CULP

2002 ANNUAL REPORT TO SHAREHOLDERS

Company Information

Company Profile

Culp, Inc. ranks as one of the world's largest marketers of upholstery fabrics for furniture and mattress fabrics for bedding. The Culp team of approximately 3,000 associates markets over 3,000 patterns of upholstery fabrics and over 1,000 styles of mattress fabrics. The company is a fully integrated marketer with manufacturing plants in North and South Carolina, Tennessee and Canada.

Shares in Culp, Inc. are traded on the New York Stock Exchange under the symbol CFI.

2002 Highlights

- Net income of $4.0 million, or $0.35 per share diluted, excluding restructuring and related charges
- Record gross profit margin of 21.8%, excluding restructuring related charges, in the fourth quarter
- Cash flow from operations of $42.2 million, exceeding the previous year record of $36.1 million

Financial Highlights

(Amounts in thousands, except per share data)	2002	2001	% Change
STATEMENTS OF INCOME			
Net sales	$ 381,878	$ 409,810	(6.8)%
Gross profit	62,857	55,987	12.3
Income (loss) from operations*	4,430	(4)	**
Net loss*	(3,440)	(8,311)	58.6
Net income (loss), excluding restructuring and related charges	3,995	(3,335)	**
Average shares outstanding (diluted)	11,230	11,210	0.2
PER SHARE			
Net loss (diluted)*	$ (0.31)	(0.74)	58.0%
Net income (loss), excluding restructuring and related charges (diluted)	0.35	(0.30)	**
Book value	10.52	10.85	(3.0)
BALANCE SHEETS			
Cash and cash investments	$ 31,993	$ 1,207	** %
Total assets	287,713	289,580	(0.6)
Funded debt	108,484	111,656	(2.8)
Shareholders' equity	119,065	121,802	(2.2)
RATIOS			
Gross profit margin	16.5%	13.7%	
Operating income margin	1.2	0.0	
Net loss margin	(0.9)	(2.0)	
Funded debt to capital	47.7	47.8	

* Includes restructuring and related charges of $12.2 million ($7.4 million or $0.66 per share diluted, after taxes) and $7.4 million ($5.0 million or $0.44 per share diluted, after taxes) for fiscal 2002 and 2001, respectively.

** Not statistically meaningful.

(Throughout this annual report, 2003, 2002, 2001, 2000, 1999, 1998, and 1997 are used to refer, respectively, to the company's fiscal years that ended in those same calendar periods.)

Our goal is to set the standard for our industry by remaining focused on design excellence, increasing the profitability of our sales mix, and improving the cost-efficiency of our manufacturing operations.

Fellow Shareholders:

Fiscal 2002 ended on a positive note that validated our prediction a year ago that this would mark a rewarding turnaround year for Culp. The results of the fourth quarter also affirmed our statements at the close of 2001 about the potential to restore the company's historical level of profitability and, at the same time, deliver greater value to our customers and shareholders. Although we were confident in our outlook for Culp, no one could have predicted the combination of events that altered the course of our nation and our economy over the past year. In spite of this remarkable period that included an extremely challenging business environment, we are pleased to report that Culp delivered on our promise and made significant progress in 2002. More importantly, we have defined a clear strategy to fully leverage our assets and maximize our opportunities going forward. We believe that our focused approach to the key areas essential to success in the home furnishings industry has enhanced our competitive position and will enable Culp to achieve more success in 2003.

Many factors are reshaping the home furnishings industry. Continuing industry consolidation, international competition, offshore manufacturing and shorter lead times are having a significant impact on the marketplace and redefining the way we must manage our business. We believe these industry trends are playing to Culp's fundamental strengths and that we have a sound business model to compete in this environment. Furthermore, with our restructuring initiatives and the organizational changes we have put in place since January 2001, we have enhanced our prospects. Even against an uncertain economy, Culp has been able to provide manufacturers with one of the broadest choices of product lines available, and to offer these products with consistently high quality and dependable shipping schedules. These are key factors for success in today's marketplace. Our goal is to set the standard for our industry by remaining focused on design excellence, increasing the profitability of our sales mix, and improving the cost-efficiency of our manufacturing operations.

Restructuring Initiatives Yield Improved Financial Results

Our financial performance improved considerably over the course of fiscal 2002, capped off by a strong fourth quarter. Although our overall sales in 2002 declined modestly to $381.9 million from $409.8 million in the prior year, we saw a turnaround in our business beginning in the second half. With others in our industry, we experienced a moderate slowdown during fall 2001; but this fortunately proved to be temporary. Historical trends reveal that sales of residential furniture have increased steadily over the past 30 years with only three down years, a marked contrast to the cyclical trends for other consumer durable goods. Additionally, aided by stable, historically low mortgage rates, we are still seeing a relatively healthy market for new home construction and sales of existing homes. Another favorable trend that is supporting the end-use demand for furniture and bedding is a heightened interest in goods and services tied to the home. We are optimistic that these business trends and external factors all point toward a sustained uptrend in our industry.

Our ability to capitalize on this positive outlook was clearly reflected in our results for the final quarter of the year. Sales in the fourth quarter of 2002 were up 7.2% year-over-year and represented the best revenue growth the company has posted since 1998. This growth was fueled by a 10.0% increase for upholstery fabrics and a 14.6% gain for mattress ticking in the domestic market, validating the success of our design programs and our solid competitive position.

Our results for 2002 reflect the benefits of the various actions we have taken to rationalize our capacity, streamline our operations, and position Culp for further recovery in margins and recurring positive cash flow.

The relative strength of the dollar during fiscal years 2001 and 2002 continued to impact demand for our fabrics and ticking outside the United States. International sales were down $24.3 million, or 31.3%, from 2001 levels and represented 14% of our total sales for 2002, compared with 19% in 2001. For a variety of reasons, we do not expect exports of our fabrics to return to the high level that we experienced several years ago. We are intent on maintaining an international presence, however, and we expect exports to remain part of our overall business.

Excluding restructuring and related charges in each year, we reported net income for 2002 of $4.0 million, or $0.35 per share diluted, compared with a net loss of $3.3 million, or $0.30 per share diluted, in 2001. Including restructuring and related charges, we reported a net loss of $3.4 million, or $0.31 per share diluted, for fiscal 2002 and a net loss of $8.3 million, or $0.74 per share diluted, for the prior year period. As a result of a more profitable sales mix in each division, benefits from restructuring, and higher capacity utilization in the fourth quarter, our gross profit margin for fiscal 2002 improved to 16.9% compared with 14.1% in the prior year. Notably, the fourth quarter marked a record for the company with a gross profit margin of 21.8%, excluding restructuring related charges. This new high demonstrates the positive leverage inherent in our business.

As we entered 2002, we set a high priority on more aggressively managing our working capital and other key components of our balance sheet. We are pleased to report that Culp's financial position and liquidity improved substantially over the fiscal year. At year-end we had $32.0 million in cash and cash investments, a significant improvement over $1.2 million at the close of 2001. Cash flow from operations for 2002 totaled a record $42.2 million, exceeding the previous record in 2001 of $36.1 million. More importantly, along with the build-up in our cash position, we have reduced our long-term debt by $29.0 million over the last two years. Our objective for 2003 is to continue to fortify our balance sheet, and we intend to pay down approximately $20.0 million in long-term commitments during fiscal 2003. Our debt-to-capital ratio is at the lowest level since 1997, providing us with improved financial flexibility.

Key Drivers of Improvement

Our results for 2002 reflect the benefits of the various actions we have taken to rationalize our capacity, streamline our operations, and position Culp for further recovery in margins and recurring positive cash flow. We are encouraged by our improved performance, particularly in the fourth quarter, and believe we have set the stage to build upon Culp's leadership in the long-term growth projected for the home furnishings industry.

Looking ahead, we remain confident that further improvement is on track for fiscal 2003. The key drivers we have identified that will determine Culp's success are as follows:

- Achieving excellence in design creativity across our product lines,
- Providing superior customer service and delivery performance,
- Realizing greater operating efficiencies through cost reduction, improved productivity, and increased asset utilization, and
- Maintaining a strong, liquid balance sheet.

Providing customers with appealing designs is linked not only to our success in building our overall sales, but also to incorporating in our product design a strong emphasis on increasing margins

An important objective of our restructuring actions has been to not only streamline our operations, but also provide customers with improved service and faster response times.

for the products we introduce. We are experiencing positive acceptance of our fabrics with strong placements at the recent major trade shows. Culp has the advantage of working with most manufacturers of upholstered furniture and of bedding. Although we intend to maintain that breadth of market coverage, the ongoing consolidation in the industry clearly puts a premium on working with the largest manufacturers. *Furniture Today* reports that the top 25 manufacturers now account for 56 percent of all wholesale furniture shipments in the United States, compared with 23 percent in 1985. Culp's long-standing relationships with these leading manufacturers are founded on product innovation coupled with exceptional customer service. Our challenge is to continue providing them with fabrics that ultimately drive the appeal of their products at the retail level. In addition, a key objective is to help these manufacturers manage their fabric supply chains so that our capacity essentially becomes an extension of theirs.

Our goal of realizing higher operating efficiency is being aided by the restructuring efforts that we have completed in the past year in the Culp Decorative Fabrics and Culp Yarn divisions. The consolidation of our manufacturing capacity into fewer facilities is resulting in improved productivity, lower fixed costs and higher margins. We will continue to assess our operations and look for additional opportunities to take maximum advantage of our most productive assets.

We must continue to lead in introducing new patterns and styles that represent excellent value while meeting faster delivery schedules. Culp's breadth of upholstery and mattress fabrics, coupled with integrated manufacturing operations, enables us to add value to manufacturers. Our proven abilities to coordinate with just-in-time production schedules and consistently meet high quality standards are a hallmark of Culp's success.

We expect our results in 2003 to reflect the benefit of the savings from our restructuring moves, including the decision in the fourth quarter to exit the wet printed flock upholstery fabric business. Although this meant closing a business that contributed $17.1 million to our sales in 2002, our primary objective is to devote our full capital and managerial resources toward product categories that are yielding a more profitable return on invested capital.

We recognize the importance of having a solid financial position. As such, we believe that maintaining a strong, liquid balance sheet is another key driver for Culp's success. Our ability to improve our management of working capital and control capital spending has allowed us to fund our operations with internally generated cash and build liquidity. We approved significantly lower capital expenditures in 2002 than in prior years. The total of $4.7 million in 2002 compares with $8.1 million in capital expenditures in 2001. As a result of the capital investments of $130 million we made from 1995 to 2000, our manufacturing operations are significantly more modern and efficient, allowing us to allocate more of our cash flow to strengthening our balance sheet by reducing debt and building cash. We expect that our capital expenditures for 2003 will be approximately $8.5 million and will be funded by internally generated cash flow from operations. About half of our 2003 spending is directly related to expanding capacity in the mattress ticking division.

The restructuring actions we have taken have also substantially lowered our fixed cost base. Our goal was annual savings of over $14 million in both manufacturing and selling, general and administrative expenses. Our restructuring actions involved difficult personnel decisions; we now have 25% fewer people working at Culp than we did just over two years ago. While downsizing is not easy, we believe we had to take these steps to

The dedication and commitment of everyone involved with Culp provide us with a solid foundation even in times of challenge, and more importantly, give us the ability to look confidently into the future.

effectively manage our operations and insure the best allocation of people and resources toward more profitable growth opportunities in a consolidating industry. While significant progress has been made, we still face challenges in the Culp Decorative Fabrics division to improve productivity of the assets deployed in this division in order to bring profitability up to acceptable levels. As we move forward, we will continue to focus on the efficiency of our operations and work to achieve the highest levels of productivity on the lowest asset base possible. Effectively managing our cost structure in tandem with expected levels of demand in the marketplace will continue to be a key driver to building shareholder value.

Delivering Value to Our Customers and Shareholders

There are many ways to measure success in our business. For Culp, superior customer service is a vital foundation for every aspect of our operations. An important objective of our restructuring actions has been to not only streamline our operations, but also provide customers with improved service and faster response times. Customers set Culp's standards, and we strive to offer attractive designs that will bring them success in the marketplace. We also recognize that delivery requirements that count the most are those of our customers, and manufacturing efficiency must be matched with on-time delivery performance. Our strategic goal remains to continue enhancing the value and service we provide customers, which ultimately is a key to achieving a long-term recovery in our profitability.

Fiscal 2002 ended on a positive note for Culp, and we are pleased with both the progress we made and the favorable response we received in the marketplace. As we look ahead to 2003, our achievements inspire us to stay on course with a firm commitment to be at the top of our industry. More specifically, our financial objectives are to achieve year-over-year improvement in quarterly net income, excluding the impact of restructuring and related charges. We also expect to continue to make measurable progress in returning Culp's profit margin percentages to their historical highs and to continue generating free cash flow. Although we do not expect to achieve those levels for 2003 as a whole, we are optimistic that the trend during the year will be positive, establishing a strong platform for future improvement.

When we speak of Culp's progress over the past year, we must recognize the remarkable role that many people – our employees, our customers and our suppliers – contribute to our ongoing success. The dedication and commitment of everyone involved with Culp provide us with a solid foundation even in times of challenge, and more importantly, give us the ability to look confidently into the future. Culp is building momentum, and we are excited about the opportunities before us in 2003 to deliver greater value to our shareholders.

We thank you for your ongoing support and confidence in the future of Culp.

Sincerely,

Robert G. (Rob) Culp, III
Chairman of the Board and Chief Executive Officer

Howard L. Dunn, Jr.
President and Chief Operating Officer
August 8, 2002

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

The following analysis of the financial condition and results of operations should be read in conjunction with the Financial Statements and Notes and other information included elsewhere in this report. This analysis was filed with the company's Annual Report on Form 10-K dated July 26, 2002.

Overview

Culp is one of the largest integrated marketers of 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 commercial 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 commercial furniture. Culp Velvets/Prints markets printed and velvet fabrics used primarily for residential and juvenile furniture. Culp Yarn manufactures specialty filling yarns that are primarily used by Culp divisions. In mattress ticking, Culp Home Fashions markets a broad array of fabrics used by bedding manufacturers.

Results of Operations

The following table sets forth certain items in the company's consolidated statements of income (loss) as a percentage of net sales.

	2002	2001	2000
Net sales	100.0%	100.0%	100.0%
Cost of sales	83.5	86.3	82.7
Gross profit	16.5	13.7	17.3
Selling, general and administrative expenses	12.6	12.3	12.3
Restructuring expense	2.7	1.4	0.0
Income from operations	1.2	0.0	5.1
Interest expense, net	2.1	2.2	2.0
Other expense	0.7	0.8	0.3
Income (loss) before income taxes	(1.6)	(3.0)	2.8
Income taxes *	44.0	33.0	31.5
Net income (loss)	(0.9)%	(2.0)%	1.9%

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

The following table sets forth the company's sales by segment and division for each of the company's three most recent years. The table sets forth the change in net sales for the segments and divisions as a percentage for comparative periods included in the table.

(dollars in thousands)	Amounts			Percent change	
segment/division	2002	2001	2000	2001-2002	2000-2001
Upholstery Fabrics:					
Culp Decorative Fabrics	$152,505	$170,326	$213,197	(10.5)%	(20.1)%
Culp Velvets/Prints	119,119	122,105	151,543	(2.4)	(19.4)
Culp Yarn	5,306	12,581	17,570	(57.8)	(28.4)
	276,930	305,012	382,310	(9.2)	(20.2)
Mattress Ticking:					
Culp Home Fashions	104,948	104,798	105,769	0.1	(0.9)
	$381,878	$409,810	$488,079	(6.8)%	(16.0)%

Restructuring Actions

Exit of Wet Printed Flock Product Line. During March 2002, the company announced that it was evaluating strategic alternatives for the capital invested in its wet printed flock upholstery fabrics product line. Management took this action because of the significant decline in sales and profitability of wet printed flocks in recent years, a decline related principally to the strength of the U.S. dollar relative to foreign currencies as well as a shift in consumer preferences to other styles of upholstery fabrics. In April 2002 management approved a plan to exit the wet printed flock upholstery fabric business and has been actively seeking to sell the assets related to this product line. The exit plan involved closing a printing facility and flocking operation within the Culp Velvets/Prints division, a reduction in related selling and administrative expenses, and termination of 25 employees. The company also recognized certain inventory write-downs related to this product line. The total charge from the exit plan and inventory write-down was $9.7 million, of which approximately $8.2 million represented non-cash items consisting of a $7.6 million write-down of property, plant and equipment to its estimated net realizable value of $2.3 million and a $619,000 write-down of inventory. The company recorded the total charge in the fourth quarter of fiscal 2002. Of this total, $9.1 million was recorded in the line item "restructuring expense" and $619,000, related to the inventory write-downs, was recorded in "cost of

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

sales." The company estimates the annual after-tax carrying costs to maintain the facilities until the assets are sold will be approximately $200,000, or $0.02 per share. During the fiscal year ended April 28, 2002, sales of wet printed flocks contributed $17.1 million, or 4.5%, of the company's total sales and resulted in an operating loss of $2.1 million. The company estimates that the net loss from these operations on an after-tax basis was approximately $0.12 per share.

Other Restructuring Actions. During fiscal 2001 and continuing into fiscal 2002, the company undertook a restructuring plan in its upholstery fabric segment intended to lower operating expenses, increase manufacturing utilization, raise productivity and position the company to operate profitably on a 20% lower level of sales. The plan involved (1) the consolidation of certain fabric manufacturing capacity within the Culp Decorative Fabrics (CDF) division, (2) closing one of the company's four yarn manufacturing plants within Culp Yarn, (3) an extensive reduction in selling, general and administrative expenses including the termination of 110 employees and (4) a comprehensive stock keeping unit (SKU) reduction initiative related to finished goods and raw materials in CDF. Additionally, the plan included consolidation of the CDF design operation into the company's Design Center and the implementation of a common set of raw material components for CDF. The company also recognized certain inventory write-downs related to the closed facilities as part of this initiative. While the physical relocation and movement of machinery and equipment involved in the restructuring was completed by the end of the second quarter of 2002 and the related fixed manufacturing cost savings achieved, the company still has much improvement to make to reach targeted productivity and variance levels in the CDF 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 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. Due to the restructuring plan, the company has now realized annualized reductions of at least $14 million in fixed manufacturing costs and SG&A expenses. Management believes the company now has a sound footprint of efficient, world-class facilities utilizing state-of-the-art equipment that position Culp to meet the demands by manufacturers for shorter lead times, reliable delivery schedules and appealing designs.

2002 Compared with 2001

Net Sales. The company's net sales for 2002 decreased by $27.9 million, or 6.8%, compared with 2001. The company's sales of upholstery fabrics decreased 9.2% to $276.9 million. For fiscal year 2002, domestic upholstery fabric sales decreased by 3.3%, or $8.1 million, to $236.6 million. The decrease related primarily to a decline in sales to the external yarn market ($7.3 million), where the company exited certain businesses, and to a decline in sales to the commercial furniture market ($4.5 million). The company believes that it is improving its market share in the U.S. residential furniture market because of well-received fabric placements in the Culp Decorative Fabrics and Culp Velvets/Prints divisions. International sales of upholstery fabric for fiscal 2002 were $40.3 million, down 33.2% from $60.4 million in fiscal 2001.

Compared with fiscal 2001, mattress ticking sales increased 0.1% to $104.9 million for fiscal 2002. Sales to U.S. bedding manufacturers increased 5.0% to $91.7 million for fiscal 2002. The company believes that it is gaining market share in the U.S. bedding market as well. International ticking sales for fiscal 2002 were $13.2 million, down 24.5% from $17.5 million in fiscal 2001.

Gross Profit and Cost of Sales. For fiscal 2002, gross profit, excluding restructuring and related charges, increased 11.9% compared with fiscal 2001, and increased as a percentage of net sales to 16.9% from 14.1%. This improvement reflected strong gross profit dollar and margin growth in the Culp Home Fashions, Culp Velvets/Prints and Culp Yarn divisions. Offsetting these gains somewhat was a decrease in gross profit dollars and margin in Culp Decorative Fabrics, which occurred in the first half of fiscal 2002. The company is optimistic, however, that gross profit margins in CDF can be improved significantly over the next one to two years. In order to achieve this margin improvement, management expects the key drivers will be (1) increasing the profitability of the current sales mix; (2) improving manufacturing performance, in terms of productivity and inventory obsolescence; and (3) modest sales growth.

Selling, General and Administrative Expenses (SG&A). SG&A expenses were $48.1 million for fiscal 2002 and decreased $2.3 million, or 4.6%, from fiscal 2001. The significant factors affecting the year to year comparisons were bad debt expense of $4.2 million in fiscal 2002 versus $309,000 in fiscal 2001 and incentive compensation expense of $1.8 million in fiscal 2002 versus $0.0 in fiscal 2001. Without considering these factors in both years, SG&A expenses were $42.1 million, or 11.1% of net sales, for fiscal 2002, compared with $50.0 million, or 12.2% of net sales, for fiscal 2001. This reflects a 15.8% decrease and primarily resulted from the company's decision to reduce SG&A expenses significantly as part of the 2001 restructuring plan.

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Interest Expense. Interest expense for fiscal 2002 declined from $9.1 million to $7.9 million due to lower average borrowings outstanding and lower average interest rates over the course of the fiscal year. Interest income increased due to the significant build up in cash and cash investments during the year, particularly in the fourth quarter.

Other Expense. Other expense for fiscal 2002 totaled $2.8 million compared with $3.3 million in the prior year. Goodwill amortization of $1.4 million, or $0.07 per share, is included in Other Expense in fiscal 2002 and fiscal 2001. With the adoption of SFAS No. 142 in the first quarter of fiscal 2003, the company will no longer record goodwill amortization.

Income Taxes. The effective tax rate for fiscal 2002 was 44.0% compared with 33.0% for the year-earlier period. The higher rate resulted from increased tax benefits in 2002 related to the company's loss in the U.S., including restructuring and related charges, and to a lower proportion of earnings from the company's Canadian subsidiary, as well as the recognition in 2001 of gain from terminated life insurance contracts. The income tax rate for fiscal 2002 on income before restructuring and related charges was 34.0%.

Net Income (Loss) Per Share. Diluted net loss per share for 2002 totaled $0.31 compared with net loss for 2001 of $0.74. Excluding restructuring and related charges, diluted net income per share for 2002 totaled $0.35 compared with a net loss for 2001 of $0.30.

2001 Compared with 2000

Net Sales. Net sales for 2001 decreased by $78.3 million, or 16.0%, compared with 2000. The company's sales of upholstery fabrics decreased 20.2% to $305.0 million and mattress ticking sales decreased 0.9% to $104.8 million. Key factors influencing the year-to-year comparison were the sharp, persistent weakness in consumer spending on home furnishings, especially in promotional price categories, and the strength in the U.S. dollar that had an adverse impact on exports. Culp's international sales declined 30.0% in 2001, following an industry-wide trend.

After a number of years of increasing sales, Culp Home Fashions (primarily mattress ticking) during 2001 recorded a decline in sales of 0.9%. The company believes that this decline was less than that experienced for the industry as a whole, which was affected by the slowdown in consumer spending.

Gross Profit and Cost of Sales. Gross profit declined 33.9% for fiscal 2001 and decreased as a percentage of net sales from 17.3% to 13.7%. The decline was due principally to lower sales volume that led to unfavorable cost variances in the company's upholstery fabrics operation. As discussed above, the company has taken steps to lower expenses by consolidating certain operations and reducing personnel.

Selling, General and Administrative Expenses. Selling, general and administrative expenses for 2001 decreased 16.0% from the prior year and accounted for 12.3% of sales for 2001 and 2000. Reflecting the momentum of the company's actions to reduce expenses, selling, general and administrative expenses for the fourth quarter declined 28.8% from the year-earlier period and, as a percentage of sales, declined from 11.5% to 10.5%.

Interest Expense. Net interest expense for 2001 declined from $9.5 million to $9.1 million due to lower average borrowings, partially offset by higher interest rates.

Other Expense. Other expense for 2001 totaled $3.3 million compared with $1.6 million in the prior year. The increase was principally due to lower investment income on assets related to the company's nonqualified deferred compensation plan, mark-to-market losses on foreign currency forward contracts for anticipated purchases in the Euro and mark-to-market losses on interest rate swaps that no longer serve as a hedge due to the repayment of debt.

Income Taxes. The effective tax rate for 2001 was 33.0% compared with 31.5% in the prior year. The lower rates for 2001 and 2000 as compared with the federal statutory rate of 35% were due principally to tax benefits related to the company's international sales and to a higher proportion of earnings from the company's Canadian subsidiary that is taxed at a lower effective rate.

Net Income (Loss) Per Share. Diluted net loss per share for 2001 totaled $0.74 compared with net income for 2000 of $0.80.

Liquidity and Capital Resources

Liquidity. Cash and cash investments as of April 28, 2002 increased to $32.0 million from $1.2 million at the end of fiscal 2001. This significant increase in cash reflects cash flow from operations of $42.2 million for fiscal 2002, which exceeded capital expenditures of $4.7 million, debt repayment of $3.2 million, and reduction of accounts payable for capital expenditures of $4.0 million.

Financing Arrangements. During February 2002, the company amended its $75 million term loan with its lenders to revise certain financial covenants so that a goodwill impairment charge, under the new Statement of Financial Accounting Standards No. 142, if any, would not inadvertently cause a loan covenant violation due only to changes in financial accounting standards. In exchange for these covenant changes, the company agreed to increase the interest rate paid on the term loan by 100 basis points. Therefore, the significant goodwill impairment charge of $23 to $27 million (on an after tax basis) expected to be recorded in the first quarter of fiscal 2003 will not cause any violation of its loan covenants.

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The company has reduced funded debt by $3.2 million or 2.9% from the end of the last fiscal year. Funded debt equals long-term debt plus current maturities. Funded debt was $108.5 million at April 28, 2002, compared with $111.7 million at the end of fiscal 2001. The company's funded debt-to-capital ratio was 47.7% at April 28, 2002, its lowest level since July 1997.

During fiscal 2001, the company amended its credit facility to include terms that restricted the payment of cash dividends and share repurchases, limited capital expenditures, increased the interest rate on its revolving credit facility and increased the letter of credit fees on its industrial revenue bonds (IRBs). This amended credit facility provided for a revolving loan commitment of $10 million, and expires on August 22, 2002. The company had no outstanding borrowings under the facility at the end of fiscal 2002. The company was in compliance with all covenants contained in its loan agreements as of April 28, 2002.

The company has received a loan commitment from its principal bank lender that provides, among other things, for (1) a two year credit facility starting at $36.1 million and reducing to $27 million as certain IRB repayments are made, (2) release of the collateral securing the facility, (3) lower interest rates based upon a pricing matrix, and (4) improved financial covenants. In exchange for these provisions, the company would agree, among other things, to repay approximately $20 million of its IRB debt by October 2002, and pay a credit facility fee. The company expects to close this new credit facility during the second quarter of fiscal 2003.

The company paid off $10.9 million of IRB debt in July 2002 and expects to pay another $8.0 million in September 2002.

The company 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.

Commitments

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

	2003	2004	2005	2006	2007	Thereafter	Total
Capital expenditure commitments	$ 1,710	$ 0	$ 0	$ 0	$ 0	$ 0	$ 1,710
Accounts payable – capital expenditures	951	429	0	0	0	0	1,380
Operating leases	5,023	3,898	2,856	1,885	1,264	1,167	16,093
Funded debt	1,483	463	463	11,463	11,000	83,612	108,484
Total	$ 9,167	$ 4,790	$ 3,319	$ 13,348	$ 12,264	$ 84,779	$ 127,667

Note: Payment Obligations by Fiscal Year Ending April

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. Capital expenditures, primarily for modernization, totaled $4.7 million for 2002 compared with $8.1 million for 2001. The company anticipates capital spending of approximately $8.5 million in 2003.

The company's principal sources of liquidity are (1) cash and cash investments, (2) cash flows from operations and (3) funds available under its credit facilities. The company believes these sources will be sufficient for the foreseeable future to meet its needs for normal working capital and capital spending as permitted under the terms of the company's loan agreements.

Inflation

The cost of certain of the company's raw materials, principally fibers from petroleum derivatives, and utility/energy costs have increased somewhat; but overall operating expenses are remaining generally stable. Factors that reasonably can be expected to influence margins in the future include changes in raw material prices, trends in other operating costs and overall competitive conditions.

Seasonality

The company's business is slightly 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

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

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 they have a high degree of leverage and substantial debt load. As of April 28, 2002, accounts receivable from residential and contract furniture manufacturers totaled approximately $33.3 million and from bedding manufacturers approximately $13.6 million. Approximately $10.3 million of the company's total accounts receivable was due from international customers. Additionally, as of April 28, 2002, the aggregate accounts receivable balance of the company's ten largest customers was $17.6 million, or 39% 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 substantially higher credit losses in fiscal 2002. Bad debt expense for fiscal 2002 totaled $4.2 million compared to $309,000 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 as a make-to-order and make-to-stock business. 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.

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

The company's assessment at April 28, 2002 and April 29, 2001 indicated that net undiscounted future operating cash flows of the company's businesses were sufficient to recover the carrying amount of the long-lived assets under SFAS No. 121.

In August 2001, the Financial Accounting Standards Board ("FASB") issued SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets.* 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 No. 121. The company is required to adopt the provisions of this statement for fiscal 2003. Adoption of SFAS No. 144 is not expected to have significant impact on the company's financial position, results of operations or cash flows.

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 April 28, 2002 totaled $47.1 million and related to the following divisions: Culp Decorative Fabrics- $42.3 million, Culp Yarn - $0.7 million and Culp Home Fashions - $4.1 million. The company's assessment at April 28, 2002 and April 29, 2001 indicated that undiscounted 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 started 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 the reporting unit's carrying value to 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 a change in accounting principle, and that the income per share effects of the accounting change be separately disclosed.

In response to this requirement, management engaged a business valuation specialist 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 recent operating performance for fiscal 2001 and 2002, which had been significantly below its historical level of profitability. As a result of the adoption of SFAS No. 142, the Company expects to record a special (non-cash) goodwill impairment charge in the range of $23 million to $27 million (on an after tax basis) related to the goodwill associated with its Culp Decorative Fabrics division.

Goodwill amortization of $1.4 million was reflected for the fiscal years ended April 28, 2002, April 29, 2001 and April 30, 2000. As of April 29, 2002, goodwill will no longer be amortized.

Forward-Looking Information

This annual report to shareholders and the company's Annual Report on Form 10-K contain statements that may be deemed "forward-looking statements" within the meaning of the federal securities laws, including the Private Securities Litigation Reform Act of 1995. 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 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.

Consolidated Balance Sheets

April 28, 2002 and April 29, 2001 *(dollars in thousands, except share data)*	2002	2001
ASSETS		
current assets:		
cash and cash investments	$ 31,993	1,207
accounts receivable	43,366	57,849
inventories	57,899	59,997
other current assets	13,413	7,856
total current assets	146,671	126,909
property, plant and equipment, net	89,772	112,322
goodwill	47,083	48,478
other assets	4,187	1,871
total assets	$ 287,713	289,580
LIABILITIES AND SHAREHOLDERS' EQUITY		
current liabilities:		
current maturities of long-term debt	$ 1,483	2,488
accounts payable	24,327	27,371
accrued expenses	18,905	17,153
income taxes payable	0	1,268
total current liabilities	44,715	48,280
long-term debt	107,001	109,168
deferred income taxes	16,932	10,330
total liabilities	168,648	167,778
commitments and contingencies (note 11)		
shareholders' equity:		
preferred stock, $.05 par value, authorized 10,000,000 shares	0	0
common stock, $.05 par value, authorized 40,000,000 shares, issued and outstanding 11,319,584 at April 28, 2002 and 11,221,158 at April 29, 2001	566	561
capital contributed in excess of par value	37,606	36,915
retained earnings	80,886	84,326
accumulated other comprehensive income	7	0
total shareholders' equity	119,065	121,802
total liabilities and shareholders' equity	$ 287,713	289,580

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

Consolidated Statements of Income (Loss)

For the years ended April 28, 2002, April 29, 2001
and April 30, 2000

(dollars in thousands, except per share data)	2002	2001	2000
net sales	$ 381,878	409,810	488,079
cost of sales	319,021	353,823	403,414
gross profit	62,857	55,987	84,665
selling, general and administrative expenses	48,059	50,366	59,935
restructuring expense	10,368	5,625	0
income (loss) from operations	4,430	(4)	24,730
interest expense	7,907	9,114	9,521
interest income	(176)	(46)	(51)
other expense	2,839	3,336	1,566
income (loss) before income taxes	(6,140)	(12,408)	13,694
income taxes	(2,700)	(4,097)	4,314
net income (loss)	$ (3,440)	(8,311)	9,380
net income (loss) per share:			
basic	$ (0.31)	(0.74)	0.81
diluted	$ (0.31)	(0.74)	0.80

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

Consolidated Statements of Shareholders' Equity

For the years ended April 28, 2002, April 29, 2001 and April 30, 2000 *(dollars in thousands, except share data)*	common stock shares	common stock amount	capital contributed in excess of par value	retained earnings	accumulated other comprehensive income	total shareholders' equity
balance, May 2, 1999	12,079,171	$604	37,966	89,858		128,428
cash dividends ($0.14 per share)				(1,611)		(1,611)
net income				9,380		9,380
common stock issued in connection with stock option plans	13,813	1	78			79
common stock purchased	(884,264)	(45)	(2,778)	(3,813)		(6,636)
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				(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

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

Consolidated Statements of Cash Flows

For the years ended April 28, 2002, April 29, 2001
and April 30, 2000

(dollars in thousands)	2002	2001	2000
cash flows from operating activities:			
net income (loss)	$ (3,440)	(8,311)	9,380
adjustments to reconcile net income (loss) to net cash			
provided by operating activities:			
depreciation	17,274	19,391	19,462
amortization of intangible assets	1,575	1,591	1,596
amortization of stock based compensation	144	360	250
provision for deferred income taxes	(1,452)	(5,394)	2,176
restructuring expense	10,368	5,625	0
changes in assets and liabilities:			
accounts receivable	14,483	17,374	(4,720)
inventories	2,098	14,474	(7,401)
other current assets	2,504	827	(16)
other assets	(311)	171	(770)
accounts payable	998	(4,530)	1,029
accrued expenses	(796)	(6,767)	890
income taxes payable	(1,268)	1,268	0
net cash provided by operating activities	42,177	36,079	21,876
cash flows from investing activities:			
capital expenditures	(4,729)	(8,050)	(22,559)
purchase of restricted investments	0	0	(40)
sale of investments related to deferred compensation plan	0	4,547	0
sale of restricted investments	0	0	3,380
net cash used in investing activities	(4,729)	(3,503)	(19,219)
cash flows from financing activities:			
proceeds from issuance of long-term debt	0	564	9,543
principal payments of long-term debt	(3,172)	(26,394)	(14,047)
cash dividends paid	0	(1,177)	(1,611)
proceeds from common stock issued	552	17	21
payments to acquire common stock	0	0	(6,636)
change in accounts payable - capital expenditures	(4,042)	(5,386)	10,571
net cash used in financing activities	(6,662)	(32,376)	(2,159)
increase in cash and cash investments	30,786	200	498
cash and cash investments, beginning of year	1,207	1,007	509
cash and cash investments, end of year	$ 31,993	1,207	1,007

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

Notes to Consolidated Financial Statements

1. GENERAL AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation – The consolidated financial statements include the accounts of the company and its subsidiary, which is wholly-owned. All significant intercompany balances and transactions are eliminated in consolidation.

Description of Business – The company primarily manufactures and markets upholstery fabrics and mattress fabrics ("ticking") primarily for the furniture and bedding industries, with the majority of its business conducted in North America.

Fiscal Year – The company's fiscal year is the 52 or 53 week period ending on the Sunday closest to April 30. Fiscal years 2002, 2001 and 2000 included 52 weeks.

Cash and Cash Investments – Cash and cash investments include demand deposit and money market accounts. For purposes of the consolidated statements of cash flows, the company considers all highly liquid instruments with original maturities of three months or less to be cash equivalents.

Accounts Receivable – Substantially all of the company's accounts receivable are due principally from manufacturers in the markets noted above. The company grants credit to customers, a substantial number of which are located in North America and generally does not require collateral. Management continuously performs credit evaluations of its customers, considering numerous inputs including financial position, past payment history, cashflows and management ability, historical loss experience and economic conditions and prospects. While management believes that adequate allowances for doubtful accounts have been provided in the consolidated financial statements, it is possible that the company could experience additional unexpected credit losses.

Inventories – Principally 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 inventory aging. While management believes that adequate write-downs for inventory obsolescence have been made in the consolidated financial statements, consumer tastes and preferences will continue to change and the company could experience additional inventory write-downs in the future.

Property, Plant and Equipment – Property, plant and equipment is recorded at cost. Depreciation is generally computed using the straight-line method over the estimated useful lives of the respective assets. Major renewals and betterments are capitalized. Maintenance, repairs and minor renewals are expensed as incurred. When properties are retired or otherwise disposed of, the related cost and accumulated depreciation are removed from the accounts. Amounts received on disposal less the book value of assets sold are charged or credited to income (loss).

In accordance with SFAS No. 121, *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of*, management reviews 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. Management's review for impairment of long-lived assets will be impacted in fiscal 2003 by the provisions of a new accounting pronouncement issued during fiscal 2002 (see note 19).

Interest costs of $36,000, $99,000 and $146,000 incurred during the years ended April 28, 2002, April 29, 2001 and April 30, 2000, respectively, for the construction of qualifying fixed assets were capitalized and are being amortized over the related assets' estimated useful lives.

Foreign Currency Translation – The United States dollar is the functional currency for the company's Canadian subsidiary. Translation gains (losses) for this subsidiary of ($33,000), $37,000 and $57,000 are included in the other expense line item in the consolidated statements of income (loss) for the fiscal years ended April 28, 2002, April 29, 2001 and April 30, 2000, respectively.

Goodwill and Other Intangible Assets – Goodwill, which represents the unamortized excess of the purchase price over the fair values of the net assets acquired, is being amortized using the straight-line method over 40 years. The company assesses the recoverability of goodwill by determining whether the amortization of the balance over its remaining life can be recovered through undiscounted future operating cash flows of the acquired businesses. The accounting for goodwill will be impacted during fiscal 2003 by the provisions of a new accounting pronouncement issued during fiscal 2002 (see note 19).

Other intangible assets are included in other assets and consist principally of debt issue costs. Amortization is computed using the straight-line method over the respective terms of the debt agreements.

Notes to Consolidated Financial Statements

Income Taxes – Deferred taxes are recognized for the temporary differences between the financial statement carrying amounts and the tax bases of the company's assets and liabilities and operating loss and tax credit carryforwards at income tax rates expected to be in effect when such amounts are realized or settled. The effect on deferred taxes of a change in tax rates is recognized in income (loss) in the period that includes the enactment date.

No provision is made for income taxes which may be payable if undistributed income of the company's Canadian subsidiary were to be paid as dividends to the company, since the company intends that such earnings will continue to be invested. At April 28, 2002, the amount of such undistributed income was $25.2 million. Foreign tax credits may be available as a reduction of United States income taxes in the event of such distributions.

Revenue Recognition – Revenue is recognized upon shipment, when title and risk of loss passes to the customer. Provision is made currently for estimated product returns, claims and allowances. Management considers historical claims and return experience, among other things, when establishing the allowance for returns and allowances. While management believes that adequate allowance has been established for returns and allowances, it is possible that the company could experience levels higher than provided for in the consolidated financial statements.

Stock Option Plans – SFAS No. 123, *Accounting for Stock-Based Compensation*, requires disclosure of the fair value and other characteristics of stock options (see note 12). The company has chosen under the provisions of SFAS No. 123 to continue using the intrinsic-value method of accounting for employee stock-based compensation in accordance with Accounting Principles Board ("APB") Opinion No. 25, *Accounting for Stock Issued to Employees*.

Fair Value of Financial Instruments – The carrying amount of cash and cash investments, accounts receivable, other current assets, accounts payable and accrued expenses approximates fair value because of the short maturity of these financial instruments.

The fair value of the company's long-term debt is estimated by discounting the future cash flows at rates currently offered to the company for similar debt instruments of comparable maturities. The fair value of the company's long-term debt is approximately $104 million at April 28, 2002.

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

2. RESTRUCTURING

In April 2002, management approved a plan to exit the wet printed flock upholstery fabric business and has been actively seeking to sell the assets related to this product line. The exit plan involved closing a printing facility and flocking operation within the Culp Velvets/Prints division, reduction in related selling and administrative expenses and termination of 25 employees. The total charge for the exit plan was $9.7 million, of which approximately $8.2 million represented non-cash items. Of the total charge, $9.1 million was recorded in the restructuring expense line item and $619,000, related to inventory write-downs, was recorded in the cost of sales line item. During the fiscal year ended April 28, 2002, sales of the wet printed flock product contributed $17.1 million, or 4.5%, of the company's total sales and resulted in an operating loss of approximately $2.1 million.

The following summarizes the restructuring charge and inventory write-downs (amounts in thousands):

	Charges	Non-cash Write-downs	Paid in 2002	April 28, 2002 Reserve Balance
Non-cash write-downs of fixed assets to net realizable value	$ 7,613	7,613	–	–
Non-cash write-downs of inventories	619	619	–	–
Employee termination benefits	842	-	5	837
Lease termination and other exit costs	610	-	5	605
Total	$ 9,684	8,232	10	1,442

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. The 2001 charge from the restructuring and related costs was $7.4 million, approximately $3.4 million of which represented non-cash items. Of the total charge, $5.6 million was recorded in the restructuring expense line item and $874,000, related to inventory write-downs, and $931,000, related to equipment relocation costs, were recorded in the cost of sales line item. The

Notes to Consolidated Financial Statements

2002 charge from restructuring and related expenses was $2.5 million, approximately $160,000 of which represented the non-cash impairment of property, plant and equipment. Of the total charge, $1.3 million was included in the restructuring expense line item and $1.2 million, related to equipment relocation costs, was recorded in the cost of sales line item.

The following summarizes the fiscal 2001 restructuring and related charges (amounts in thousands):

	Charges	Non-cash Write-downs	Paid in 2001	April 29, 2001 Reserve Balance
Non-cash write-downs of fixed assets to net realizable value	$ 2,540	2,540	–	–
Non-cash write-downs of inventories	874	874	–	–
Employee termination benefits	969	–	491	478
Lease termination and other exit costs	2,116	–	211	1,905
Machinery and equipment relocation costs	931	–	931	–
Total	$ 7,430	3,414	1,633	2,383

The following summarizes the fiscal 2002 restructuring and related charges (amounts in thousands):

	April 29, 2001 Reserve Balance	2002 Charges	Non-cash Write-downs	Paid in 2002	April 28, 2002 Reserve Balance
Non-cash write-downs of fixed assets to net realizable value	–	160	160	–	–
Employee termination benefits	478	925	–	891	512
Lease termination and other exit costs	1,905	218	–	1,632	491
Machinery and equipment relocation costs	-	1,206	–	1,206	–
Total	$ 2,383	2,509	160	3,729	1,003

3. ACCOUNTS RECEIVABLE

A summary of accounts receivable follows:

(dollars in thousands)	2002	2001
customers	$ 46,886	60,218
allowance for doubtful accounts	(2,465)	(1,282)
reserve for returns and allowances	(1,055)	(1,087)
	$ 43,366	57,849

4. INVENTORIES

A summary of inventories follows:

(dollars in thousands)	2002	2001
inventories on the FIFO cost method		
raw materials	$ 27,081	31,489
work-in-process	3,830	4,748
finished goods	27,233	24,148
total inventories on the FIFO cost method	58,144	60,385
adjustments of certain inventories to the LIFO cost method	(245)	(388)
	$ 57,899	59,997

5. PROPERTY, PLANT AND EQUIPMENT

A summary of property, plant and equipment follows:

(dollars in thousands)	depreciable lives (in years)	2002	2001
land and improvements	10	$ 2,213	2,243
buildings and improvements	7-40	30,325	30,620
leasehold improvements	7-10	2,537	2,534
machinery and equipment	3-12	175,972	200,976
office furniture and equipment	3-10	11,370	11,517
capital projects in progress		987	1,125
		223,404	249,015
accumulated depreciation		(133,632)	(136,693)
		$ 89,772	112,322

In connection with the restructurings in fiscal 2002 and 2001 (see note 2), property, plant and equipment with a carrying value of $9.9 million and $2.8 million, respectively, was written down to its net realizable value of approximately $2.3 million and $135,000 and reclassified to assets held for sale, which is included in the other assets line item in the consolidated balance sheets.

Notes to Consolidated Financial Statements

6. GOODWILL

A summary of goodwill follows:

(dollars in thousands)	2002	2001
goodwill	$ 55,547	55,547
accumulated amortization	(8,464)	(7,069)
	$ 47,083	48,478

7. ACCOUNTS PAYABLE

A summary of accounts payable follows:

(dollars in thousands)	2002	2001
accounts payable - trade	$ 22,947	21,949
accounts payable - capital expenditures	1,380	5,422
	$ 24,327	27,371

8. ACCRUED EXPENSES

A summary of accrued expenses follows:

(dollars in thousands)	2002	2001
compensation, commissions and related benefits	$ 10,122	7,806
interest	1,111	1,367
restructuring	2,445	2,383
other	5,227	5,597
	$ 18,905	17,153

9. INCOME TAXES

A summary of income taxes (benefits) follows:

(dollars in thousands)	2002	2001	2000
current			
federal	$ (2,655)	(315)	657
state	0	11	45
Canadian	1,407	1,601	1,436
	(1,248)	1,297	2,138
deferred			
federal	(635)	(4,565)	1,514
state	(600)	(905)	378
Canadian	(217)	76	284
	(1,452)	(5,394)	2,176
	$ (2,700)	(4,097)	4,314

Income before income taxes related to the company's Canadian operation for the years ended April 28, 2002, April 29, 2001, and April 30, 2000 was $4,000,000, $4,400,000 and $4,900,000, respectively.

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

	2002	2001	2000
federal income tax rate	(35.0)%	(35.0)%	35.0%
state income taxes, net of federal income tax benefit	(6.3)	(4.7)	2.0
exempt income of foreign sales corporation	(0.8)	(0.4)	(3.6)
gains on life insurance contracts	0.0	5.0	(1.5)
other	(1.9)	2.1	(0.4)
	(44.0)%	(33.0)%	31.5%

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and liabilities consist of the following:

(dollars in thousands)	2002	2001
deferred tax liabilities:		
property, plant and equipment, net	$ (13,783)	(15,753)
goodwill	(4,701)	(3,938)
other	(875)	(1,095)
total deferred tax liabilities	(19,359)	(20,786)
deferred tax assets:		
accounts receivable	1,188	724
inventories	2,904	3,295
compensation	783	556
liabilities and reserves	1,705	2,021
alternative minimum tax	1,416	1,061
net operating loss carryforwards	3,878	8,028
gross deferred tax assets	11,874	15,685
valuation allowance	0	0
total deferred tax assets	11,874	15,685
	$ (7,485)	(5,101)

Deferred taxes are classified in the accompanying consolidated balance sheet captions as follows:

(dollars in thousands)	2002	2001
other current assets	$ 9,447	5,229
deferred income taxes	(16,932)	(10,330)
	$ (7,485)	(5,101)

Notes to Consolidated Financial Statements

At April 28, 2002, the company had an alternative minimum tax credit carryforward of approximately $1,416,000 for federal income tax purposes. Federal and state net operating loss carryforwards with related tax benefits of $3,878,000 at April 28, 2002 expire in varying amounts through fiscal 2022. The company believes that it is more likely than not that the results of future operations will generate sufficient taxable income to realize the existing deferred tax assets.

Income tax refunds, net of income tax payments, were $2,280,000 in 2002 and $369,000 in 2001. Income taxes paid, net of income tax refunds, were $2,027,000 in 2000.

10. LONG-TERM DEBT

A summary of long-term debt follows:

(dollars in thousands)	2002	2001
unsecured notes	$ 75,000	75,000
industrial revenue bonds	30,612	30,612
canadian government loan	1,852	2,347
revolving credit agreement	0	999
obligation to sellers	1,020	2,698
	108,484	111,656
current maturities	(1,483)	(2,488)
	$ 107,001	109,168

The unsecured notes have an average remaining term of 6 years. The principal payments are due from March 2006 to March 2010 with interest payable semi-annually. The note purchase agreements were amended in February 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 for a revolving loan commitment of $10,000,000. Borrowings under the Credit Agreement generally carry interest at the London Interbank Offered Rate plus an adjustable margin based on the company's debt/EBITDA ratio as defined by the agreement. The Credit Agreement requires payment of a quarterly facility fee. The Credit Agreement was amended in May 2002 to extend the termination date from June 2002 to August 2002.

The company's $2,000,000 revolving line of credit expires in August 2002. Borrowings under the revolving line of credit carry interest at the same rate as described above for the revolving credit agreement. At April 28, 2002, no borrowings were outstanding under the revolving line of credit.

The industrial revenue bonds (IRB) 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. At April 28, 2002, the bonds bear interest at a rate of 5.35%, 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 April 28, 2002, the company was in compliance with these financial covenants.

The principal payment requirements of long-term debt during the next five years are: 2003 – $1,483,000; 2004 – $463,000; 2005 – $463,000; 2006 – $11,463,000; and 2007 – $11,000,000.

Interest paid during 2002, 2001 and 2000 totaled $8,199,000, $8,950,000, and $9,920,000, respectively.

11. COMMITMENTS AND CONTINGENCIES

The company leases certain office, manufacturing and warehouse facilities and equipment, primarily computers and vehicles, under noncancellable operating leases. Lease terms related to real estate range from one to ten years with renewal options for additional periods ranging from two to ten years. The leases generally require the company to pay real estate taxes, maintenance, insurance and other expenses. Rental expense for operating leases was $6,605,000 in 2002; $7,907,000 in 2001; and $8,162,000 in 2000. Future minimum rental commitments for noncancellable operating leases are $5,023,000 in 2003; $3,898,000 in 2004; $2,856,000 in 2005; $1,885,000 in 2006; $1,264,000 in 2007; and $1,167,000 in later years.

The company is involved in several legal proceedings and claims which have arisen in the ordinary course of its business. These actions, when ultimately concluded and settled, will not, in the opinion of management, have a material adverse effect upon the financial position, results of operations or cash flows of the company.

The company has outstanding capital expenditure commitments of approximately $1,710,000 as of April 28, 2002.

12. STOCK OPTION PLANS

The company has a fixed stock option plan under which options to purchase common stock may be granted to officers, directors and key employees. At April 28, 2002, 1,038,750 shares of common stock were authorized for issuance under the plan. Of this total, 115,875 remain available for grant. Options are generally exercisable from one to five years after the date of grant and generally expire five to ten years after the date of grant.

Notes to Consolidated Financial Statements

No compensation cost has been recognized for this stock option plan as options are granted under the plan at an option price not less than fair market value at the date of grant.

A summary of the status of the plan as of April 28, 2002, April 29, 2001 and April 30, 2000 and changes during the years ended on those dates is presented below:

	2002		2001		2000	
	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
Outstanding at beginning of year	788,926	$ 8.87	661,114	$ 9.98	622,052	$ 10.04
Granted	290,375	4.07	130,250	3.11	49,375	8.80
Exercised	(91,426)	4.45	(2,438)	2.82	(7,313)	2.82
Canceled/expired	(65,000)	9.86	0	0.00	(3,000)	20.25
Outstanding at end of year	922,875	7.73	788,926	8.87	661,114	9.98
Options exercisable at year-end	491,625	10.64	549,926	10.41	461,114	10.88
Weighted-average fair value of options granted during the year	$ 2.14		$ 1.60		$ 3.54	

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding at 4/28/02	Weighted-Avg. Remaining Contractual Life	Weighted-Avg. Exercise Price	Number Exercisable at 4/28/02	Weighted-Avg. Exercise Price
$ 3.03 - $ 3.05	121,875	4.3 years	$ 3.03	35,625	$ 3.04
$ 4.00 - $ 7.50	311,000	5.3	4.30	30,000	6.17
$ 7.63 - $ 7.63	160,000	6.4	7.63	96,000	7.63
$ 7.75 - $12.75	224,375	3.5	10.07	224,375	10.07
$ 13.34 - $20.94	105,625	5.0	18.43	105,625	18.43
	922,875	4.9	$ 7.73	491,625	$ 10.64

During fiscal 1995, the company adopted a stock option plan which provided for the one-time grant to officers and certain senior managers of options to purchase 121,000 shares of the company's common stock at $.05 (par value) per share. As of April 28, 2002, the 51,500 options outstanding under the plan have exercise prices of $0.05 and a weighted-average remaining contractual life of 1.7 years. Options exercised during fiscal 2002, 2001 and 2000 were 7,000, 0 and 6,500, respectively. As all outstanding options under this plan have been fully vested, no compensation expense was recorded in fiscal 2002, 2001 and 2000.

During September 1997, the company's shareholders approved the 1997 option plan which provides for the one-time grant to certain officers and senior managers of options to purchase 106,000 shares of the company's common stock at $1.00 per share. Options under the plan are generally exercisable on January 1, 2006. As of April 28, 2002, the 89,000 options outstanding under the plan have exercise prices of $1.00 and a weighted-average remaining contractual life of 4.7 years. Options exercised during fiscal 2002, 2001 and 2000 were 0, 10,000 and 0, respectively. During fiscal 2002, 2001 and 2000, the compensation expense recorded under APB Opinion No. 25 was $144,000, $360,000 and $250,000, respectively.

Had compensation cost for the fixed stock option plan with 922,875 options outstanding at April 28, 2002 and the 1997 stock-based compensation plan been determined consistent with

Notes to Consolidated Financial Statements

SFAS No. 123, the company's net income (loss), basic net income (loss) per share and diluted net income (loss) per share would have been changed to the pro forma amounts indicated below:

(in thousands, except per share data)		2002	2001	2000
Net income (loss)	As reported	$ (3,440)	(8,311)	9,380
	Pro forma	(3,722)	(8,548)	9,145
Net income (loss) per share, basic	As reported	$ (0.31)	(0.74)	0.81
	Pro forma	(0.33)	(0.76)	0.79
Net income (loss) per share, diluted	As reported	$ (0.31)	(0.74)	0.80
	Pro forma	(0.33)	(0.76)	0.78

The fair value of each option grant is estimated on the date of grant using the Black Scholes option-pricing model with the following weighted-average assumptions used for grants in 2002, 2001 and 2000, respectively: dividend yield of 0%, 0% and 1.5%; risk-free interest rates of 4.8%, 4.6% and 5.7%; expected volatility of 62%, 54% and 49%; and expected lives of 5 years, 5 years and 4 years.

13. DERIVATIVES

On April 30, 2001, the company adopted the provisions of 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 Shareholders' Equity, and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. The ineffective portion of a derivative instrument's change in fair value is immediately recognized in earnings. Adoption of SFAS 133 did not have a significant impact on the company's financial position, results of operations or cash flows.

The company uses foreign exchange option and forward contracts to manage the exposure related to forecasted purchases of inventories denominated in the EURO. The company utilizes cash flow hedge accounting for these contracts. At April 28, 2002, the duration of these contracts is twelve months.

The company also uses foreign exchange option and forward contracts to manage the exposure related to firm commitments to purchase fixed assets denominated in the EURO. The company has chosen not to utilize hedge accounting for these contracts, and accordingly changes in the fair value of these contracts are recorded currently in earnings.

From time to time, the company used interest rate swap agreements to effectively fix the interest rates on certain variable rate debt. For fiscal 2000 and prior periods, net amounts paid or received were reflected as adjustments to interest expense. During 2001, the interest rate swaps no longer served as a hedge due to the repayment of debt; consequently the interest rate swaps were recorded at fair value. During 2002, the company paid $105,000 to terminate the interest rate swap agreements.

14. NET INCOME (LOSS) PER SHARE

Basic net income (loss) per share is computed using the weighted-average number of shares outstanding during the period. Diluted net income per share uses the weighted-average number of shares outstanding during the period plus the dilutive effect of stock options calculated using the treasury stock method. Weighted average shares used in the computation of basic and diluted net income (loss) per share are as follows:

(in thousands)	2002	2001	2000
Weighted average common shares outstanding, basic	11,230	11,210	11,580
Effect of dilutive stock options	0	0	101
Weighted average common shares outstanding, diluted	11,230	11,210	11,681

Options to purchase 608,750 shares, 769,926 shares, and 718,614 shares of common stock were not included in the computation of diluted net income (loss) per share for fiscal 2002, 2001 and 2000, respectively, because the exercise price of the options was greater than the average market price of the common shares.

15. BENEFIT PLANS

The company has a defined contribution plan which covers substantially all employees and provides for participant contributions on a pre-tax basis and discretionary matching

Notes to Consolidated Financial Statements

contributions by the company, which are determined annually. Company contributions to the plan were $1,979,000 in 2002; $2,301,000 in 2001; and $2,423,000 in 2000.

In addition to the defined contribution plan, the company had a nonqualified deferred compensation plan covering officers and certain other associates. During January 2001, the company terminated the nonqualified deferred compensation plan. As a result, the company surrendered the life insurance contracts related to the nonqualified plan in order to pay the participants. The net proceeds from those life insurance contracts totaled $4,547,000.

16. SEGMENT INFORMATION

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

International sales, of which 91%, 91% and 94% were denominated in U.S. dollars in 2002, 2001 and 2000, respectively, accounted for 14%, 19% and 23% of net sales in 2002, 2001 and 2000, respectively and are summarized by geographic area as follows:

(dollars in thousands)	2002	2001	2000
North America (excluding USA)	$ 32,033	34,049	36,032
Europe	2,291	6,262	16,351
Middle East	6,226	17,831	32,929
Australia, New Zealand and Asia	10,703	15,497	19,102
All other areas	2,248	4,185	6,690
	$ 53,501	77,824	111,104

One customer represented approximately 13% and 11% of consolidated net sales for 2002 and 2001, respectively. In 2000, no customer represented over 10% of consolidated net sales. In addition, company assets located outside North America are not material for any of the three years presented.

The company internally manages and reports selling, general and administrative expenses, interest expense, interest income, other expense and income taxes on a total company basis. Thus, profit by business segment represents gross profit. In addition, the company internally manages and reports cash and cash 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 are as follows:

(dollars in thousands)	2002	2001	2000
Net sales			
Upholstery Fabrics	$ 276,930	305,012	382,310
Mattress Ticking	104,948	104,798	105,769
	$ 381,878	409,810	488,079
Gross profit			
Upholstery Fabrics	$ 33,648	29,511	58,547
Mattress Ticking	29,209	26,476	26,118
	$ 62,857	55,987	84,665

Identifiable assets, including accounts receivable, inventories and goodwill, for the company's operating segments are as follows:

(dollars in thousands)	2002	2001	2000
Identifiable Assets			
Upholstery Fabrics	$ 117,379	47,129 (1)	60,305 (1)
Mattress Ticking	30,969	12,868 (1)	14,166 (1)
	$ 148,348	59,997	74,471

(1) Includes inventory only for 2001 and 2000. Inventory by operating segment for fiscal 2002: $44,453 for Upholstery Fabrics and $13,446 for Mattress Ticking.

17. RELATED PARTY TRANSACTIONS

A director of the company is also an officer and director of a major customer of the company. The amount of sales to this customer was approximately $48,418,000 in 2002; $45,230,000 in 2001; and $39,479,000 in 2000. The amount due from this customer at April 28, 2002 was approximately $2,177,000 and at April 29, 2001 was approximately $5,399,000.

Rents paid to entities owned by certain shareholders and officers of the company and their immediate families were approximately $726,000 in 2002 and $695,000 in 2001 and 2000.

Notes to Consolidated Financial Statements

18. COMPREHENSIVE INCOME (LOSS)

Comprehensive income (loss) is the total of net income (loss) and other changes in equity, except those resulting from investments by shareholders and distributions to shareholders not reflected in net income (loss).

A summary of comprehensive income (loss) follows:

(dollars in thousands)	2002	2001	2000
Net income (loss)	$ (3,440)	(8,311)	9,380
Gain on foreign exchange options, net of taxes of $4	7	0	0
	$ (3,433)	(8,311)	9,380

19. RECENTLY ISSUED ACCOUNTING STANDARDS

In July 2001, the Financial Accounting Standards Board ("FASB") issued SFAS No. 142, *Goodwill and Other Intangible Assets.* SFAS No. 142 requires that goodwill and intangible assets with indefinite useful lives no longer be amortized, but instead be tested for impairment at least annually. Intangible assets with definite useful lives will continue to be amortized over their respective estimated useful lives. The company is required to adopt the provisions of this statement for fiscal 2003. As a result of this adoption, the company expects to record a goodwill impairment charge in the range of $23 million to $27 million, net of taxes.

In August 2001, the Financial Accounting Standards Board ("FASB") issued SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets.* 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 No. 121. The company is required to adopt the provisions of this statement for fiscal 2003. Adoption of SFAS No. 144 is not expected to have a significant impact on the company's financial position, results of operations or cash flows.

Selected Quarterly Data

(amounts in thousands, except per share amounts)	fiscal 2002 4th quarter	fiscal 2002 3rd quarter	fiscal 2002 2nd quarter	fiscal 2002 1st quarter	fiscal 2001 4th quarter	fiscal 2001 3rd quarter	fiscal 2001 2nd quarter	fiscal 2001 1st quarter
INCOME STATEMENT DATA								
net sales	$ 108,397	90,618	96,400	86,463	101,071	95,880	110,981	101,878
cost of sales	85,379	77,110	80,858	75,674	85,978	86,047	94,094	87,704
gross profit	23,018	13,508	15,542	10,789	15,093	9,833	16,887	14,174
SG & A expenses	14,236	11,038	11,550	11,235	10,617	12,480	13,491	13,778
restructuring expense	9,065	0	0	1,303	3,121	2,504	0	0
income (loss) from operations	(283)	2,470	3,992	(1,749)	1,355	(5,151)	3,396	396
interest expense	2,056	1,820	1,963	2,068	2,284	2,222	2,285	2,323
interest income	(77)	(42)	(34)	(23)	(6)	(18)	(15)	(7)
other expense	1,067	435	765	572	1,209	811	575	741
income (loss) before income taxes	(3,329)	257	1,298	(4,366)	(2,132)	(8,166)	551	(2,661)
income taxes	(1,744)	87	441	(1,484)	(705)	(2,696)	209	(905)
net income (loss)	(1,585)	170	857	(2,882)	(1,427)	(5,470)	342	(1,756)
EBITDA (3)	$ 13,068	6,862	8,315	4,731	10,363	2,536	8,330	5,211
depreciation	4,060	4,344	4,397	4,473	4,610	4,738	4,983	5,060
cash dividends	0	0	0	0	0	392	393	392
weighted average shares outstanding	11,255	11,221	11,221	11,221	11,212	11,211	11,209	11,209
weighted average shares outstanding, assuming dilution	11,255	11,304	11,281	11,221	11,212	11,211	11,270	11,209
PER SHARE DATA								
net income (loss) - basic	$ (0.14)	0.02	0.08	(0.26)	(0.13)	(0.49)	0.03	(0.16)
net income (loss) - diluted	(0.14)	0.02	0.08	(0.26)	(0.13)	(0.49)	0.03	(0.16)
cash dividends	0	0	0	0	0	0.035	0.035	0.035
book value	10.52	10.62	10.68	10.59	10.85	10.85	11.37	11.37
BALANCE SHEET DATA								
operating working capital (6)	$ 76,938	84,233	84,346	86,586	90,475	94,546	106,607	108,509
property, plant and equipment, net	89,772	102,547	105,697	109,417	112,322	116,207	120,023	123,636
total assets	287,713	276,781	283,817	281,058	289,580	302,918	324,412	326,483
capital expenditures	1,336	1,105	686	1,602	1,518	2,873	1,370	2,289
long-term debt	107,001	106,960	107,447	108,522	109,168	119,213	125,079	135,150
funded debt (1)	108,484	110,087	110,583	110,652	111,656	121,372	126,757	136,828
shareholders' equity	119,065	120,013	119,838	118,809	121,802	121,586	127,441	127,492
capital employed (4)	227,549	230,999	230,421	229,461	233,458	242,958	254,198	264,320
RATIOS & OTHER DATA								
gross profit margin	21.2%	14.9%	16.1%	12.5%	14.9%	10.3%	15.2%	13.9%
operating income (loss) margin	(0.3)	2.7	4.1	(2.0)	1.3	(5.4)	3.1	0.4
net income (loss) margin	(1.5)	0.2	0.9	(3.3)	(1.4)	(5.7)	0.3	(1.7)
EBITDA margin (3)	12.1	7.6	8.6	5.5	10.3	2.6	7.5	5.1
effective income tax rate	52.4	34.0	34.0	34.0	33.1	33.0	37.9	34.0
funded debt-to-total capital ratio (1)	47.7	47.8	48.0	48.2	47.8	50.0	49.9	51.8
operating working capital turnover (6)	4.5	4.2	4.1	4.1	4.0	4.1	4.2	4.3
days sales in receivables	36	43	47	51	52	48	52	49
inventory turnover	5.8	5.1	5.4	5.1	5.4	4.9	5.1	4.7
STOCK DATA								
stock price								
high	$ 10.74	5.10	4.15	4.75	5.25	4.13	5.69	7.25
low	5.60	2.12	2.38	3.20	2.37	1.63	3.63	4.94
close	9.30	5.01	2.60	3.95	4.95	3.63	3.88	5.81
P/E ratio (2)								
high (5)	N.M	N.M	N.M	N.M	N.M	N.M	19.9	13.7
low (5)	N.M	N.M	N.M	N.M	N.M	N.M	12.7	9.3
daily average trading volume (shares)	59.7	17.0	15.6	9.1	13.0	39.1	6.6	6.7

(1) Funded debt includes long- and short-term debt, less restricted investments.
(2) P/E ratios based on trailing 12-month net income (loss) per share.
(3) EBITDA represents 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..
(4) Capital employed includes funded debt and shareholders' equity.
(5) N.M – Not meaningful
(6) Operating working capital for this calculation is accounts receivable, inventories and accounts payable.

Selected Annual Data

(amounts in thousands, except per share amounts)	fiscal 2002	fiscal 2001	fiscal 2000	fiscal 1999	fiscal 1998	percent change 2002/2001(5)	five-year growth rate (5)
INCOME STATEMENT DATA							
net sales	$ 381,878	409,810	488,079	483,084	476,715	(6.8)%	(0.9)%
cost of sales	319,021	353,823	403,414	406,976	393,154	(9.8)	(0.5)
gross profit	62,857	55,987	84,665	76,108	83,561	12.3	(2.8)
S G & A expenses	48,059	50,366	59,935	59,968	52,987	(4.6)	1.3
restructuring expense	10,368	5,625	0	0	0	84.3	N.M.
income (loss) from operations	4,430	(4)	24,730	16,140	30,574	N.M	(30.6)
interest expense	7,907	9,114	9,521	9,615	7,117	(13.2)	11.1
interest income	(176)	(46)	(51)	(195)	(304)	282.6	(8.9)
other expense	2,839	3,336	1,566	1,864	1,358	(14.9)	13.3
income (loss) before income taxes	(6,140)	(12,408)	13,694	4,856	22,403	50.5	N.M
income taxes	(2,700)	(4,097)	4,314	1,206	6,336	34.1	N.M
net income (loss)	(3,440)	(8,311)	9,380	3,650	16,067	58.6	N.M
EBITDA (3)	$ 32,976	26,440	44,472	34,645	45,645	24.7	(3.5)
depreciation	17,274	19,391	19,462	18,549	14,808	(10.9)	6.4
cash dividends	0	1,177	1,611	1,788	1,786	(100.0)	(100.0)
weighted average shares outstanding	11,230	11,210	11,580	12,909	12,744	0.2	(0.7)
weighted average shares outstanding, assuming dilution	11,230	11,210	11,681	13,064	13,042	0.2	(1.2)
PER SHARE DATA							
net income (loss) - basic	$ (0.31)	(0.74)	0.81	0.28	1.26	58.1	N.M
net income (loss) - diluted	(0.31)	(0.74)	0.80	0.28	1.23	58.1	N.M
cash dividends	0.0	0.105	0.14	0.14	0.14	100.0	(100.0)
book value	10.52	10.85	11.57	10.63	10.15	(3.0)	3.7
BALANCE SHEET DATA							
operating working capital (6)	$ 76,938	90,475	112,407	111,886	115,153	(15.0)%	2.0%
property, plant and equipment, net	89,772	112,322	126,407	123,310	128,805	(20.1)	(0.3)
total assets	287,713	289,580	343,980	331,714	355,369	(0.6)	3.4
capital expenditures	4,729	8,050	22,559	10,689	35,879	(41.3)	(29.4)
long-term debt	107,001	109,168	135,808	140,312	152,312	(2.0)	6.9
funded debt (1)	108,484	111,656	137,486	138,650	151,616	(2.8)	10.6
shareholders' equity	119,065	121,802	129,640	128,428	132,073	(2.2)	1.5
capital employed (4)	227,549	233,458	267,126	267,078	283,689	(2.5)	5.2
RATIOS & OTHER DATA							
gross profit margin	16.5 %	13.7 %	17.3 %	15.8 %	17.5 %		
operating income margin	1.2	0.0	5.1	3.3	6.4		
net income (loss) margin	(0.9)	(2.0)	1.9	0.8	3.4		
EBITDA margin (3)	8.6	6.5	9.1	7.2	9.6		
effective income tax rate	44.0	33.0	31.5	24.8	28.3		
funded debt-to-total capital ratio (1)	47.7	47.8	51.5	51.9	53.4		
return on average total capital	3.8	(0.9)	6.0	3.6	8.6		
return on average equity	3.3	(6.6)	7.3	2.8	13.5		
operating working capital turnover (6)	4.5	4.0	4.4	4.3	4.7		
days sales in receivables	41	50	49	49	49		
inventory turnover	5.4	5.1	5.4	5.6	5.8		
STOCK DATA							
stock price							
high	$ 10.74	7.25	11.06	19.13	22.19		
low	2.12	1.63	5.00	5.13	16.50		
close	9.30	4.95	5.81	8.25	18.88		
P/E ratio (2)							
high (5)	N.M	N.M.	13.7	67.6	17.6		
low (5)	N.M	N.M.	6.2	18.1	13.1		
daily average trading volume (shares)	24.9	16.2	15.8	30.4	16.0		

(1) Funded debt includes long- and short-term debt, less restricted investments.
(2) P/E ratios based on trailing 12-month net income (loss) per share.
(3) EBITDA represents 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.
(4) Capital employed includes funded debt and shareholders' equity.
(5) N.M – Not meaningful
(6) Operating working capital for this calculation is accounts receivable, inventories and accounts payable.

Report of Independent Auditors

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

We have audited the accompanying consolidated balance sheets of Culp, Inc. and subsidiary as of April 28, 2002 and April 29, 2001, and the related consolidated statements of income (loss), shareholders' equity, and cash flows for each of the years in the three-year period ended April 28, 2002. These consolidated financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Culp, Inc. and subsidiary as of April 28, 2002 and April 29, 2001, and the results of their operations and their cash flows for each of the years in the three-year ended April 28, 2002, in conformity with accounting principles generally accepted in the United States of America.

KPMG LLP

Greensboro, North Carolina
May 31, 2002

Management's Responsibility

The management of Culp, Inc. is responsible for the accuracy and consistency of all the information contained in this Annual Report, including the financial statements. These statements have been prepared to conform with accounting principles generally accepted in the United States of America. The preparation of financial statements and related data involves estimates and the use of judgment.

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

KPMG LLP, the company's independent auditors, conducts an audit in accordance with auditing standards generally accepted in the United States of America and provides an opinion on the financial statements prepared by management. Their report for 2002 is presented on page 26.

The Audit Committee of the Board of Directors reviews the scope of the audit and the findings of the independent auditors. The internal auditor and the independent auditors meet with the Audit Committee to discuss audit and financial reporting issues. The Audit Committee also reviews the company's principal accounting policies, significant internal accounting controls, the Annual Report and annual SEC filings (Form 10-K and Proxy Statement).

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

Franklin N. Saxon
Executive Vice President and Chief Financial Officer
May 31, 2002

Corporate Directory

Robert G. Culp, III
Chairman of the Board and Chief Executive Officer
Director (E, N)

Howard L. Dunn, Jr.
President and Chief Operating Officer
Director (E)

Franklin N. Saxon
Executive Vice President, Chief Financial Officer,
Treasurer and President, Culp Velvets/Prints division
Director (E)

Rodney A. Smith
Senior Vice President, and President, Culp Yarn division

Kenneth M. Ludwig
Senior Vice President, Human Resources,
and Assistant Secretary

Kathy J. Hardy
Corporate Secretary

H. Bruce English
Former Executive of Monsanto Company, St. Louis, MO
Director (A)

Patrick B. Flavin
President and Chief Investment Officer,
Flavin, Blake & Co., Inc., Stamford, CT
Director (A, C)

Patrick H. Norton
Chairman of the Board
La-Z-Boy, Incorporated, Monroe, MI
Director (A, C, N)

Judith C. Walker
Private Investments, Charlotte, NC
Director

Board Committees:
A-Audit
C-Compensation
E-Executive
N-Nominating

Shareholder Information

Corporate Address

101 South Main Street
Post Office Box 2686
High Point, NC 27261

Telephone: (336) 889-5161
Fax: (336) 887-7089

Registrar and Transfer Agent

EquiServe Trust Company, N.A.
c/o EquiServe
Post Office Box 43012
Providence, Rhode Island 02940-3012

Telephone: (800) 633-4236
www.equiserve.com

Auditors

KPMG LLP
Greensboro, NC 27401

Legal Counsel

Robinson, Bradshaw & Hinson, PA
Charlotte, NC 28246

Form 10-K and Quarterly Reports/Investor Contact

The Form 10-K Annual Report of Culp, Inc., as filed with the Securities and Exchange Commission, is available without charge to shareholders upon written request. Shareholders may also obtain copies of the corporate news releases issued in conjunction with the company's quarterly results. These requests and other investor contacts should be directed to Kathy J. Hardy, Corporate Secretary, at the corporate address.

Analyst Coverage

These analysts cover Culp, Inc.:

- BB&T Capital Markets – Joel Havard
- C. L. King & Associates – Tom Lewis
- Morgan Keegan & Co. – Laura Champine, CFA
- Raymond, James & Associates – Budd Bugatch, CFA
- Value Line – Craig Sirois
- Wachovia Securities, Inc. – John Baugh, CFA

Stock Listing

Culp, Inc. common stock is traded on the New York Stock Exchange under the symbol CFI. As of April 28, 2002, Culp, Inc. had approximately 3,100 shareholders based on the number of holders of record and an estimate of the number of individual participants represented by security position listings.

Annual Meeting

Shareholders are cordially invited to attend the annual meeting to be held at 9:00 a.m. on Tuesday, September 24, 2002 at the Radisson Hotel; 135 South Main Street; High Point, North Carolina.

CULP, INC.

101 South Main Street
Post Office Box 2686
High Point, NC 27261
(336) 889-5161