allowances, it is possible that the company could experience levels higher than provided for in the consolidated financial statements.

Long-lived Assets

Management reviews long-lived assets, which consists of property, plant and equipment, for impairment whenever events or changes in circumstances indicate that the carrying value of the asset may not be recovered. Recoverability of long-lived assets to be held and used is measured by a comparison of the carrying amount of the asset to future net undiscounted cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized for the excess of the carrying amount over the fair value of the asset. Assets to be disposed of are reported at the lower of the carrying value or fair value less cost to sell when the company has committed to a disposal plan.

Events or changes in circumstances that indicate an asset's carrying amount may not be recoverable include: a) significant changes in its market price, b) a significant change in the extent or manner in which the asset is being used, c) adverse change in business climate that could affect the asset value permanently, d) current and/or historical operating or cash flow losses and a projection that demonstrates continuing losses associated with the asset's use, and e) an expectation that it is more likely than not that the asset will be sold.

The high value of the U.S. dollar relative to international currencies has negatively impacted international demand for certain of the company's products, including the wet print flock fabrics. Management continues to monitor the performance and assess its plan for addressing the significantly under-performing assets associated with the wet print flock product line. It is reasonably possible that continued weak operating performance or a change in management's plan for future utilization of this asset could result in a future material impairment charge.

In October 2001, the Financial Accounting Standards Board issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." This statement, which is effective for fiscal years beginning after December 15, 2001, supersedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." The company has not yet determined the financial impact, if any, of adopting this statement.

Goodwill

The company assesses the recoverability of goodwill under SFAS No. 121 by determining whether the amortization of the company's goodwill balance over its remaining life can be recovered through undiscounted future operating cash flows of the acquired businesses. If the company determines that goodwill is impaired, the loss is measured using estimated fair value. The assessment of the recoverability of goodwill will be impacted if estimated cash flows are not achieved. Factors that may impact estimated cash flows include, among other things, consumer demand, the acceptability of the company's products, ability to offer competitive pricing at acceptable margins and a number of macro-economic factors including the strength of the U.S. dollar relative to other foreign currencies.

The company's goodwill, at January 27, 2002, related to the following divisions: Culp Decorative Fabrics- $42.6 million, Culp Yarn - $0.7 million and Culp Home Fashions - $4.1 million. The company's assessment at April 29, 2001 indicated that future operating cash flows of these businesses were sufficient to recover the carrying amounts of goodwill.

In June 2001, the FASB issued SFAS No. 142, "Goodwill and Other Intangible Assets," which is effective as of the company's 2003 fiscal year that starts 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 no later than October 27, 2002, goodwill be tested for impairment at the reporting unit level by comparing the reporting unit's carrying value to its fair value as of April 29, 2002. If any impairment is indicated, it must be measured and recorded before the end of fiscal 2003. SFAS No. 142 requires that any goodwill impairment loss recognized as a result of initial application be reported as of the first quarter of fiscal 2003 as an effect of a change in accounting principle, and that the income per share effects of the accounting change be separately disclosed.

Goodwill amortization for the current fiscal year ending April 28,2002 is projected to be $1.4 million. As of April 29, 2002, goodwill will no longer be amortized.

Management has engaged a business valuation specialist to assist the company in the determination of the fair value of Culp Decorative Fabrics because of the significance of the goodwill associated with the division and due to its recent operating performance for fiscal 2001 and 2002, which has been significantly below its historical level of profitability. The company will determine if any goodwill impairment is indicated no later than October 27, 2002 by comparing Culp Decorative Fabrics' fair value with its carrying value as of April 29, 2002.

The application of SFAS No. 142 is complex and will require extensive effort. As a result, it is not practical to reasonably estimate the impact of adoption as of the date of this report. However, it is reasonably possible that the adoption of SFAS No. 142 could result in a material charge in fiscal 2003.

Forward-Looking Information

This quarterly report on Form 10-Q 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. Such statements are inherently subject to risks and uncertainties. Forward-looking statements are statements that include projections, expectations or beliefs about future events or results or otherwise are not statements of historical fact. Such statements are often characterized by qualifying words such as "expect," "believe," "estimate," "plan," and "project" and their derivatives. 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 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.

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 27, 2002.

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. To lower or limit overall borrowing costs, the company entered into interest rate swap agreements. The agreements entitle the company to receive or pay to the counterparty (a major bank), on a quarterly basis, the amounts, if any, by which the company's interest payments covered by swap agreements differ from those of the counterparty. As of January 27, 2002, the fair value of the swap agreements and changes in fair value resulting from changes in market interest rates are recognized in the consolidated financial statements because the interest rate swaps no longer serve as a hedge due to the repayment of debt. The annual impact on the company's results of operations of a 100 basis point interest rate change on the January 27, 2002 outstanding balance of the variable rate debt would be approximately $300,000 irrespective of any swaps.

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 27, 2002 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 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 ended January 29, 1995, filed March 15, 1995, and are incorporated herein by reference.

3(ii) Restated and Amended Bylaws of the Company, as amended June 12, 2001.

3(iii) Articles of Amendment of Culp, Inc. dated October 5, 1999 for the purpose of amending its Restated Charter to fix the designation, preferences, limitations and relative rights of a series of its Preferred Stock. The Articles of Amendment of Culp, Inc. were filed as Exhibit 3(iii) to the Company's Form 10-Q for the quarter ended October 31, 1999, filed December 15, 1999, and are incorporated herein by reference.

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

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

10(b) Eighth Amendment to Credit Agreement, dated March 5, 2002, among Wachovia Bank (successor by merger to Wachovia Bank of Georgia, N.A.), as agent, First Union National Bank (successor by merger to First Union National Bank of North Carolina), as documentation agent, and Wachovia Bank, N.A., First Union National Bank, and Suntrust Bank (formerly known as SunTrust Bank, Atlanta), as lenders.

(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 February 19, 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 nine months ended January 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 13, 2002 By: s/s Franklin N. Saxon

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)

FIRST AMENDMENT TO NOTE PURCHASE AGREEMENTS

THIS FIRST AMENDMENT TO NOTE PURCHASE AGREEMENTS, dated as of the 31st day of January, 2002 (this "Amendment" or this "First Amendment"), is made by and between Culp, Inc., a North Carolina corporation (the "Company") and the holders of Notes (as defined in the Note Purchase Agreements referred to below) listed on Schedule A (the "Noteholders").

RECITALS

A. The Company and certain financial institutions or entities have heretofore entered into separate and several Note Purchase Agreements, each dated as of March 4, 1998 (collectively, the "Note Purchase Agreements"), pursuant to which the Company has issued its $20,000,000 6.76% Series A Senior Notes due March 15, 2008 and its $55,000,000 6.76% Series B Senior Notes due March 15, 2010 (collectively, the "Notes"). Capitalized terms used herein without definition shall have the meanings given to them in the Note Purchase Agreements.

B. The Company has requested that the Noteholders amend the Note Purchase Agreements as set forth herein, and the Noteholders have agreed to effect such amendments upon the terms and conditions set forth herein.

STATEMENT OF AGREEMENT

The parties hereto agree as follows:

1. Interest Rate. Effective February 1, 2002 (but subject to Section 7.2), the principal amount of the Notes will bear interest at a rate equal to 7.76% per annum. Accordingly, all references in the Note Purchase Agreements to "6.76%" as the rate of interest applicable to the Notes shall be deemed to read "7.76%," and all references in the Note Purchase Agreements to "8.76%" as the rate of interest applicable to overdue payments of principal, interest or any Make-whole Amount shall be deemed to read "9.76%." Contemporaneously with the execution and delivery of this Amendment, the Company will execute and deliver to each holder an amended and restated Note (in exchange for the return by such holder to the Company of such holder's original Note for cancellation by the Company), which amended and restated Note will provide for such increased interest rate and otherwise be in form and substance equivalent to the Notes delivered at the Closing. The execution and delivery of each amended and restated Note in favor of a holder will be a condition precedent to such holder's becoming bound in respect of this Amendment.

2. Amendment to Section 9. A new Section 9.6 is hereby added to each of the Note Purchase Agreements as follows:

> Section 9.6. Liens. The Company will exercise its reasonable best efforts to cause the Liens that have been granted to the lenders under that certain Credit Agreement, dated April 23, 1997 between the Company, Wachovia Bank, N.A. (as agent and as lender) and certain other financial institutions party thereto (as amended, restated, modified, replaced or refinanced from time to time, the "Credit Agreement") to be released (the "Lien Release"). The Company agrees that, upon the completion of any Lien Release, the references in clause (a)(3)(ii) of Section 10.2 and paragraph (k) of Section 10.3 to '15% of Consolidated Net Worth" shall be amended to read "10% of Consolidated Net Worth." The Company further agrees that, in the event the Company is unable, by May 5, 2003, to cause the Lien Release, the Company will promptly thereafter grant, for the benefit of the holders of Notes, Liens on assets having a book value equal to no less than $25,000,000, securing repayment obligations in respect of the Notes of an amount equal to the amount so secured under the Credit Agreement (which, as of the date hereof, equals $15,177,554), pursuant to documentation reasonably acceptable to the Required Holders and the Company; provided, however, that in the event of any such grant of Liens for the benefit of such holders (and only in such event), the Required Holders hereby waive compliance with Sections 10.2(a)(3) and 10.3(k) hereof in respect of (and only in respect of) any deemed incurrence of Priority Debt arising by virtue of any such grant of Liens in favor of the holders of Notes (it being understood that the calculation of Priority Debt shall not include indebtedness under the Notes).

3. Amendment to Section 10.1. Section 10.1 of each of the Note Purchase Agreements is hereby deleted in its entirety and is replaced with the following:

> Section 10.1. Tangible Net Worth. The Company will not at any time permit Tangible Net Worth to be less than the sum of (i) $60,000,000, plus (ii) an aggregate amount equal to 50% of its Consolidated Net Income (but, in each case, only if a positive number) for each completed fiscal quarter beginning with the fiscal quarter ended January-27, 2002.

4. Amendment to Section 10.2(a). The following is hereby inserted as new clause (4) of Section 10.2(a) of each of the Note Purchase Agreements:

> Notwithstanding the foregoing, (i) Consolidated Funded Debt shall not at any time exceed: (A) 65% of Tangible Capitalization during the period from the Effective Date of the First Amendment (as defined therein) through April 30, 2003; (B) 57% of Tangible Capitalization during the period from May 1, 2003 through April 30, 2004; and (C) 50% of Tangible Capitalization at any time thereafter; and (ii) from and after the Effective Date of the First Amendment (as defined therein), the Company shall not pay any dividends to its stockholders in respect of the capital stock of the Company unless and until Consolidated Funded Debt is less than 50% of Tangible Capitalization.

5. New Definitions. The following defined terms and definitions are hereby inserted in appropriate alphabetical order in Schedule B to each of the Note Purchase Agreements:

"First Amendment" means the First Amendment to Note Purchase Agreements, dated as of January 31, 2002, between the Company and the Noteholders (as defined therein), which amends this Agreement.

"Tangible Capitalization" means, at any time, Consolidated Total Capitalization, less the amount of any intangible items as determined in accordance with GAAP, at such time.

"Tangible Net Worth" means, at any time, Consolidated Net Worth, less the amount of any intangible items as determined in accordance with GAAP, at such time.

6. Representation and Warranty. The Company hereby represents and warrants to the Noteholders that after giving effect to this Amendment, no Default or Event of Default has occurred and is continuing.

7. Miscellaneous.

7.1 Amendment Fee. As a condition to the effectiveness of this Amendment and in consideration of the amendments effected hereby, the Company shall have paid to each holder of Notes, on or prior to the Effective Date (as defined in Section 7.2), a fee equal to 0.250% of the aggregate principal amount of the Notes held by such holder.

7.2 Counterparts; Effectiveness. This Amendment may be executed in any number of counterparts and by different parties hereto on separate counterparts, each of which when so executed and delivered shall be an original, but all of which shall together constitute one and the same instrument. Delivery of an executed signature page to this Amendment by facsimile or electronic mail transmission shall be effective as delivery of a manually executed counterpart thereof. This Amendment shall become effective on the date (the "Effective Date") upon which (i)-each of the Company and the Required Holders shall have executed and delivered a counterpart hereof, (ii) the Company shall have executed and delivered the amended and restated Notes as contemplated by Section-1 hereof, and (iii)-the Company shall have paid to each holder of Notes the fee required by Section-7.1.

7.3 Effect of Amendment. From and after the Effective Date, all references in any Note Purchase Agreement to "this Agreement," "hereunder," "hereof," "herein" or words of like import referring to such Note Purchase Agreement shall mean and be a reference to such Note Purchase Agreement as amended by this Amendment. This Amendment is limited as specified and shall not constitute or be deemed to constitute an amendment, modification or waiver of any provision of any Note Purchase Agreement except as expressly set forth herein. Except as expressly amended hereby, the Note Purchase Agreements shall remain in full force and effect in accordance with their terms.

7.4 Governing Law. This Amendment shall be governed by and construed and enforced in accordance with the laws of the State of New York, excluding choice-of-law principles of such laws that would require the application of the laws of a jurisdiction other than the State of New York.

7.5 Severability. To the extent any provision of this Amendment is prohibited by or invalid under the applicable law of any jurisdiction, such provision shall be ineffective only to the extent of such prohibition or invalidity and only in any such jurisdiction, without prohibiting or invalidating such provision in any other jurisdiction or the remaining provisions of this Amendment in any jurisdiction.

7.6 Successors and Assigns. This Amendment shall be binding upon, inure to the benefit of and be enforceable by the respective successors and permitted assigns of the parties hereto and of all other holders of Notes (including, without limitation, any subsequent holder of a Note).

7.7 Construction. The headings of the various sections and subsections of this Amendment have been inserted for convenience only and shall not in any way affect the meaning or construction of any of the provisions hereof.

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be executed by their duly authorized officers as of the date first above written.

CULP, INC.

By:

Name:

Title:

CONNECTICUT GENERAL LIFE INSURANCE

COMPANY

By CIGNA Investments, Inc.

By:

Name:

Title:

LIFE INSURANCE COMPANY OF NORTH AMERICA

By CIGNA Investments, Inc.

By:

Name:

Title:

ACE PROPERTY AND CASUALTY INSURANCE COMPANY

By CIGNA Investments, Inc.

By:

Name:

Title:

CONNECTICUT GENERAL LIFE INSURANCE COMPANY, on behalf of one or more separate accounts

By CIGNA Investments, Inc.

By:

Name:

Title:

J. ROMEO & CO.

By:

Name:

Title:

UNITED OF OMAHA LIFE INSURANCE COMPANY

By:

Name:

Title:

MUTUAL OF OMAHA INSURANCE COMPANY

By:

Name:

Title:

THE PRUDENTIAL INSURANCE COMPANY OF AMERICA

By:

Name:

Title:

ALLSTATE LIFE INSURANCE COMPANY

By:

Name:

Title: Authorized Signatory

By:

Name:

Title: Authorized Signatory

EIGHTH AMENDMENT TO CREDIT AGREEMENT

THIS EIGHTH AMENDMENT TO CREDIT AGREEMENT (this "Amendment") is dated as of March 5, 2002, among CULP, INC. (the "Borrower"), WACHOVIA BANK, N.A. (successor by merger to Wachovia Bank of Georgia, N.A.), as Agent (the "Agent"), FIRST UNION NATIONAL BANK (successor by merger to First Union National Bank of North Carolina), as Documentation Agent (the "Documentation Agent"), and WACHOVIA BANK, N.A., FIRST UNION NATIONAL BANK and SUNTRUST BANK (formerly known as SunTrust Bank, Atlanta)(collectively, the "Banks");

W I T N E S S E T H :

WHEREAS, the Borrower, the Agent, the Documentation Agent and the Banks executed and delivered that certain Credit Agreement, dated as of April 23, 1997, as amended by that certain First Amendment to Credit Agreement dated as of July 22, 1998, that certain Second Amendment to Credit Agreement dated as of October 26, 1998, that certain Third Amendment to Credit Agreement dated as of April 28, 2000, that certain Fourth Amendment to Credit Agreement dated as of July 30, 2000, that certain Fifth Amendment (the "Fifth Amendment") to Credit Agreement dated as of January 26, 2001, that certain Sixth Amendment to Credit Agreement dated as of March 28, 2001, and that certain Seventh Amendment to Credit Agreement dated as of August 29, 2001 (as so amended, the "Credit Agreement"); and

WHEREAS, the Borrower has requested, and the Agent, the Documentation Agent and the Banks have agreed to certain amendments to the Credit Agreement, subject to the terms and conditions hereof;

NOW, THEREFORE, for and in consideration of the above premises and other good and valuable consideration, the receipt and sufficiency of which hereby is acknowledged by the parties hereto, the Borrower, the Agent, the Documentation Agent and the Banks hereby covenant and agree as follows:

1. Definitions. Unless otherwise specifically defined herein, each term used herein which is defined in the Credit Agreement shall have the meaning assigned to such term in the Credit Agreement. Each reference to "hereof", "hereunder", "herein" and "hereby" and each other similar reference and each reference to "this Agreement" and each other similar reference contained in the Credit Agreement shall from and after the date hereof refer to the Credit Agreement as amended hereby.

2. Amendments to Credit Agreement. The following definition contained in Section 1.01 of the Credit Agreement is amended and restated in its entirety as set forth below:

> "Termination Date" means whichever is applicable of (i) June 22, 2002, (ii) the date the Commitments are terminated pursuant to Section 6.01 following the occurrence of an Event of Default, or (iii) the date the Borrower terminates the Commitments entirely pursuant to Section 2.08."

3. Restatement of Representations and Warranties. The Borrower hereby restates and renews each and every representation and warranty heretofore made by it in the Credit Agreement and the other Loan Documents as fully as if made on the date hereof, except to the extent that any representation or warranty related to an earlier specified date, and with specific reference to this Amendment and all other loan documents executed and/or delivered in connection herewith.

4. Effect of Amendment. Except as set forth expressly hereinabove, all terms of the Credit Agreement and the other Loan Documents shall be and remain in full force and effect, and shall constitute the legal, valid, binding and enforceable obligations of the Borrower. The amendments contained herein shall be deemed to have prospective application only, unless otherwise specifically stated herein.

5. Ratification. The Borrower hereby restates, ratifies and reaffirms each and every term, covenant and condition set forth in the Credit Agreement and the other Loan Documents effective as of the date hereof.

6. Termsheet for New Credit Facility. Borrower and Agent each agree to exercise their commercially-reasonable efforts to negotiate and agree on a formal term sheet on or before April 28, 2002, which term sheet is anticipated to provide for the terms and conditions of a credit facility which, at this time, is contemplated to replace, amend and restate, or serve as a substitute for, or a refinancing of, the credit facility provided for in the Credit Agreement; provided, however, that (a) nothing contained herein shall obligate Agent, for itself or as a Bank, the Documentation Agent, for itself or as a Bank, any other Bank, or the Borrower to enter into any such facility or term sheet; (b) neither Borrower nor any other party hereto is entitled to rely on this paragraph as any commitment by any of the Agent, for itself or as a Bank, the Documentation Agent, for itself or as a Bank, or any Bank to provide any such facility; and (c) in no event shall this paragraph be deemed to constitute any commitment made by any party hereto to enter into any such facility.

7. Counterparts. This Amendment may be executed in any number of counterparts and by different parties hereto in separate counterparts, each of which when so executed and delivered shall be deemed to be an original and all of which counterparts, taken together, shall constitute but one and the same instrument.

8. Section References. Section titles and references used in this Amendment shall be without substantive meaning or content of any kind whatsoever and are not a part of the agreements among the parties hereto evidenced hereby.

9. No Default. To induce the Agent, the Documentation Agent and the Banks

to enter into this Amendment and to continue to make advances pursuant to the Credit Agreement, the Borrower hereby acknowledges and agrees that, as of the date hereof, and after giving effect to the terms hereof, there exists (i)-no Default or Event of Default and (ii)-no right of offset, defense, counterclaim, claim or objection in favor of the Borrower arising out of or with respect to any of the Loans or other obligations of the Borrower owed to the Banks under the Credit Agreement.

10. Further Assurances. The Borrower agrees to take such further actions as the Agent shall reasonably request in connection herewith to evidence the amendments herein contained.

11. Governing Law. This Amendment shall be governed by and construed and interpreted in accordance with, the laws of the State of Georgia.

12. Conditions Precedent. This Amendment shall become effective only upon the execution and delivery of (i) this Amendment by each of the parties hereto, and (ii) receipt by the Agent of an amendment fee in immediately available funds in the amount of $12,500.00, which amendment fee shall be distributed by the Agent to the Banks which execute this Amendment, pro rata based on their respective proportionate share of all the Commitments. IN WITNESS WHEREOF, the Borrower, the Agent, the Documentation Agent and each of the Banks has caused this Amendment to be duly executed, under seal, by its duly authorized officer as of the day and year first above written.

CULP,
INC.,
(SEAL)
as Borrower

By: ____________________________
Title:

WACHOVIA BANK, N.A.,
as Agent and as a
Bank
(SEAL)

By: ____________________________
Title:

FIRST UNION NATIONAL BANK,
as Documentation Agent and as a
Bank (SEAL)

By: ____________________________
Title:

SUNTRUST BANK,
as a Bank (SEAL)

By: ____________________________
Title: