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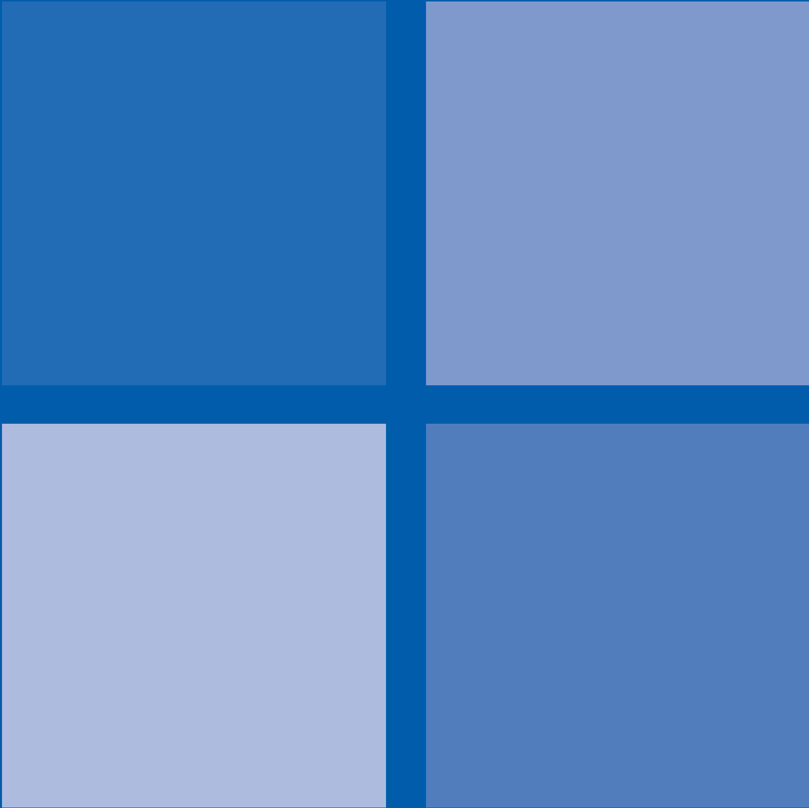


2004 Annual Report to Shareholders

COMPANY PROFILE

Culp, Inc. ranks as one of the world's largest marketers of mattress fabrics for bedding and upholstery fabrics for furniture. The company is a fully integrated marketer with manufacturing plants in North and South Carolina, Canada and China.

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

2004 HIGHLIGHTS

- **Mattress fabrics segment sales up nearly 7.0% for the year.**
- **Aggressive expansion of offshore sourcing capabilities.**
- **Debt-to-capital ratio reduced to 33.0%, the lowest level for Culp since fiscal 1993.**
- **Long-term debt reduced to $51.0 million, down from $76.5 million at the end of fiscal 2003, bringing long- term debt reduction to $86.0 million over the last four years.**

FINANCIAL HIGHLIGHTS

(dollars in thousands, except per share data)	2004	2003
STATEMENTS OF INCOME		
Net sales	$ 318,116	339,646
Income (loss) before cumulative effect of accounting change	7,220	(736)
Pro forma net income (Table 1)	7,639	8,978
PER SHARE		
Income (loss) before cumulative effect of accounting change	$ 0.61	(0.06)
Pro forma diluted net income (Table 2)	0.65	0.77
Book value	8.95	8.33
BALANCE SHEET		
Cash, cash equivalents, and short-term investments	$ 14,568	24,398
Long-term debt	51,030	76,500
Long-term debt to capital	33.0%	44.4%

Table 1: Reconciliation of Net Income (Loss) as Reported to Pro Forma Net Income

	2004	2003
Net income (loss), as reported	$ 7,220	(24,887)
Cumulative effect of accounting change, net of income taxes	–	24,151
Income (loss) before cumulative effect of accounting change	7,220	(736)
Restructuring and related charges (credits), net of income taxes	(701)	9,714
Early extinguishment of debt, net of income taxes	1,120	–
Pro forma net income	$ 7,639	8,978

Table 2: Reconciliation of Diluted Net Income (Loss) Per Share as Reported to Pro Forma Diluted Net Income Per Share

	2004	2003
Diluted net income (loss) per share, as reported	$ 0.61	(2.17)
Cumulative effect of accounting change, net of income taxes	–	2.11
Income (loss) before cumulative effect of accounting change	0.61	(0.06)
Restructuring and related charges (credits), net of income taxes	(0.06)	0.85
Early extinguishment of debt, net of income taxes	0.10	–
Effect of dilutive stock options	–	(0.02)
Pro forma diluted net income per share	$ 0.65	0.77

(Throughout this annual report, 2004, 2003, 2002, 2001 and 2000 are used to refer, respectively, to the company's fiscal years that ended in those same calendar periods.)

Fellow Shareholders:

Fiscal 2004 was in many ways a defining year for Culp. Overall, the bedding industry enjoyed another year of growth in demand and, as a result, our mattress fabrics segment had a strong performance. However, for most companies associated with the residential furniture industry, it was another challenging year as many retailers struggled to bolster sales. It also has become increasingly evident that competitive forces in the global marketplace are significantly changing the face of the furniture industry. Yet as we acknowledge these external factors, we are pleased to report that Culp made significant progress in fiscal 2004 in adapting our business model to position ourselves more effectively in the global marketplace. We believe our results for fiscal 2004 clearly demonstrate the inherent strength of our operations and our ability to execute in an unpredictable environment. Additionally, we believe that our focused approach to the key areas essential to success in our industry today - **excellence in design creativity, an aggressive global sourcing and sales strategy, superior customer service, and the ability to generate free cash flow and maintain a strong financial position** - will enable Culp to enjoy continued progress in the years to come.

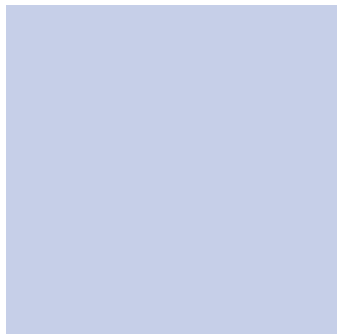
For the fiscal year ended May 2, 2004, we reported net sales of $318.1 million, a 6.3 percent decrease compared with $339.6 million for the prior year. For the year, our sales mix was approximately two-thirds upholstery fabrics and one-third mattress fabrics, known as mattress ticking. When compared with a sales mix of four-fifths upholstery fabrics and one-fifth mattress ticking just six years ago, this trend in our business is particularly meaningful. Net income for fiscal 2004 was $7.2 million, or $0.61 per diluted share, compared with a net loss of $24.9 million, or $2.17 per diluted share, including restructuring charges and the cumulative effect of accounting change, for fiscal 2003. Excluding a credit for the company's restructuring reserves and a charge for the early extinguishment of debt, net income for fiscal 2004 was $7.6 million, or $0.65 per diluted share. Excluding restructuring and related charges and the cumulative effect of accounting change, net income for fiscal 2003 was $9.0 million, or $0.77 per diluted share. Please refer to the front of this annual report for a reconciliation of pro forma net income for fiscal 2003 and 2004.

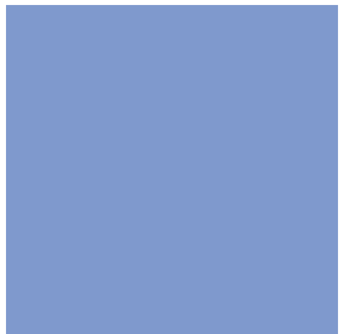
Solid Performance in Mattress Fabrics Segment

Our mattress ticking business gained momentum throughout fiscal 2004. We reported $106 million in sales for this segment, up nearly 7.0 percent for the fiscal year, due to improved industry demand and continued gains with key customers. The U.S. bedding

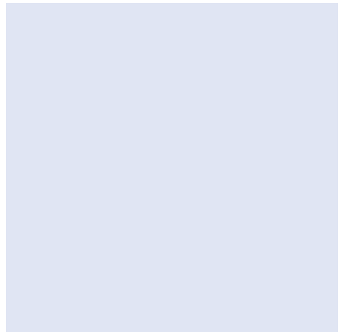
industry has enjoyed 6.5 percent average annual sales growth for over 20 years. Consumer trends and the attractiveness of this product category for retailers favor further growth in bedding demand and we believe that Culp is well positioned to benefit from this growth as a leading provider of mattress ticking. Our confidence lies in our ability to execute the key drivers for success in this segment of our business - product design leadership, superior customer service and delivery performance, and a globally competitive cost structure. With sustained growth in bedding demand and Culp's strong value proposition for customers, we expect that the mattress ticking business will account for an increasing percentage of our overall sales and profitability in fiscal 2005.

Our growth in mattress ticking sales is particularly meaningful in light of the bedding industry's recent transition to selling predominantly one-sided mattresses, which utilize approximately one-third less fabric. The overall industry demand for mattress ticking will continue to be affected until this transition is substantially complete, which is estimated to take place in early calendar 2005.





We are pleased to report that Culp made significant progress in fiscal 2004 in adapting our business model to position ourselves more effectively in the global marketplace.



Unlike upholstery fabrics, the mattress fabric business is not being threatened by Asian imports because of the relatively low average price points and labor content in these fabrics and the just-in-time delivery demanded by bedding manufacturers. Further, high shipping costs, the short lead times demanded by retailers, limited inventories as well as the customized product lines and strong brand name recognition associated with mattresses are all factors that have limited Asian imports of finished mattresses to less than four percent of the U.S. market.

Global Sourcing Strategy for Upholstery Fabrics

We reported sales of $212 million in our upholstery fabrics segment for fiscal 2004, compared with $240 million for fiscal 2003. The weaker demand for upholstery fabrics reflects the soft consumer spending patterns for furniture that have characterized the retail environment for most of the past year. In addition, overall demand for upholstery fabrics continues to be affected by the current consumer preference for leather furniture and competition from imported fabrics, including cut and sewn kits, primarily from Asia.

In order to address the rapidly changing competitive landscape in upholstery fabrics, we have implemented a two-part strategy to develop offshore sourcing capabilities for Culp. First, in fiscal 2003 we put in place the necessary resources to begin sourcing certain upholstery fabrics internationally, primarily in Asia, and continued to expand these resources in fiscal 2004. This initiative is an integral part of Culp's marketing strategy to meet changing consumer preferences for upholstery fabrics that Culp does not manufacture – including the microdenier suedes that are currently popular. We are excited about the breadth and innovation of the sourced products that we are now able to offer our customers.

The second component of Culp's offshore sourcing effort is our China operation, which

was announced in March 2003. During the fourth quarter of fiscal 2004, we successfully began manufacturing and inspection operations and started shipping fabric to customers. We are encouraged by how much we have accomplished in China in just over a year's time. This platform represents a compelling opportunity for Culp to be more competitive in an increasingly global furniture and fabric marketplace. We are now providing greater value to our customers by bringing together Culp's design expertise, finishing technology and U.S. quality standards with the low-cost fabric manufacturing available in China. In addition, we believe our two-part sourcing strategy will allow us to serve more effectively our furniture customers who are establishing or expanding production in China, as well as other international customers outside North America.

With our offshore sourcing efforts, we have significantly increased sales of upholstery fabric products produced outside of the company's U.S. manufacturing plants. These sales accounted for approximately 11 percent of the company's upholstery fabric sales for the fourth quarter of fiscal 2004, more than double the percentage from the year earlier period. We expect that Culp's sales sourced from the Far East and through our China platform will continue to grow steadily in fiscal 2005.

We believe our efforts to manage our business with greater effectiveness and improve our operating efficiencies are reflected in our results for fiscal 2004. Our profitability was enhanced by the decisions we made in 2003 to right-size capacity in our U.S. manufacturing operations. While the sales environment has been challenging for upholstery fabrics, these strategic efforts to reduce our manufacturing costs allowed us to realize year over year improvement in this segment's gross profit margin. At this time the outlook remains uncertain for a sustained recovery in retail furniture business conditions and it is hard to gauge the continued impact of leather and imported fabrics on our U.S. manufacturing operations. However, Culp is well positioned to respond to an increase in customer demand. We remain optimistic that upholstery fabric sales will start to pick up in the fall, as is seasonally typical in the furniture industry. However, if sales continue to be under pressure in the upholstery fabrics segment, we are prepared to take the necessary actions in fiscal 2005 to further adjust our cost structure and capacity, as we have demonstrated in recent years. Above all, we will continue to place a high priority on design creativity, the quality we put into our fabrics, and on providing superior customer service. We remain confident that these factors, as well as our focus on expanding our global sourcing capabilities, will continue to differentiate Culp in the marketplace.

A Strong Foundation

Strengthening our financial position has been an important priority for Culp in fiscal 2004. An inherent focus of our financial strategy is an emphasis on strong cash flow that has allowed us to retire a significant amount of debt. In fiscal 2004 we generated $25.4 million in cash flow from operations, reaching a total of more than $134 million in cash flow from operations over the past four fiscal years. During the third quarter, we took advantage of an opportunity to de-leverage our balance sheet by electing to make a $25 million prepayment on $75 million of outstanding senior notes. Including this prepayment, we have generated sufficient free cash flow to reduce our long-term debt by a total of $86 million over the past four years. We have improved considerably our financial position and have greater financial flexibility to pursue our strategic initiatives.

We want to take this opportunity to recognize Howard Dunn, formerly president and chief operating officer of Culp, who assumed the newly created position of vice chairman at the end of our fiscal year. Howard joined Culp in 1972 as one of our founders, and he has played a vital role in our growth and success since we started the business as a small, but ambitious, company to sell upholstery fabrics. As

Ultimately, our goal is to ensure that Culp can continue to meet the demands of our customers while remaining competitive in a rapidly changing global marketplace.

the company has grown, our consistent ability to provide value for both our customers and shareholders reflects Howard's talent, drive and strategic vision. Throughout his 32 years with the company, Howard has demonstrated both the leadership and the operational skills needed to assure that Culp has always been positioned to anticipate new market opportunities. In his new role with the company, he will have executive responsibility for Culp's China operations and will remain involved in our design and product development activities. We will continue to benefit from Howard's expertise and experience as he takes on his new role with Culp.

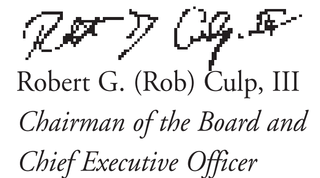
The View Ahead

While fiscal 2004 was a challenging year for Culp, we believe it will prove to be a defining year, and we have many reasons to be enthusiastic about our future. We salute the dedicated efforts of all of our associates and our board of directors, and look forward with great expectations to what we can accomplish in the future. As we look ahead to fiscal 2005, we are continuing to face significant challenges in the near term in our upholstery fabrics segment, for which the first fiscal quarter is seasonally the weakest period. Over the longer term however, we are optimistic about the company reporting positive trends as the fiscal year develops, reflecting the benefits of the strategies we have put in place.

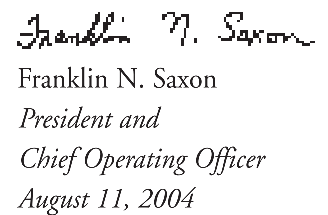
Ultimately, our goal is to ensure that Culp can continue to meet the demands of our customers while remaining competitive in a rapidly changing global marketplace.

We believe the excellence in our design creativity, the strength in our mattress ticking business, the aggressive expansion of our offshore sourcing capabilities and our ability to generate free cash flow are distinct competitive advantages for Culp. We will continue to set a high standard for delivering value to our customers by providing innovative products, outstanding quality and superior service. Moreover, we remain confident in our ability to leverage these strengths into tangible results for our shareholders.

Sincerely,



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



Franklin N. Saxon
President and
Chief Operating Officer
August 11, 2004

Cautionary Statement Concerning Forward-Looking Information

This Annual Report and Parts I and II of 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 (Section 27A of the Securities Act of 1933 and Section 27A of the Securities and Exchange Act of 1934). Such statements are inherently subject to risks and uncertainties. Further, forward looking statements are intended to speak only as of the date on which they are made. Forward-looking statements are statements that include projections, expectations or beliefs about future events or results or otherwise are not statements of historical fact. Such statements are often but not always characterized by qualifying words such as "expect," "believe," "estimate," "plan" and "project" and their derivatives, and include but are not limited to statements about expectations for the company's future operations or success, sales, gross profit margins, SG&A or other expenses, and earnings, as well as any statements regarding future economic or industry trends or future developments. Factors that could influence the matters discussed in such statements include the level of housing starts and sales of existing homes, consumer confidence, trends in disposable income, and general economic conditions. Decreases in these economic indicators could have a negative effect on the company's business and prospects. Likewise, increases in interest rates, particularly home mortgage rates, and increases in consumer debt or the general rate of inflation, could affect the company adversely. In addition, strengthening of the U. S. dollar against other currencies could make the company's products less competitive on the basis of price in markets outside the United States. Also, economic and political instability in international areas could affect the company's operations or sources of goods in those areas, as well as demand for the company's products in international markets. Finally, unanticipated delays or costs in executing restructuring actions could cause the cumulative effect of restructuring actions to fail to meet the objectives set forth by management. Other factors that could affect the matters discussed in forward looking statements are included in the company's other periodic reports filed with the Securities and Exchange Commission.

Quantitative and Qualitative Disclosures About Market Risk

The company is exposed to market risk from changes in foreign currency exchange rates. The company's market risk sensitive instruments are not entered into for trading purposes. The company's exposure to floating debt interest rate risk was eliminated in the fourth quarter of fiscal 2003 after the remaining industrial revenue bonds were paid.

The company's exposure to fluctuations in foreign currency exchange rates is due primarily to a foreign subsidiary domiciled in Canada and firmly committed and anticipated purchases of certain machinery, equipment and raw materials in foreign currencies. The company's Canadian subsidiary uses the United States dollar as its functional currency. The company generally does not use financial derivative instruments to hedge foreign currency exchange rate risks associated with the Canadian subsidiary. However, the company generally enters into foreign exchange forward and option contracts as a hedge against its exposure to currency fluctuations on firmly committed and anticipated purchases of certain machinery, equipment and raw materials. The amount of Canadian-denominated sales and manufacturing costs is not material to the company's consolidated results of operations; therefore, a 10% change in the exchange rate at May 2, 2004, would not have a significant impact on the company's results of operations or financial position. Additionally, as the company utilizes foreign currency instruments for hedging anticipated and firmly committed transactions, a loss in fair value for those instruments is generally offset by increases in the value of the underlying exposure.

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

The following analysis of the financial condition and results of operations should be read in conjunction with the Consolidated 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 16, 2004.

Overview

Management believes that Culp is one of the two largest producers of mattress fabrics (known as mattress ticking) in North America, as measured by total sales, and one of the three largest marketers of upholstery fabrics for furniture in North America, again measured by total sales. The company's fabrics are used primarily in the production of bedding products and residential and commercial upholstered furniture, including sofas, recliners, chairs, love seats, sectionals, sofa-beds, office seating and mattress sets. Although Culp markets fabrics at most price levels, the company emphasizes fabrics that have broad appeal in the “good” and “better” priced categories of furniture and bedding. Information about the company's sales by geographic area for the past three fiscal years can be found in Note 16 to the Consolidated Financial Statements.

The company's fiscal year is the 52 or 53 week period ending on the Sunday closest to April 30. Fiscal 2004 included 53 weeks. Fiscal years 2003 and 2002 included 52 weeks. The company's operating segments are mattress fabrics and upholstery fabrics, with related divisions organized within those segments. In mattress fabrics, Culp Home Fashions markets a broad array of fabrics used by bedding manufacturers. In upholstery fabrics, Culp Decorative Fabrics markets jacquard and dobby woven fabrics for residential and commercial furniture and yarn for use primarily by the company, with some outside sales. Culp Velvets/Prints markets velvet and printed fabrics used primarily for residential furniture. Information about the sales and gross profit by segment for the past three fiscal years can be found in Note 16 to the Consolidated Financial Statements.

Results of Operations

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

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

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

2004 Compared with 2003

The company's net sales for fiscal 2004 decreased 6.3% to $318.1 million; and the company reported net income of $7.2 million, or $0.61 per share diluted, versus a net loss before cumulative effect of accounting change of $736,000, or $0.06 per share diluted, a year ago. Including the cumulative effect of accounting change, the company reported a loss of $2.17 per share for fiscal 2003. Restructuring credits of $701,000, net of tax (or $0.06 per share), and an early extinguishment of debt charge of $1.1 million, net of tax (or $0.10 per share) were included in net income for fiscal 2004. In addition, restructuring and related charges and credits of $9.7 million, net of tax (or $0.85 per share) were included in net loss for fiscal 2003.

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

Mattress Fabrics Segment

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

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

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

Upholstery Fabrics Segment

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

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

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

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

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

Other Corporate Expenses

Selling, General and Administrative Expenses. SG&A expenses were $41.0 million for fiscal 2004 and increased $1.0 million, or 2.4%, from fiscal 2003. As a percent of net sales, SG&A expenses increased to 12.9% from 11.8% the previous year. This increase over the prior year was due primarily to higher professional fees coupled with lower sales. Additionally, SG&A expenses in fiscal 2003 included a credit to bad debt expense in the amount of $571,000 due to a significant decrease in past due receivable balances.

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

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

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

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

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

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

2003 Compared with 2002

Restructuring Actions

The financial results for fiscal 2003 include a total of $15.9 million in restructuring and related charges. As reflected in the consolidated financial statements for fiscal 2003, restructuring and related charges were recorded as $13.0 million in the line item "restructuring expense" and $2.9 million in "cost of sales," reducing net income by $9.7 million, net of taxes (or $0.85 per share). The $15.9 million is made up of the following: (1) $12.1 million of restructuring expenses related to the Culp Decorative Fabrics ("CDF") division, the largest items of which are lease termination expenses and personnel costs; (2) $2.9 million of "restructuring related" costs for CDF, which include inventory mark-downs and equipment moving expense (charged to "cost of sales"); and (3) $1.3 million of restructuring expenses related to further write-downs of equipment in connection with the exit from the wet printed flock business by the Culp Velvets/Prints ("CVP") division, offset by a restructuring credit of $354,000 related to employee benefit and plant security costs. The additional write-down of equipment, which is a non cash item, was recorded to more closely estimate the current market value of this equipment, which continued to deteriorate after April 2002, the date of the original write-down. Of the charges related to CDF, approximately $4.1 million are non-cash items, which relate to write-downs of equipment and inventory mark-downs, while the remaining $10.9 million relates to cash expenditures.

Fiscal 2003 CDF Restructuring. The restructuring and related charges for CDF reflect the restructuring initiative announced in August 2002. The objectives of this initiative were to lower manufacturing costs, simplify the dobby fabric upholstery line, increase asset utilization and enhance the division's manufacturing competitive position. This restructuring plan principally involved (1) consolidation of the division's weaving, finishing, yarn making and distribution operations by closing the facility located in Chattanooga, Tennessee and integrating these functions into CDF's Pageland, South Carolina, Graham, North Carolina and Burlington, North Carolina plants; (2) a significant reduction in the number of stock keeping units (SKUs) offered in the dobby product line, representing about 70% of the finished goods SKUs (but only 10% of sales); and (3) a net reduction in workforce of approximately 300 positions.

Exit of Wet Printed Flock Product Line. During March 2002, the company announced that it was evaluating strategic alternatives for the capital invested in its wet printed flock upholstery fabrics product line. Management took this action because of the significant decline in sales and profitability of wet printed flocks in recent years, a decline related principally to the strength of the U.S. dollar relative to foreign currencies as well as a shift in consumer preferences to other styles of upholstery fabrics. In April 2002, management approved a plan to exit the wet printed flock upholstery fabric business and has been actively seeking to sell the assets related to this product line. The exit plan involved closing a printing facility and flocking operation within the Culp Velvets/Prints division, a reduction in related selling and administrative expenses, and termination of 86 employees. The company also recognized certain inventory write-downs related to this product line. The total charge from the exit plan and inventory write-down was $9.7 million, of which approximately $8.2 million represented non-cash items, consisting of a $7.6 million write-down of property, plant and equipment and a $619,000 write-down of inventory. The company recorded the total charge in the fourth quarter of fiscal 2002. Of this total, $9.1 million was recorded in the line item "restructuring expense" and $619,000, related to the inventory write-downs, was recorded in "cost of sales," reducing net income by $5.8 million, net of taxes (or $0.51 per share). For fiscal 2003, additional restructuring charges related to wet printed flocks were recorded as explained earlier in this report. During the fiscal year ended April 28, 2002, sales of wet printed flocks contributed $17.1 million, or 4.5%, of the company's total sales and resulted in an operating loss of $2.1 million. The company estimates that the net loss attributable to these operations on an after-tax basis was approximately $0.12 per share during fiscal 2002.

Other Restructuring Actions. During fiscal 2001 and continuing into fiscal 2002, the company undertook a restructuring plan in its upholstery fabric segment intended to lower operating expenses, increase manufacturing utilization, raise productivity and position the company to operate profitably on a lower level of sales. The plan involved (1) the consolidation of certain fabric manufacturing capacity within the Culp Decorative Fabrics (CDF) division, (2) closing one of the company's four yarn manufacturing plants within Culp Yarn, (3) an extensive reduction in selling, general and administrative expenses including the termination of 110 employees and (4) a comprehensive stock keeping unit (SKU) reduction initiative related to finished goods and raw materials in CDF. Additionally, the plan included consolidation of the CDF design operation into the company's Design Center and the implementation of a common set of raw material components for CDF. The company also recognized certain inventory write-downs related to the closed facilities as part of this initiative. The total charge from the restructuring, cost reduction and inventory write-down initiatives was $9.9 million, about $3.6 million of which represented non-cash items. In fiscal 2002 the company recognized $2.5 million of restructuring and related charges recorded as $1.3 million in the line item "restructuring expense" and $1.2 million in "cost of sales." These restructuring and related charges reduced net income by $1.5 million, net of taxes (or $0.14 per share). The costs reflected in "cost of sales" were principally related to the relocation of manufacturing equipment. Due to this restructuring plan, the company has realized annualized reductions of at least $14 million in fixed manufacturing costs and SG&A expenses.

Fiscal 2003 vs. 2002 - Overview

The company's net sales for fiscal 2003 decreased 11.2% to $339.6 million as compared with fiscal 2002; and the company reported a net loss before cumulative effect of accounting change of $736,000, or $0.06 per share diluted, versus a net loss $3.4 million, or $0.31 share diluted for fiscal 2002. Including the cumulative effect of accounting change, the company reported a loss of $2.17 per share for fiscal 2003. Restructuring and related charges and credits of $9.7 million, net of tax (or $0.85 per share) and $7.5 million, net of tax (or $0.66 per share) were included in net loss for fiscal 2003 and fiscal 2002, respectively.

The company reported substantial improvement in its consolidated balance sheet by reducing long-term debt by $32 million during fiscal 2003 and ended the year with $24.4 million in cash and cash equivalents and short-term investments.

As of April 29, 2002, Culp adopted SFAS No. 142, "Goodwill and Other Intangible Assets." As a result, the company recorded during the first quarter of fiscal 2003 a non-operating non-cash goodwill impairment charge of $37.6 million ($24.2 million net of taxes of $13.4 million), or $2.11 per share diluted, related to the goodwill associated with the Culp Decorative Fabrics division.

Mattress Fabrics Segment

Net Sales. Mattress ticking sales for fiscal 2003 decreased 5.5% to $99.6 million. Sales to U.S. bedding manufacturers fell 7.2% to $85.5 million, while sales to international customers increased by 6.8% to $14.1 million. The overall sales decrease was principally due to the weakness in consumer demand for mattresses. Additional factors that could have affected ticking demand for the company's products from bedding manufacturers are: (1) the gradual shift by many customers to "one-sided" mattresses, which generally require one-third less mattress ticking and (2) a growing consumer preference at the higher end of the bedding market for knitted tickings (which the company does not manufacture) rather than woven or printed tickings (although the company has begun to source knitted tickings from an outside supplier).

Gross Profit. For fiscal 2003, the mattress fabric segment reported gross profit dollars and margins of $22.8 million and 22.9%, respectively, compared with $29.2 million and 27.7 % for fiscal 2002. The principal reasons for the decline were (1) lower sales volume and reduced production schedules, which resulted in less absorption of fixed costs; (2) pricing pressures related to the overall competitive situation in the bedding industry; and (3) the high cost of a European sourcing agreement. Culp Home Fashions entered into an agreement with a European supplier in October 2001 as part of the termination of a long-term supply relationship. The agreement required, among other things, that the company maintain a certain level of weekly purchases through the end of the second quarter of fiscal 2003. Consequently, during the first and second quarters of fiscal 2003, the company was required to source products from this supplier that were significantly more expensive than products manufactured at the company's U.S. and Canadian plants in order to meet the agreement's minimum purchase levels. This supply agreement was concluded on October 31, 2002.

Upholstery Fabrics Segment

Net Sales. Upholstery fabric sales for fiscal 2003 decreased 13.4% to $240.1 million. Domestic upholstery fabric sales decreased $22.7 million, or 9.6%, to $214.3 million, due primarily to overall weakness in consumer demand for upholstered furniture, and other factors discussed below. International sales decreased 36.0% to $25.8 million, due primarily to the exiting of the wet printed flock fabric business in April 2002.

In addition to the overall softness in demand during fiscal 2003, the sales decrease in upholstery fabrics was attributable to the company's strategy to focus on improving the profitability of its sales mix by reducing or eliminating products generating little or no profit. In the Culp Velvets/Prints division, the company discontinued its unprofitable wet printed flock business at the end of fiscal 2002. This product line produced annual sales in fiscal 2002 of approximately $17.0 million with approximately $2.0 million in operating losses.

The company believes upholstery fabric sales were also impacted in fiscal 2003 by (1) an increasing market share of leather furniture being sold in the U.S.; and (2) an increase in imported fabrics, both in "piece goods" and "cut and sewn kits."

Gross Profit. In spite of weak furniture demand and the operational disruption in connection with the fiscal 2003 CDF restructuring, the upholstery fabric segment improved its gross profit dollars and margins in fiscal 2003. Gross profit for fiscal 2003 was $34.7 million, or 14.5%, versus $33.6 million, or 12.1%, for fiscal 2002. Restructuring related charges of $2.9 million and $1.8 million were included in gross profit for fiscal 2003 and fiscal 2002, respectively. The key factors behind this improvement were (1) a more profitable sales mix; (2) the elimination of losses related to the wet printed flock business; (3) the increasing productivity benefits from the CDF 2001 restructuring; and (4) the fixed cost reduction benefits from the closing of the Chattanooga plant as part of the fiscal 2003 CDF restructuring.

Other Corporate Expenses

Selling, General and Administrative Expenses. SG&A expenses were $40.0 million for fiscal 2003 and decreased $8.0 million, or 16.7%, from fiscal 2002. As a percent of net sales, SG&A expenses decreased to 11.8% from 12.6% for fiscal 2002. SG&A expenses for fiscal 2003 included a credit to bad debt expense in the amount of $571,000 due to a significant decrease in past due receivable balances. This amount compares with bad debt expense of $4.2 million for fiscal 2002. Additionally, SG&A expenses for fiscal 2003 were lower due to reduced sampling charges and reduced sales expenses due to lower sales volume.

Goodwill Amortization. At the beginning of fiscal 2003, the company adopted SFAS No. 142, "Goodwill and Other Intangible Assets." SFAS No. 142 requires that goodwill no longer be amortized.

Interest Expense. Interest expense for fiscal 2003 declined to $6.6 million from $7.9 million for fiscal 2002 due to significantly lower borrowings outstanding, offset somewhat by a $750,000 increase in interest expense associated with the company's $75 million term loan, as a result of an amendment in February 2002.

Interest Income. Interest income for fiscal 2003 increased to $596,000 from $176,000 for fiscal 2002 due to significantly higher average invested cash for the year as compared with the average for fiscal 2002.

Other Expense. Other expense for the fiscal 2003 totaled $805,000, compared with $1.4 million for fiscal 2002. The decrease was principally due to lower legal and debt issue expenses.

Income Taxes. The effective tax rate for fiscal 2003 was 67.9% compared with 44.0% for fiscal 2002. The higher rate on the pretax loss in each period reflects the benefit from a reduction in estimated accruals as well as a lower proportion of earnings in fiscal 2003 from the company's Canadian subsidiary that is taxed at a lower effective rate.

Handling Costs

The company records warehousing costs in Selling, General & Administrative expenses. These costs were $4.6 million, $4.9 million and $5.0 million in fiscal 2004, fiscal 2003 and fiscal 2002, respectively. Warehousing costs include the operating expenses of the company's various finished goods distribution centers, such as personnel costs, utilities, building rent and material handling equipment lease expense. Had these costs been included in cost of sales, gross profit would have been $53.7 million, or 16.8% in fiscal 2004, $52.7 million, or 15.5% in fiscal 2003 and $57.9 million, or 15.1% in fiscal 2002.

Liquidity and Capital Resources

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

Working Capital

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

Financing Arrangements

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

The company's remaining $51.0 million in long-term debt is unsecured and is comprised of $50 million in outstanding senior notes from several insurance companies, with a fixed interest rate of 7.76%, and a $1.0 million, non-interest bearing term loan with the Canadian government. Additionally, the company has a $15.0 million revolving credit line with a bank, including letters of credit up to $2.5 million. Borrowings under the credit facility generally bear interest at the London Interbank Offered Rate plus an adjustable margin based on the company's debt/EBITDA ratio, as defined by the agreement. As of May 2, 2004, there were $1.4 million in outstanding letters of credit in support of inventory purchases, and no borrowings outstanding under the agreement. The bank agreement expires in August 2004. The first scheduled principal payment on the $50 million

senior notes is due March 2006 in the amount of $7.5 million. The Canadian government loan is repaid in annual installments of approximately $500,000 per year. The company was in compliance with all financial covenants in its loan agreements as of May 2, 2004.

Commitments

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

	2005	2006	2007	2008	2009	Thereafter	Total
Capital expenditure commitments	$ 4,724	$ -	$ -	$ -	$ -	$ -	$ 4,724
Accounts payable – capital expenditures	1,816	69	-	-	-	-	1,885
Operating leases	4,753	3,265	2,067	1,217	235	1	11,538
Long-term debt	528	8,062	7,535	19,835	7,535	7,535	51,030
Total	$ 11,821	$ 11,396	$ 9,602	$ 21,052	$ 7,770	$ 7,536	$ 69,177

Note: Payment Obligations by Fiscal Year Ending April

Capital Expenditures

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

Inflation

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

Critical Accounting Policies

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

Accounts Receivable - Allowance for Doubtful Accounts. Substantially all of the company's accounts receivable are due from residential and commercial furniture and bedding manufacturers. Ownership of these manufacturers is increasingly concentrated and certain bedding manufacturers have a high degree of leverage. As of May 2, 2004, accounts receivable from furniture manufacturers totaled approximately $22.8 million and from bedding manufacturers approximately $10.3 million. Approximately $5.8 million of the company's total accounts receivable was due from international customers. Additionally, as of May 2, 2004, the aggregate accounts receivable balance of the company's ten largest customers was $12.8 million, or 38.8% of trade accounts receivable.

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

Inventory Valuation. The company operates as a "make-to-order" and "make-to-stock" business. Although management closely monitors demand in each product area to decide which patterns and styles to hold in inventory, the gradual shifts in consumer preferences expose the company to write-downs of inventory.

Management continually examines inventory to determine if there are indicators that the carrying value exceeds its net realizable value. Experience has shown that the most significant indicator of the need for inventory write-downs is the age of the inventory. As a result, the company provides inventory valuation write-downs based upon set percentages for inventory aging categories, generally using six, nine and twelve month categories. While management believes that adequate write-downs for excess and obsolete inventory have been made in the consolidated financial statements, significant unanticipated changes in demand or changes in consumer tastes and preferences could result in additional excess and obsolete inventory in the future.

Long-lived Assets. The company adopted the provisions of SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, effective April 29, 2002. SFAS No. 144 establishes a single accounting model for long-lived assets to be disposed of by sale, and also resolves implementation issues related to SFAS 121. Adoption of SFAS No. 144 did not have a significant impact on the company's financial position, results of operations or cash flows.

Management reviews long-lived assets, which consists of property, plant and equipment, for impairment whenever events or changes in circumstances indicate that the carrying value of the asset may not be recovered. Unforeseen events and changes in circumstances and market conditions could negatively affect the value of assets and result in an impairment charge.

The company's assessment at May 2, 2004 indicated that the net undiscounted future operating cash flows of the company's businesses were sufficient to recover the carrying amount of the long-lived assets under SFAS No. 144. The determination of future operating cash flows involves considerable estimation and judgment about future market conditions and future sales and profitability. Although the company believes it has based the impairment testing on reasonable estimates and assumptions, the use of different estimates and assumptions could result in materially different results.

Goodwill. As of April 29, 2002, Culp adopted SFAS No. 142, *Goodwill and Other Intangible Assets.* For the initial application of SFAS No. 142, an independent business valuation specialist was engaged to assist the company in the determination of the fair market value of Culp Decorative Fabrics, one of the company's two divisions within the upholstery fabric segment, because of the significance of the goodwill associated with the division and due to its operating performance. As a result of the adoption of SFAS No. 142, during the first quarter of fiscal 2003, the company recorded a non-operating, non-cash goodwill impairment charge of $37.6 million ($24.2 million net of taxes of $13.4 million), or $2.11 per share diluted, related to the goodwill associated with the Culp Decorative Fabrics division. After the goodwill impairment charge, the company's remaining goodwill relates to the following divisions: Culp Decorative Fabrics - $5.1 million and Culp Home Fashions - $4.1 million.

The company updated its goodwill impairment test as of May 2, 2004. This impairment test, which was prepared by the company with assistance from an independent business valuation specialist, did not indicate any further impairment of goodwill. The determination of fair value involves considerable estimation and judgment. In particular, determining the fair value of a business unit involves, among other things, developing forecasts of future cash flows and appropriate discount rates. Although the company believes it has based the impairment testing on reasonable estimates and assumptions, the use of different estimates and assumptions could result in materially different results. As a result of a continuing difficult business environment, there is a potential for further impairment of the goodwill of Culp Decorative Fabrics.

Restructuring Charges. The upholstery fabric industry continues to be under significant pressure from a variety of external forces, such as an increase in the market share of leather furniture, an increase in customers buying fabric and "cut and sew" fabric kits from China, increasing pricing demands, global competition and the overall weakness of the economy. In an effort to reduce operating expenses and increase manufacturing utilization, the company has undertaken four restructuring initiatives, three within Culp Decorative Fabrics, and one related to the exit of the wet printed flock product line, which was part of the Culp Velvets/Prints division within the upholstery fabric segment, which have resulted in restructuring charges related to the remaining lease costs of the closed facilities, the write-down of property, plant and equipment and workforce reduction. Severance and related charges and facility exit costs, including those related to leases, were accounted for under EITF 94-3, the then currently effective accounting literature. Asset impairment charges related to the consolidation or closure of manufacturing facilities are based on an estimate of expected sales prices for the real estate and equipment.

The company reassesses the individual accrual requirements at the end of each reporting period. If circumstances change, causing current estimates to differ from original estimates, adjustments are recorded in the period of change. Restructuring charges, and adjustments of those charges, are summarized in note 2 to the consolidated financial statements. Management continues to monitor and assess sales trends in the Culp Decorative Fabrics division. If sales declines continue, management may need to take further actions to adjust cost structures and capacity, in addition to those taken in recent years.

In June 2002, the FASB issued SFAS No. 146, *Accounting for Costs Associated with Exit or Disposal Activities.* This Statement addresses financial accounting and reporting for costs associated with exit or disposal activities and supersedes Emerging Issues Task Force (EITF) Issue No. 94-3, *Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring).* A liability for a cost associated with an exit or disposal activity shall be recognized and measured initially at its fair value in the period in which the liability is incurred, except for certain qualifying employee termination benefits. This Statement became effective for exit or disposal activities initiated after December 31, 2002.

Income Taxes. The company is required to estimate its actual current tax exposure and to assess temporary differences resulting from differing treatment of items for tax and accounting purposes. No valuation allowance has been recorded to reduce the company's deferred tax assets. Management has concluded that it is more likely than not that the company will be able to realize the benefit of the deferred tax assets. Considerable judgment is involved in this process as ultimate realization of benefits is dependent on the generation of future taxable income.

Consolidated Balance Sheets

May 2, 2004 and April 27, 2003

(dollars in thousands, except share data)	2004	2003
ASSETS		
current assets:		
cash and cash equivalents	$ 14,568	14,355
short-term investments	0	10,043
accounts receivable	30,719	32,259
inventories	49,045	49,552
deferred income taxes	9,256	12,303
other current assets	1,634	3,204
total current assets	105,222	121,716
property, plant and equipment, net	77,770	84,962
goodwill	9,240	9,240
other assets	1,496	2,235
total assets	$193,728	218,153
LIABILITIES AND SHAREHOLDERS' EQUITY		
current liabilities:		
current maturities of long-term debt	$ 528	500
accounts payable	15,323	19,874
accrued expenses	13,028	14,071
accrued restructuring expenses	4,968	7,743
income taxes payable	1,850	349
total current liabilities	35,697	42,537
long-term debt, less current maturities	50,502	76,000
deferred income taxes	4,138	3,851
total liabilities	90,337	122,388
commitments and contingencies (note 11)		
shareholders' equity:		
preferred stock, $.05 par value, authorized 10,000,000 shares	0	0
common stock, $.05 par value, authorized 40,000,000 shares, issued and outstanding 11,546,634 at May 2, 2004 and 11,515,459 at April 27, 2003	578	576
capital contributed in excess of par value	39,943	39,749
unearned compensation	(349)	(559)
retained earnings	63,219	55,999
total shareholders' equity	103,391	95,765
total liabilities and shareholders' equity	$193,728	218,153

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

Consolidated Statements of Income (Loss)

For the years ended May 2, 2004, April 27, 2003 and April 28, 2002

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

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

Consolidated Statements of Shareholders' Equity

For the years ended May 2, 2004, April 27, 2003 and April 28, 2002

(dollars in thousands, except share data)	common stock shares	common stock amount	capital contributed in excess of par value	unearned compensation	retained earnings	accumulated other comprehensive income	total shareholders' equity
balance, April 29, 2001	11,221,158	$ 561	37,971	(1,056)	84,326	0	121,802
net loss					(3,440)		(3,440)
net gain on cash flow hedges						7	7
stock-based compensation				144			144
forfeiture of stock options			(143)	143			0
common stock issued in connection with stock option plans	98,426	5	547				552
balance, April 28, 2002	11,319,584	566	38,375	(769)	80,886	7	119,065
net loss					(24,887)		(24,887)
net loss on cash flow hedges						(7)	(7)
stock-based compensation				210			210
common stock issued in connection with stock option plans	195,875	10	1,374				1,384
balance, April 27, 2003	11,515,459	576	39,749	(559)	55,999	0	95,765
net income					7,220		7,220
stock-based compensation				210			210
common stock issued in connection with stock option plans	31,175	2	194				196
balance, May 2, 2004	11,546,634	$ 578	39,943	(349)	63,219	0	103,391

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

Consolidated Statements of Cash Flows

For the years ended May 2, 2004, April 27, 2003 and April 28, 2002

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

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

1. GENERAL AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

Fiscal Year – The company's fiscal year is the 52 or 53 week period ending on the Sunday closest to April 30. Fiscal 2004 included 53 weeks. Fiscal years 2003 and 2002 included 52 weeks.

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

Short-Term Investments – Short-term investments are classified as available-for-sale and reported at fair value based on current market quotes with unrealized gains and losses, net of any tax effect, recorded as a separate component of comprehensive income in shareholders' equity until realized. Interest income is included in interest income. Gains and losses on investments sold are determined based on the specific identification method and are included in other expense, net. Unrealized losses that are other than temporary are recognized in net income. No investments are held for speculative or trading purposes.

At April 27, 2003, short-term investments consisted of two bond mutual funds. The investments were originally purchased in February 2003 at a cost of $10.0 million. Realized and unrealized gains and losses for the year ended April 27, 2003 were not significant, and accordingly, the cost of these investments approximated fair value. During fiscal 2004, an additional $7.3 million was invested in these funds. During the third quarter of fiscal 2004, these investments were sold resulting in a net loss of $58,000 which is included in the other expense line of the 2004 Consolidated Statement of Income. During fiscal 2004, two additional bond funds were purchased at a cost of $10.0 million and subsequently sold during the year resulting in a net loss of $11,000 which is included in the other expense line of the 2004 Consolidated Statement of Income.

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

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

Management continually examines inventory to determine if there are indicators that the carrying value exceeds its net realizable value. Experience has shown that the most significant indicator of the need for inventory write-downs is the age of the inventory. As a result, the company provides inventory valuation write-downs based upon set percentages for inventory aging categories, generally using six, nine and twelve month categories. While management believes that adequate write-downs for inventory obsolescence have been made in the consolidated financial statements, consumer tastes and preferences will continue to change and the company could experience additional inventory write-downs in the future.

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

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

Interest costs of $50,000, $74,000 and $36,000 incurred during the years ended May 2, 2004, April 27, 2003 and April 28, 2002, respectively, for the construction of qualifying fixed assets were capitalized and are being amortized over the related assets' estimated useful lives.

Foreign Currency Translation – The United States dollar is the functional currency for the company's Canadian and Chinese subsidiaries. Translation losses for the Canadian subsidiary of $153,000, $60,000 and $33,000 are included in the other expense line item in the Consolidated Statements of Income (Loss) for the fiscal years ended May 2, 2004, April 27, 2003 and April 28, 2002, respectively.

Goodwill – The company adopted the provisions of SFAS 142, *Goodwill and Other Intangible Assets,* effective April 29, 2002. In accordance with SFAS No. 142, the company tests goodwill for impairment on an annual basis by comparing the fair value of each reporting unit to its carrying value. As a result of the initial application of SFAS No. 142, the company recorded an impairment charge of $37.6 million ($24.2 million net of taxes of $13.4 million) (see note 19). For the fiscal year ended April 28, 2002, goodwill was amortized using the straight-line method over 40 years, and tested for impairment by comparison of the carrying value of the goodwill to estimated future undiscounted cash flows expected to be generated by the related assets, when events and circumstances indicated that the assets might be impaired.

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

No provision is made for income taxes which may be payable if undistributed income of the company's Canadian subsidiary were to be paid as dividends to the company, since the company intends that such earnings will continue to be invested. At May 2, 2004, the amount of such undistributed income was $30.2 million. Foreign tax credits may be available as a reduction of United States income taxes in the event of such distributions.

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

Shipping and Handling Costs – Revenue received for shipping and handling costs, which is immaterial for all periods presented, is included in net sales. Shipping costs, principally freight, that comprise payments to third-party shippers are classified as cost of sales. Handling costs, which consist principally of finished goods warehousing costs in the company's various distribution facilities, were $4.6 million, $4.9 million and $5.0 million in 2004, 2003 and 2002, respectively, and are included in selling, general and administrative expenses.

Stock-Based Compensation – Compensation costs related to employee stock option plans are recognized utilizing the intrinsic value-based method prescribed by APB No. 25, *Accounting for Stock Issued to Employees,* and related Interpretations. The company has adopted the disclosure requirements of SFAS No. 123, *Accounting for Stock-Based Compensation*, as amended by SFAS No. 148. Accordingly, compensation cost is recorded over the vesting period of the options based upon the difference in option price and fair market price at the date of grant, if any.

At May 2, 2004, the company had stock-based compensation plans, which are described more fully in note 12 to the consolidated financial statements.

The following table illustrates the effect on net income (loss) and income (loss) per share if the company had applied the fair value recognition provisions of SFAS No. 123 for the past three fiscal years:

(dollars in thousands, except per share data)	2004	2003	2002
Net income (loss), as reported	$ 7,220	(24,887)	(3,440)
Add: Total stock-based employee compensation expense included in net income (loss), net of tax	141	67	81
Deduct: Total stock-based employee compensation expense determined under fair value-based method for all awards, net of tax	456	225	363
Pro forma net income (loss)	$ 6,905	(25,045)	(3,722)
Income (loss) per share:			
Basic – as reported	$ 0.63	(2.17)	(0.31)
Basic – pro forma	0.60	(2.19)	(0.33)
Diluted – as reported	0.61	(2.17)	(0.31)
Diluted – pro forma	0.59	(2.19)	(0.33)

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

The fair value of the company's long-term debt is estimated by discounting the future cash flows at rates currently offered to the company for similar debt instruments of comparable maturities. At May 2, 2004, the carrying value of the company's long-term debt is $51.0 million and the fair value is $53.7 million. At April 27, 2003, the carrying value of the company's long-term debt was $76.5 million and the fair value was $80.2 million.

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

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

2. RESTRUCTURING AND ASSET IMPAIRMENT CHARGES

Fiscal 2003 CDF Restructuring

In August 2002, management approved a restructuring plan within the Culp Decorative Fabrics division aimed at lowering manufacturing costs, simplifying the dobby fabric upholstery line, increasing asset utilization and enhancing the division's manufacturing competitiveness. The restructuring plan principally involved (1) consolidation of the division's weaving, finishing, yarn making and distribution operations by closing the facility in Chattanooga, Tennessee and integrating these functions into other plants, (2) a significant reduction in the number of stock keeping units (SKUs) offered in the dobby product line and (3) a net reduction in workforce of approximately 300 positions. During fiscal 2003, the total restructuring and related charges incurred were $15.0 million, of which approximately $4.1 million represented non-cash items, including $2.8 million in impairment of property, plant and equipment and $1.3 million in inventory write-downs. Of the total charge, $12.0 million was recorded in restructuring expense in the 2003 Consolidated Statement of Income (Loss); and $1.3 million, related to inventory write-downs, and $1.7 million, related to equipment moving and relocation expense, were recorded in cost of sales in the 2003 Consolidated Statement of Income (Loss).

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

The following summarizes the activity in the restructuring accrual (dollars in thousands):

	Employee Termination Benefits	Lease Termination and Other Exit Costs	Total
Accrual established in fiscal 2003	$ 1,972	7,194	9,166
Paid in fiscal 2003	(1,228)	(949)	(2,177)
Balance April 27, 2003	744	6,245	6,989
Adjustments in fiscal 2004	178	(684)	(506)
Paid in fiscal 2004	(422)	(1,227)	(1,649)
Balance May 2, 2004	$ 500	4,334	4,834

As of April 27, 2003, assets classified as held for sale consisted of machinery and equipment with a value of $166,000 and are included in other assets. Management successfully disposed of these assets during fiscal 2004.

Wet Printed Flock Restucturing

In April 2002, management approved a plan to exit the wet printed flock upholstery fabric business and has been actively seeking to sell the assets related to this product line. The exit plan involved closing a printing facility and flocking operation within the Culp Velvets/Prints division, reduction in related selling and administrative expenses and termination of 86 employees. The total charge for the exit plan was $9.7 million, of which approximately $8.2 million represented non-cash items, including $7.6 million in impairment of property, plant and equipment and $619,000 in inventory write-downs. Of the total charge, $9.1 million was recorded in restructuring expense in the 2002 Consolidated Statement of Income (Loss), and $619,000, related to inventory write-downs, was recorded in cost of sales in the 2002 Consolidated Statement of Income (Loss). During the fiscal year ended April 28, 2002, sales of the wet printed flock product contributed $17.1 million, or 4.5%, of the company's total net sales and resulted in an operating loss of approximately $2.1 million.

During fiscal 2003, an additional restructuring expense of $1.3 million was recorded for the non-cash write-down of assets to reflect the deterioration in market value experienced since April 2002. Due to management's continual evaluation of the restructuring accrual, the reserve was reduced $313,000 to reflect current estimates of future health care claims. Additionally, the reserve was reduced $42,000 to reflect current estimates of future security expenses and other costs.

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

The following summarizes the activity in the restructuring accrual (dollars in thousands):

	Employee Termination Benefits	Lease Termination and Other Exit Costs	Total
Accrual established in fiscal 2002	$ 842	610	1,452
Paid in fiscal 2002	(5)	(5)	(10)
Balance April 28, 2002	837	605	1,442
Adjustments in fiscal 2003	(313)	(42)	(355)
Paid in fiscal 2003	(428)	(116)	(544)
Balance April 27, 2003	96	447	543
Adjustments in fiscal 2004	(101)	(277)	(378)
Paid in fiscal 2004	5	(70)	(65)
Balance May 2, 2004	$ 0	100	100

As of April 27, 2003, assets classified as held for sale consisted of a building, machinery and equipment with an aggregate value of $484,000 and are included in other assets. As of May 2, 2004, assets classified as held for sale consist of a building with a value of $180,000 and is included in other assets. Management is actively marketing the building and anticipates the successful disposal of the building.

Fiscal 2001 CDF Restructuring

During fiscal 2001 and continuing into fiscal 2002, the company undertook a restructuring plan in its upholstery fabric segment which involved (1) the consolidation of certain fabric manufacturing capacity within the Culp Decorative Fabrics (CDF) division, (2) closing one of the company's four yarn manufacturing plants, (3) an extensive reduction in selling, general and administrative expenses including the termination of 110 employees and (4) a comprehensive SKU reduction initiative related to finished goods and raw materials in CDF. The 2001 charge from the restructuring and related costs was $7.4 million, approximately $3.4 million of which represented non-cash items, including $2.5 million in impairment of property, plant and equipment and $874,000 in inventory write-downs. Of the total charge, $5.6 million was recorded in restructuring expense in the 2001 Consolidated Statement of Income (Loss); and $874,000, related to inventory write-downs, and $931,000, related to equipment relocation costs, were recorded in cost of sales in the 2001 Consolidated Statement of Income (Loss). The 2002 charge from restructuring and related expenses was $2.5 million, approximately $160,000 of which represented the non-cash impairment of property, plant and equipment. Of the total charge, $1.3 million was included in restructuring expense in the 2002 Consolidated Statement of Income (Loss), and $1.2 million, related to equipment relocation costs, was recorded in cost of sales in the 2002 Consolidated Statement of Income (Loss).

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

During fiscal 2004, as a result of management's continual evaluation of the restructuring accrual, the reserve was increased $33,000 to reflect current estimates of future health care claims and reduced $32,000 to reflect current estimates of other exit costs.

The following summarizes the activity in the restructuring accrual (dollars in thousands):

	Employee Termination Benefits	Lease Termination and Other Exit Costs	Total
Accrual established in fiscal 2001	$ 969	2,116	3,085
Paid in fiscal 2001	(491)	(211)	(702)
Balance April 29, 2001	478	1,905	2,383
Additions in fiscal 2002	925	218	1,143
Paid in fiscal 2002	(891)	(1,632)	(2,523)
Balance April 28, 2002	512	491	1,003
Adjustments in fiscal 2003	(275)	276	1
Paid in fiscal 2003	(202)	(591)	(793)
Balance April 27, 2003	35	176	211
Adjustments in fiscal 2004	33	(32)	1
Paid in fiscal 2004	(34)	(144)	(178)
Balance May 2, 2004	$ 34	0	34

As of May 2, 2004 and April 27, 2003, there were no assets classified as held for sale related to the fiscal 2001 CDF restructuring.

3. ACCOUNTS RECEIVABLE

A summary of accounts receivable follows:

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

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

(dollars in thousands)	2004	2003	2002
beginning balance	$ (1,558)	(2,465)	(1,282)
provision for bad debt	(139)	570	(4,172)
net write-offs	255	337	2,989
ending balance	$ (1,442)	(1,558)	(2,465)

4. INVENTORIES

A summary of inventories follows:

(dollars in thousands)	May 2, 2004	April 27, 2003
raw materials	$ 21,015	23,269
work-in-process	2,489	2,917
finished goods	25,541	23,366
	$ 49,045	49,552

5. PROPERTY, PLANT AND EQUIPMENT

A summary of property, plant and equipment follows:

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

The company incurred total capital expenditures of $6,747,000, $12,229,000 and $4,729,000 in the fiscal years 2004, 2003 and 2002, respectively. The non-cash portion of these capital expenditures representing vendor financing totaled $331,000, $5,366,000 and $1,363,000 in the fiscal years 2004, 2003 and 2002, respectively.

In connection with the fiscal 2003 CDF restructuring (see note 2), machinery and equipment with a carrying value of $3.0 million was written down to its fair value less cost to sell of approximately $166,000 and reclassified to assets held for sale. In connection with the wet printed flock restructuring in fiscal 2002 (see note 2), property, plant and equipment with a carrying value of $9.9 million was written down to its fair value less cost to sell of approximately $2.3 million and reclassified to assets held for sale. Assets held for sale are included in the other assets line item in the Consolidated Balance Sheets. As of May 2, 2004, the total carrying value of these assets is $180,000. As of April 27, 2003, the total carrying value of these assets was $650,000.

6. GOODWILL

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

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

As further discussed in notes 1 and 19, the company ceased recording goodwill amortization and recorded a goodwill impairment charge as a result of the initial adoption of SFAS 142, *Goodwill and Other Intangible Assets,* effective April 29, 2002.

7. ACCOUNTS PAYABLE

A summary of accounts payable follows:

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

8. ACCRUED EXPENSES

A summary of accrued expenses follows:

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

9. INCOME TAXES

Total income taxes (benefits) were allocated as follows:

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

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

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

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

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

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

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

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

At May 2, 2004, the company had an alternative minimum tax credit carryforward of approximately $1,320,000 for federal income tax purposes. Federal and state net operating loss carryforwards with related tax benefits of $4,287,000 at May 2, 2004 expire in varying amounts through fiscal 2023. The company believes that it is more likely than not that the results of future operations will generate sufficient taxable income to realize the existing deferred tax assets.

Income tax refunds, net of income tax payments, were $1,338,000 in 2004, $1,470,000 in 2003 and $2,280,000 in 2002.

10. LONG-TERM DEBT

A summary of long-term debt follows:

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

In August 2002, the company entered into an agreement with its principal bank lender that provides for a revolving loan commitment of $15.0 million, including letters of credit up to $2.5 million. Borrowings under the credit facility generally bear interest at the London Interbank Offered Rate plus an adjustable margin based upon the company's debt/EBITDA ratio, as defined by the agreement. As of May 2, 2004, there were $1.4 million in outstanding letters of credit in support of inventory purchases and no borrowings outstanding under the agreement. Letter of credit and commitment fees are also determined by the company's debt/EBITDA ratio, as defined by the agreement. The credit facility expires in August 2004.

During fiscal 2004, the company elected to make a $25.0 million prepayment on the unsecured term notes. As a result of this prepayment, the company incurred a consent fee and prepayment premium of $1.3 million, additional debt issue cost amortization of $144,000 and approximately $202,000 in other professional fees. The remaining principal balance is payable over an average remaining term of 5 years, with principal payments coming due March 2006 through March 2010. Interest is payable semi-annually at a fixed coupon rate of 7.76%.

The company's loan agreements require, among other things, that the company maintain compliance with certain financial ratios. At May 2, 2004, the company was in compliance with these financial covenants.

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

Interest paid during 2004, 2003 and 2002 totaled $5,882,000, $7,058,000, and $8,199,000, respectively.

11. COMMITMENTS AND CONTINGENCIES

The company leases certain office, manufacturing and warehouse facilities and equipment, primarily computers and vehicles, under noncancellable operating leases. Lease terms related to real estate range from one to ten years with renewal options for additional periods ranging from two to ten years. The leases generally require the company to pay real estate taxes, maintenance, insurance and other expenses. Rental expense for operating leases was $5,013,000 in 2004; $5,673,000 in 2003; and $6,605,000 in 2002. Future minimum rental commitments for noncancellable operating leases are $4,753,000 in 2005; $3,265,000 in 2006; $2,067,000 in 2007; $1,217,000 in 2008; and $235,000 in 2009. Management expects that in the normal course of business, these leases will be renewed or replaced by other operating leases.

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

The company has outstanding capital expenditure commitments of approximately $4.7 million as of May 2, 2004.

12. STOCK OPTION PLANS

The company has a stock option plan under which options to purchase common stock may be granted to officers, directors and key employees. At May 2, 2004, 682,450 shares of common stock were authorized for issuance under the plan. Of this total, none remain available for grant. Options are generally exercisable from one to five years after the date of grant and generally expire five to ten years after the date of grant.

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

A summary of the status of the plan as of May 2, 2004, April 27, 2003 and April 28, 2002 and changes during the years ended on those dates is presented below:

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

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding at 5/2/04	Weighted-Avg. Remaining Contractual Life	Weighted-Avg. Exercise Price	Number Exercisable at 5/2/04	Weighted-Avg. Exercise Price
$ 3.03 - $ 3.05	91,250	2.4 years	$ 3.03	63,500	$ 3.03
$ 4.00 - $ 7.50	258,575	2.4	4.27	116,825	4.47
$ 7.63 - $ 7.63	108,000	4.4	7.63	108,000	7.63
$ 7.75 - $12.13	133,000	2.0	9.72	133,000	9.72
$13.34 - $20.94	91,625	3.3	8.83	91,625	18.83
	682,450	2.7	$ 7.65	512,950	$ 8.88

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

During September 1997, the company's shareholders approved the 1997 option plan which provides for the one-time grant to certain officers and senior managers of options to purchase 106,000 shares of the company's common stock at $1.00 per share. Options under the plan are generally exercisable on January 1, 2006. As of May 2, 2004, the 89,000 options outstanding under the plan have exercise prices of $1.00 and a weighted-average remaining contractual life of 2.7 years. There were no options exercised during fiscal 2004, 2003 and 2002, respectively. During fiscal 2004, 2003 and 2002, the compensation expense recorded under the plan was $210,000, $210,000 and $144,000, respectively.

During September 2002, the company's shareholders approved the 2002 option plan under which options to purchase up to 1,000,000 shares of common stock may be granted to officers, directors and key employees. At May 2, 2004, 1,000,000 shares of common stock were authorized for issuance under the plan. Of this total, 820,000 remain available for grant. Options are generally exercisable from one to four years after the date of grant and generally expire five to ten years after the date of grant. No compensation cost has been recognized for this stock option plan as options are granted under the plan at an option price not less than the fair market value at the date of grant.

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

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

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

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

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

The fair value of each option grant is estimated on the date of grant using the Black Scholes option-pricing model with the following weighted-average assumptions used for grants in 2004, 2003 and 2002, respectively: dividend yield of 0%, 0% and 0%; risk-free interest rates of 1.9%, 4.2% and 4.8%; expected volatility of 80%, 78% and 62%; and expected lives of 4 years, 4 years and 5 years.

13. DERIVATIVES

On April 30, 2001, the company adopted the provisions of SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities.* Adoption of SFAS 133 did not have a significant impact on the company's financial position, results of operations or cash flows. SFAS No. 133, as amended by SFAS No. 137, SFAS No. 138 and SFAS No. 149, requires the company to recognize all derivative instruments on the balance sheet at fair value. These statements also establish new accounting rules for hedging instruments, which depend on the nature of the hedge relationship. A fair value hedge requires that the effective portion of the change in the fair value of a derivative instrument be offset against the change in the fair value of the underlying asset, liability, or firm commitment being hedged through earnings. A cash flow hedge requires that the effective portion of the change in the fair value of a derivative instrument be recognized in Other Comprehensive Income ("OCI"), a component of Shareholders' Equity, and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. The ineffective portion of a derivative instrument's change in fair value is immediately recognized in earnings.

The company uses foreign exchange option and forward contracts to manage the exposure related to forecasted purchases of inventories denominated in the EURO. The company utilizes cash flow hedge accounting for these contracts. At May 2, 2004, there were no contracts outstanding.

The company also uses foreign exchange option and forward contracts to manage the exposure related to firm commitments to purchase fixed assets denominated in the EURO. The company has chosen not to utilize hedge accounting for these contracts, and accordingly changes in the fair value of these contracts are recorded currently in earnings. At May 2, 2004, the company had outstanding foreign exchange option and forward contracts to purchase a total of 564,000 EURO.

From time to time, the company used interest rate swap agreements to effectively fix the interest rates on certain variable rate debt. During 2001, the interest rate swaps no longer served as a hedge due to the repayment of debt; consequently the interest rate swaps were recorded at fair value. During 2002, the company paid $105,000 to terminate the interest rate swap agreements.

14. NET INCOME (LOSS) PER SHARE

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

(in thousands)	2004	2003	2002
Weighted-average common shares outstanding, basic	11,525	11,462	11,230
Effect of dilutive stock options	252	0	0
Weighted-average common shares outstanding, diluted	11,777	11,462	11,230

Options to purchase 348,337 shares, 413,844 shares and 608,750 shares of common stock were not included in the computation of diluted net income (loss) per share for fiscal 2004, 2003 and 2002, respectively, because the exercise price of the options was greater than the average market price of the common shares. Options to purchase 556,031 shares and 465,625 shares were not included in the computation of diluted net income (loss) per share for fiscal 2003 and 2002, respectively, because the company incurred a net loss for these fiscal years.

15. BENEFIT PLANS

The company has a defined contribution plan which covers substantially all employees and provides for participant contributions on a pre-tax basis and discretionary matching contributions by the company, which are determined annually. Company contributions to the plan were $1,583,000 in 2004; $1,799,000 in 2003; and $1,979,000 in 2002.

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

16. SEGMENT INFORMATION

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

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

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

Company assets located outside North America are not material for any of the three years presented.

The company internally manages and reports selling, general and administrative expenses, interest expense, interest income, other expense and income taxes on a total company basis. Thus, profit by business segment represents gross profit. In addition, the company internally manages and reports cash and cash equivalents, short-term investments, other current assets and other assets on a total company basis. Thus, identifiable assets by business segment represent accounts receivable, inventories, property, plant and equipment and goodwill.

Sales and gross profit for the company's operating segments are as follows:

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

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

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

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

17. RELATED PARTY TRANSACTIONS

A director of the company is also an officer and director of a major customer of the company. The amount of sales to this customer was approximately $41,819,000 in 2004; $47,593,000 in 2003; and $48,418,000 in 2002. The amount due from this customer at May 2, 2004 was approximately $4,768,000 and at April 27, 2003 was approximately $2,690,000.

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

18. COMPREHENSIVE INCOME (LOSS)

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

A summary of comprehensive income (loss) follows:

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

19. RECENTLY ADOPTED ACCOUNTING STANDARDS

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

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

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

For the initial application of SFAS No. 142, an independent business valuation specialist was engaged to assist the company in the determination of the fair market value of Culp Decorative Fabrics (CDF), one of the company's two divisions within the upholstery segment, because of the significance of the goodwill associated with the division and due to its operating performance for fiscal 2002 and 2001. The fair value of the CDF division determined using several different methods, including comparable companies, comparable transactions and discounted cash flow analysis, was less than the carrying value. Accordingly, the company recorded a goodwill impairment charge of $37.6 million ($24.2 million net of taxes of $13.4 million), or $2.11 per share diluted, related to the goodwill associated with the CDF division. After the goodwill impairment charge, the company's remaining goodwill relates to the following divisions: Culp Decorative Fabrics - $5.1 million and Culp Home Fashions - $4.1 million.

The company updated its goodwill impairment test as of May 2, 2004. This updated impairment test, which was prepared by the company with the assistance of an independent business valuation specialist, did not indicate any further impairment of goodwill. The determination of fair value involves considerable estimation and judgment. In particular, determining the fair value of a business unit involves, among other things, developing forecasts of future cash flows and appropriate discount rates. Although the company believes it has based the impairment testing on reasonable estimates and assumptions, the use of different estimates and assumptions could result in materially different results. As a result of a continuing difficult business environment, there is a potential for further impairment of the goodwill related to Culp Decorative Fabrics.

20. RECENTLY ISSUED ACCOUNTING STANDARDS

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

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

Selected Quarterly Data

(amounts in thousands, except per share amounts)	fiscal 2004 4th quarter	fiscal 2004 3rd quarter	fiscal 2004 2nd quarter	fiscal 2004 1st quarter	fiscal 2003 4th quarter	fiscal 2003 3rd quarter	fiscal 2003 2nd quarter	fiscal 2003 1st quarter
INCOME (LOSS) STATEMENT DATA								
net sales	$ 85,148	76,561	82,731	73,676	90,406	79,492	83,740	86,008
cost of sales	69,510	62,093	65,993	62,198	74,218	65,704	69,997	72,154
gross profit	15,638	14,468	16,738	11,478	16,188	13,788	13,743	13,854
SG & A expenses	9,925	10,282	10,296	10,516	10,324	9,798	9,481	10,437
restructuring expense (credit) and asset impairments	(1,047)	0	0	0	(25)	(354)	13,360	0
income (loss) from operations	6,760	4,186	6,442	962	5,889	4,344	(9,098)	3,417
interest expense	988	1,534	1,509	1,497	1,392	1,665	1,676	1,903
interest income	(20)	(113)	(121)	(122)	(182)	(143)	(121)	(150)
early extinguishment of debt	0	1,672	0	0	0	0	0	0
other expense	220	229	62	239	160	192	242	211
income (loss) before income taxes	5,572	864	4,992	(652)	4,519	2,630	(10,895)	1,453
income taxes	1,839	112	1,846	(241)	1,247	963	(4,305)	538
income (loss) before cumulative effect of accounting change	3,733	752	3,146	(411)	3,272	1,667	(6,590)	915
cumulative effect of accounting change, net of income taxes	0	0	0	0	0	0	0	(24,151)
net income (loss)	3,733	752	3,146	(411)	3,272	1,667	(6,590)	(23,236)
depreciation	$ 3,348	3,411	3,439	3,444	3,436	3,415	3,498	3,641
weighted average shares outstanding	11,531	11,529	11,524	11,515	11,496	11,485	11,483	11,383
weighted average shares outstanding, assuming dilution	11,815	11,859	11,774	11,515	11,616	11,714	11,483	11,765
PER SHARE DATA								
basic income (loss) per share:								
income (loss) before cumulative effect of accounting change	$ 0.32	0.07	0.27	(0.04)	0.28	0.15	(0.57)	0.08
cumulative effect of accounting change	0	0	0	0	0	0	0	(2.12)
net income (loss)	0.32	0.07	0.27	(0.04)	0.28	0.15	(0.57)	(2.04)
diluted income (loss) per share:								
income (loss) before cumulative effect of accounting change	$ 0.32	0.06	0.27	(0.04)	0.28	0.14	(0.57)	0.08
cumulative effect of accounting change	0	0	0	0	0	0	0	(2.12)
net income (loss)	0.32	0.06	0.27	(0.04)	0.28	0.14	(0.57)	(2.04)
book value	8.95	8.63	8.55	8.28	8.33	8.02	7.87	8.45
BALANCE SHEET DATA								
operating working capital (3)	$ 64,439	62,492	61,262	54,854	61,937	64,063	68,492	70,762
property, plant and equipment, net	77,770	78,909	81,219	83,299	84,962	85,396	85,049	89,201
total assets	193,728	193,853	224,812	214,387	218,153	236,753	235,598	235,959
capital expenditures	2,377	1,103	1,427	1,840	3,153	3,748	2,258	3,070
long-term debt (1)	51,030	51,063	76,616	76,551	76,500	96,141	96,558	96,533
shareholders' equity	103,391	99,467	98,605	95,340	95,765	92,075	90,326	97,007
capital employed (2)	154,421	150,530	175,221	171,891	172,265	188,216	186,884	193,540
RATIOS & OTHER DATA								
gross profit margin	18.4%	18.9%	20.2%	15.6%	17.9%	17.3%	16.4%	16.1%
operating income (loss) margin	7.9	5.5	7.8	1.3	6.5	5.5	(10.9)	4.0
net income (loss) margin before cumulative effect of accounting change	4.4	1.0	3.8	(0.6)	3.6	2.1	(7.9)	1.1
effective income tax rate	33.0	13.0	37.0	37.0	27.6	36.6	39.5	37.0
long-term debt-to-total capital employed ratio (1)	33.0	33.9	43.7	44.5	44.4	51.1	51.7	49.9
operating working capital turnover (3)	5.2	5.3	5.3	5.1	5.0	4.9	4.8	4.7
days sales in receivables	33	31	34	32	32	34	36	34
inventory turnover	5.5	4.7	5.1	5.0	5.8	4.9	4.9	4.9
STOCK DATA								
stock price								
high	$ 12.28	12.25	10.95	8.03	8.10	9.97	14.95	17.89
low	8.52	9.98	7.00	5.05	3.75	6.21	3.81	8.00
close	8.61	11.56	10.72	7.42	5.00	7.19	6.50	11.40
daily average trading volume (shares)	22.9	32.0	56.0	107.9	65.5	59.9	97.4	145.5

(1) Long-term debt includes long- and short-term debt
(2) Capital employed includes long-term debt and shareholders' equity
(3) Operating working capital for this calculation is accounts receivable, inventories and accounts payable

Selected Annual Data

(amounts in thousands, except per share amounts)	fiscal 2004	fiscal 2003	fiscal 2002	fiscal 2001	fiscal 2000	percent change 2004/2003	five-year growth rate (4)
INCOME (LOSS) STATEMENT DATA							
net sales	$ 318,116	339,646	382,574	410,609	488,079	(6.3)%	(8.0)%
cost of sales (6)	259,794	282,073	319,717	354,622	403,414	(7.9)	(8.6)
gross profit	58,322	57,573	62,857	55,987	84,665	1.3	(5.2)
S G & A expenses	41,019	40,040	48,059	50,366	59,935	2.4	(7.3)
goodwill amortization	0	0	1,395	1,395	1,395	0	(100.0)
restructuring (credit) expense and asset impairment (6)	(1,047)	12,981	10,368	5,625	0	(108.1)	100.0
income (loss) from operations	18,350	4,552	3,035	(1,399)	23,335	303.1	4.4
interest expense	5,528	6,636	7,907	9,114	9,521	(16.7)	(10.5)
interest income	(376)	(596)	(176)	(46)	(51)	(36.9)	14.0
early extinguishment of debt	1,672	0	0	0	0	100.0	100.0
other expense	750	805	1,444	1,941	171	(6.8)	8.7
income (loss) before income taxes	10,776	(2,293)	(6,140)	(12,408)	13,694	N.M	17.3
income taxes	3,556	(1,557)	(2,700)	(4,097)	4,314	328.4	24.1
income (loss) before cumulative effect of accounting change	7,220	(736)	(3,440)	(8,311)	9,380	N.M	14.6
cumulative effect of accounting change, net of income taxes (7)	0	(24,151)	0	0	0	100.0	0
net income (loss)	7,220	(24,887)	(3,440)	(8,311)	9,380	129.0	14.6
depreciation	$ 13,642	13,990	17,274	19,391	19,462	(2.5)	(6.0)
cash dividends	0	0	0	1,177	1,611	0	(100.0)
weighted average shares outstanding	11,525	11,462	11,230	11,210	11,580	0.5	(2.2)
weighted average shares outstanding, assuming dilution	11,777	11,462	11,230	11,210	11,681	2.7	(2.1)
PER SHARE DATA							
basic income (loss) per share:							
income (loss) before cumulative effect of accounting change	$ 0.63	(0.06)	(0.31)	(0.74)	0.81	N.M	17.6
cumulative effect of accounting change (7)	0	(2.11)	0	0	0	100.0	0.0
net income (loss)	0.63	(2.17)	(0.31)	(0.74)	0.81	129.0	17.6
diluted income (loss) per share:							
income (loss) before cumulative effect of accounting change	0.61	(0.06)	(0.31)	(0.74)	0.81	N.M	16.9
cumulative effect of accounting change (7)	0	(2.11)	0	0	0	100.0	0.0
net income (loss)	0.61	(2.17)	(0.31)	(0.74)	0.81	128.1	16.9
cash dividends	0.00	0.00	0.00	0.105	0.14	0.0	(100.0)
book value	8.95	8.33	10.52	10.85	11.57	7.4	(3.4)
BALANCE SHEET DATA							
operating working capital (5)	$ 64,441	61,937	76,938	90,475	112,407	4.0%	(10.4)%
property, plant and equipment, net	77,770	84,962	89,772	112,322	126,407	(8.5)	(8.8)
total assets	193,728	218,153	287,713	289,580	343,980	(11.2)	(10.2)
capital expenditures	6,747	12,229	4,729	8,050	22,559	(44.8)	(8.8)
long-term debt (1)	51,030	76,500	108,484	111,656	137,486	(33.3)	(18.1)
shareholders' equity	103,391	95,765	119,065	121,802	129,640	8.0	(4.2)
capital employed (3)	154,421	172,265	227,549	233,458	267,126	(10.4)	(10.4)
RATIOS & OTHER DATA							
gross profit margin	18.3%	17.0%	16.4%	13.6%	17.3%		
operating income (loss) margin	5.8	1.3	0.8	(0.3)	4.8		
net income (loss) margin before cumulative effect of accounting change	2.3	(0.2)	(0.9)	(2.0)	1.9		
effective income tax rate	33.0	67.9	44.0	33.0	31.5		
long-term debt to total capital employed ratio (1)	33.0	44.4	47.7	47.8	51.5		
operating working capital turnover (5)	5.2	5.0	4.5	4.0	4.4		
days sales in receivables	35	35	41	51	49		
inventory turnover	5.6	5.3	5.4	5.3	5.4		
STOCK DATA							
stock price							
high	$ 12.28	17.89	10.74	7.25	11.06		
low	5.05	3.75	2.12	1.63	5.00		
close	8.61	5.00	9.30	4.95	5.81		
P/E ratio (2)							
high (4)	20.1	N.M	N.M	N.M	13.7		
low (4)	8.3	N.M	N.M	N.M	6.2		
daily average trading volume (shares)	55.9	92.3	24.9	16.2	15.8		

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

Report of Independent Registered Public Accounting Firm

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

We have audited the accompanying consolidated balance sheets of Culp, Inc. and subsidiaries as of May 2, 2004 and April 27, 2003, and the related consolidated statements of income (loss), shareholders' equity, and cash flows for each of the years in the three-year period ended May 2, 2004. These consolidated financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Culp, Inc. and subsidiaries as of May 2, 2004 and April 27, 2003, and the results of their operations and their cash flows for each of the years in the three-year period ended May 2, 2004, in conformity with U.S. generally accepted accounting principles.

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

KPMG LLP

Greensboro, North Carolina
June 4, 2004

Management's Statement of Responsibility

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

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

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

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

Robert G. Culp, III
Chairman and Chief Executive Officer
(principal executive officer)
June 4, 2004

Franklin N. Saxon
President and
Chief Operating Officer
(principal financial officer)
June 4, 2004

Kenneth R. Bowling
Vice President - Finance
and Treasurer
(principal accounting officer)
June 4, 2004

Corporate Directory

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

Howard L. Dunn, Jr.
Vice Chairman of the Board; Director (E)

Franklin N. Saxon
President and Chief Operating Officer; Director (E)

Robert G. Culp, IV
President, Culp Home Fashions

Boyd B. Chumbley
President, Culp Velvets/Prints

Rodney A. Smith
President, Culp Decorative Fabrics

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

Harry R. Culp
Private Investor
Director

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

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

Kenneth W. McAllister
Member, McAllister & Hanks, PLLC
High Point, NC
Director (A,C,N)

Patrick H. Norton
Chairman of the Board
La-Z-Boy Incorporated
Monroe, MI
Director

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

Shareholder Information

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www.culpinc.com

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EquiServe Trust Company, N.A.
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Providence, Rhode Island 02940-3023

Telephone:
(800) 633-4236
(816) 843-4293 (Foreign Shareholders)
www.equiserve.com

Independent Registered Public Accounting Firm
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 or at the investor relations section at www.culpinc.com.

Analyst Coverage
These analysts cover Culp, Inc.:

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

Stock Listing
Culp, Inc. common stock is traded on the New York Stock Exchange under the symbol CFI. As of May 2, 2004, Culp, Inc. had approximately 1,800 shareholders based on the number of holders of record and an estimate of 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 21, 2004 at the Radisson Hotel; 135 South Main Street; High Point, North Carolina.