



CULP

2005 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.

Financial Highlights

<i>(Amounts in thousands, except per share data)</i>	2005	2004
STATEMENTS OF INCOME (LOSS)		
Net sales	\$ 286,498	318,116
Net income (loss)	(17,852)	7,220
Pro forma net income (loss) (Table 1)	(3,429)	7,639
PER SHARE		
Net income (loss)	\$ (1.55)	0.61
Pro forma diluted net income (loss) (Table 2)	(0.30)	0.65
Book value	7.43	8.95

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

	2005	2004
Net income (loss), as reported	\$ (17,852)	7,220
Early extinguishment of debt, net of income taxes		1,120
Restructuring and related charges (credit) and goodwill impairment, net of income taxes	14,423	(701)
Pro forma net income (loss)	\$ (3,429)	7,639

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

	2005	2004
Diluted net income (loss) per share, as reported	\$ (1.55)	0.61
Early extinguishment of debt, net of income taxes		0.10
Restructuring and related charges (credit) and goodwill impairment, net of income taxes	1.25	(0.06)
Pro forma diluted net income (loss) per share	\$ (0.30)	0.65

(Throughout this annual report, 2005, 2004, 2003, 2002 and 2001 are used to refer, respectively, to the company's fiscal years that ended in those same calendar periods.)

Fellow Shareholders:

Fiscal 2005 brought a number of significant changes for Culp as we continued to face many challenges in our industry. However, with these challenges we also see exciting opportunities for Culp. There is no question that the home furnishings industry has changed dramatically over the past several years and we have worked hard to deal with many new market realities. These changes have necessitated difficult decisions regarding our operations, our associates and our future direction. Essentially, we are transitioning our business model to a more agile, marketing driven business with less emphasis on U.S. upholstery fabric manufacturing. Our goal is to meet the changing demands of our customers with superior product design, quality and service, and unsurpassed value. Many of the strategic changes we have made to meet this goal are affecting our bottom line in the short term as we position Culp for improved profitability. We believe we have the right strategy in place, and are continuing to make tangible progress in enhancing our competitive position in today's global marketplace.

MATTRESS FABRICS SEGMENT STRENGTHENS MARKET POSITION

Our mattress fabrics segment, also known as mattress ticking, has become an increasingly important part of Culp's business, and we are enthusiastic about our leadership

position in this market segment. In fiscal 2005, mattress fabric sales accounted for approximately 37 percent of Culp's sales, compared with 33 percent in fiscal 2004. To put this in perspective, just five years ago it was about 20 percent of our sales. The bedding industry has proven to be a very stable and mature business, averaging over six percent annual growth for the past twenty years, in spite of several economic downturns. Consumer demographic trends point to continued growth in the bedding industry and, as a result, we see significant opportunities for Culp. Importantly, unlike the upholstery fabrics industry, the bedding industry is not being threatened by intense competition from imports and current trends indicate that this will remain a North American based business. We believe that Culp is well positioned to capitalize on the expected bedding demand trends with innovative product designs, a globally competitive cost structure and superior customer service and delivery performance.

While overall sales for fiscal 2005 were slightly below the prior year in absolute dollars, actual yards sold increased by over four percent. This increase is especially noteworthy because it occurred at the end of the bedding industry's transition to one-side mattresses, which utilize about one-third less mattress ticking. Our ability to achieve growth in our mattress ticking business while industry demand

levels were trending down reflects solid execution in this business segment.

Throughout fiscal 2005, the mattress fabrics segment was also affected by industry-wide pricing pressures as well as higher raw material costs. Our margins in this segment were below the levels we experienced in prior years as a result of this challenging pricing environment, which is due mostly to the way our customers buy ticking. We are experiencing a trend among mattress manufacturers toward using common stock keeping units, or SKUs, and less expensive fabric for borders, which is the ticking or fabric that goes on the side of mattresses and box springs. Mattress manufacturers have also experienced higher costs for other mattress components, such as steel and flame retardant requirements, placing additional pricing pressure on ticking suppliers.

Over the past year, Culp has taken aggressive steps to address these market challenges and improve margins in our mattress ticking segment. In October 2004, we announced plans to consolidate our mattress fabric manufacturing into the company's plants located in Quebec, Canada, and Stokesdale, North Carolina. This capital project involved the relocation of ticking looms from an upholstery fabric plant and the purchase of new looms that are faster and more efficient than the equipment being replaced. Our related capital expenditures total approximately \$7.0 million, of which approximately \$4.5 million were incurred this past year with the remainder to be realized in early fiscal

2006. We believe these changes in our manufacturing operations will significantly enhance our globally competitive cost structure. We also believe that once this project is fully implemented, Culp will be well positioned to substantially improve operating margins in our mattress ticking business by the end of fiscal 2006. We look forward to the opportunity to extend our leadership position in this important business for Culp.

MAJOR CHANGES IN UPHOLSTERY FABRICS SEGMENT

Fiscal 2005 marked a year of significant transition for our upholstery fabrics segment. The precipitous decline in demand for residential upholstery fabrics produced in the U.S. has been felt throughout the industry. We have continued to witness strong consumer preference for leather and suede furniture and growing competition from imported fabrics including the growth of cut and sewn kits, mostly from China. As a result, we have experienced much lower demand for products we produce in the U.S. compared with the rapidly growing demand for products produced offshore. While we acknowledge the challenges in the marketplace, we also believe Culp has made significant progress in adapting our business model to this shift in demand.

We believe one of our strengths as a company has been our agility in responding to a changing marketplace. In fiscal 2005 we made the decision to consolidate our U.S.

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upholstery fabric operations in order to reduce costs, increase asset utilization, and improve profitability. We took very aggressive steps to further adjust our cost structure and bring our U.S. manufacturing capacity in line with demand. The restructuring actions involved further consolidation of the company's domestic upholstery fabric operations and the elimination of certain raw material and finished goods SKUs to simplify manufacturing processes, increase productivity and reduce inventories. Additionally, we made significant reductions in our selling, general and administrative expenses. We also made a strategic decision to combine our sales, design and customer service activities for Culp Decorative Fabrics and Culp Velvets/Prints, the two divisions within the upholstery fabrics segment. We believe our customers will benefit from having one dedicated team focused on providing the upholstery fabrics that they require.

While these consolidation efforts involved difficult personnel decisions, our primary focus in our U.S. upholstery manufacturing operations is to restore profitability. Although we have taken very decisive actions and made considerable progress, we acknowledge many challenges still lie ahead of us to meet our objectives. We remain committed to taking whatever additional steps are necessary to achieve profitable U.S. operations.

OFFSHORE PRODUCED BUSINESS

DRIVING GROWTH IN UPHOLSTERY FABRICS

In fiscal 2005 we continued to gain momentum with respect to our offshore produced business. Sales of upholstery

fabrics produced outside of our U.S. manufacturing plants, which include the popular micro-denier suedes as well as fabrics produced at our China facility, were up 100 percent for the year. Customer response has been favorable and we are excited about the innovative products that we are now able to offer. Our introduction of exciting new offshore-produced fabrics at the Showtime fabric market in July was well received, and we anticipate strong placements with manufacturers at the fall furniture market. Our customers are receiving the same excellent design and quality that always have been trademarks of Culp, but at significantly better values. We believe Culp has an effective global sales and sourcing strategy in place to meet the changing demands of our customers, and we continue to aggressively pursue additional opportunities to expand our market reach.

We believe the recent development of our China operation represents a compelling opportunity for Culp. As our U.S. customers have continued to move an increasing amount of their fabric purchases to Asia, Culp has moved with them and responded with an operation designed to meet their fabric needs. The cornerstone of our China strategy is our state-of-the-art fabric finishing and inspection facility located in the Qingpu Industrial Zone, just outside of Shanghai. With specialized and proprietary equipment, we have the capability to control the value-added finishing process, thereby assuring our customers that our fabrics will meet or exceed U.S. quality standards. By providing our innovative fabrics and value-added technology in a low-cost production environment, Culp offers differentiated

Our primary focus for the next year is to restore Culp to profitability and to deliver results that will reward our shareholders.

products and value to our customers. We are pleased with the execution of our China strategy to date and the opportunities to aggressively expand this platform. Our vision has developed quickly and today we have a growing upholstery fabric operation in China with over 130 experienced and dedicated associates. Overall, our offshore-sourced business is now profitable and represents a significant growth opportunity in today's global marketplace.

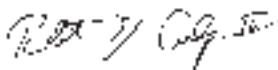
A LOOK AHEAD

Fiscal 2005 was clearly an important year of transition for Culp. Our associates were confronted with many challenges and they handled them confidently. We want to acknowledge the dedicated efforts of all of our associates, board of directors and everyone associated with Culp. We believe the changes we have made will improve our performance and we have many reasons to be optimistic about Culp's prospects for fiscal 2006. The steps we have taken over the past year to right-size our domestic upholstery fabric capacity and streamline our operations will significantly reduce our costs and allow us to operate more efficiently. Our competitive position in mattress ticking is solid and we look forward to realizing the benefits of the recently completed capital project for this segment. We are excited about the progress in our offshore produced business and believe this will be an important driver of our success in fiscal 2006. An integral part of this business is our China facility, and we look forward to the additional growth opportunities for this platform. We remain

confident that we are moving Culp in the right direction. Above all, our primary focus for the next year is to restore Culp to profitability and to deliver results that will reward our shareholders.

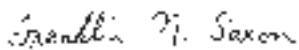
Thank you for your continued support.

Sincerely,



Robert G. (Rob) Culp, III

Chairman of the Board and Chief Executive Officer



Franklin N. Saxon

President

August 15, 2005

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, operating income, 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, but are not limited to, the following:

- Decreases in economic indicators such as the level of housing starts and sales of existing homes, consumer confidence, trends in disposable income, and general economic conditions, could have a negative effect on the company's business and prospects;
- Increases in interest rates, particularly home mortgage rates, and increases in consumer debt or the general rate of inflation, could affect the company adversely;
- 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;
- 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;
- Changes in consumer tastes or preferences toward products not produced by the company could erode demand for the company's products;
- Growth in competition from imported fabrics could increase overall competition, especially price competition, for the company's products;
- 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; and
- Other factors discussed elsewhere in this report or in the company's other filings 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 its 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 1, 2005, 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.

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 1, 2005, 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 12, 2005.

OVERVIEW

The company's fiscal year is the 52 or 53 week period ending on the Sunday closest to April 30. The year ended May 1, 2005, included 52 weeks versus 53 weeks for the same period of fiscal 2004. 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 woven fabrics for residential and commercial furniture and yarn for use primarily by the company, with some outside sales. Culp Velvets/Prints markets velvet, printed fabrics and microdenier suedes used primarily for residential furniture.

Effective May 3, 2004, the company began allocating selling, general and administrative expenses to its operating segments and began evaluating the operating performance of its segments based upon income (loss) from operations before restructuring and related charges or credits and certain unallocated corporate expenses. Previously, the company evaluated operating segment performance based upon gross profit. Operating income (loss) and gross profit for prior periods by segment is presented for comparative purposes. Unallocated corporate expenses represent primarily compensation and benefits for certain executive officers and all costs related to being a public company. Segment assets include assets used in the operation of each segment and consist of accounts receivable, inventories, and property, plant and equipment. The company no longer allocates goodwill to its operating segments for the purposes of evaluating operating performance.

The company's net sales for fiscal 2005 decreased 9.9%, with sales decreasing substantially in the upholstery fabrics segment and remaining essentially flat in the mattress fabrics segment when compared to fiscal 2004. The company reported a net loss of \$17.9 million, or \$1.55 per share diluted, which included restructuring and related charges of \$18.1 million and \$5.1 million of goodwill impairment related to the upholstery fabrics segment. The overall sales decline was attributable to continued softness in the company's domestically produced upholstery fabrics business, resulting primarily from the current consumer preference for leather and suede furniture and the growing competition from imported fabrics and cut and sewn kits, primarily from China. In addition to the restructuring and related charges and goodwill impairment that lowered operating income in fiscal 2005, the company's financial performance was further impacted by higher raw material costs, the underutilization of the company's U.S. manufacturing capacity and manufacturing variances related to the restructuring actions in the upholstery fabrics segment, and industry wide pricing pressure in the mattress fabrics segment.

The company is taking aggressive steps to address the challenges facing both of its segments. During fiscal 2005, the company initiated two major restructuring initiatives in the upholstery fabrics segment, both of which are designed to bring U.S. manufacturing capacity in line with demand, reduce costs, increase asset utilization and improve profits. In addition, the company has identified opportunities to reduce cost in its mattress fabrics segment by consolidating mattress ticking operations.

In an effort to offset the loss in sales of U.S. produced upholstery fabric products, the company is working on several initiatives to source and market upholstery fabric produced internationally, primarily from Asia. These measures are part of the company's continuing efforts to meet demand from consumers for certain types of fabrics, as well as serve the growing segment of the company's customer base that is establishing or expanding production in international areas. As a result of the company's offshore efforts, including its China platform, the company is experiencing higher sales of upholstery fabrics products produced outside the company's U.S. manufacturing plants, a trend that is expected to continue.

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.

	2005	2004	2003
Net sales	100.0%	100.0%	100.0%
Cost of sales	90.9	81.7	83.0
Gross profit	9.1	18.3	17.0
Selling, general and administrative expenses	12.3	12.9	11.8
Goodwill impairment	1.8	0.0	0.0
Restructuring (credit) expense and asset impairments	3.6	(0.3)	3.8
Income (loss) from operations	(8.6)	5.8	1.3
Interest expense, net	1.3	1.6	1.8
Early extinguishment of debt	0.0	0.5	0.0
Other expense	0.2	0.2	0.2
Income (loss) before income taxes	(10.1)	3.4	(0.7)
Income taxes *	38.0	33.0	67.9
Income (loss) before cumulative effect of accounting change	(6.2)%	2.3%	(0.2)%

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

SEGMENT INFORMATION

The company's two industry segments are mattress fabrics and upholstery fabrics. The mattress fabrics segment markets mattress ticking to bedding manufacturers and had sales of \$105.4 million in 2005, or 36.8% of the company's total revenues. This segment distributes fabrics to customers directly from its manufacturing facilities. The upholstery fabrics segment primarily markets fabric to residential and commercial furniture manufacturers and had sales of \$181.1 million, or 63.2% of the company's total revenues in 2005. The upholstery fabrics segment ships directly from its manufacturing facilities primarily to large furniture makers and utilizes inventory at distribution facilities to supply small and medium-size residential furniture manufacturers. Additional detailed information about the company's segments, including segment revenue and assets for the past three years, as well as geographic information for the company's segments, can be found in Note 16 of the Consolidated Financial Statements and Notes included elsewhere in this report.

The following tables set forth the company's sales, gross profit and operating income (loss) by segment/division for the fiscal years ended May 1, 2005, May 2, 2004 and April 27, 2003.

<i>(dollars in thousands)</i>	TWELVE MONTHS ENDED				
	Amounts			Percent of Total Sales	
	May 1, 2005	May 2, 2004	% Over (Under)	May 1, 2005	May 2, 2004
Net Sales by Segment					
Mattress Fabrics					
Culp Home Fashions	\$ 105,432	106,322	(0.8)%	36.8 %	33.4 %
Upholstery Fabrics					
Culp Decorative Fabrics	102,185	124,272	(17.8)%	35.7 %	39.1 %
Culp Velvets/Prints	78,881	87,522	(9.9)%	27.5 %	27.5 %
	181,066	211,794	(14.5)%	63.2 %	66.6 %
Net Sales	\$ 286,498	318,116	(9.9)%	100.0 %	100.0 %
Gross Profit by Segment					
					Gross Profit Margin
Mattress Fabrics	\$ 16,819	23,376	(28.1)%	16.0 %	22.0 %
Upholstery Fabrics	16,899	34,946	(51.6)%	9.3 %	16.5 %
Restructuring related charges	(7,561) ⁽¹⁾	0	(100.0)%	(4.2)%	0.0 %
Gross Profit	\$ 26,157	58,322	(55.2)%	9.1 %	18.3 %
Operating Income (Loss) by Segment					
					Operating Income (Loss) Margin
Mattress Fabrics	\$ 9,389	14,986	(37.3)%	8.9 %	14.1 %
Upholstery Fabrics	(6,435)	6,836	(194.1)%	(3.6)%	3.2 %
Unallocated corporate expenses	(4,480)	(4,519)	(0.9)%	(1.6)%	(1.4)%
Goodwill impairment	(5,126)	0	(100.0)%	(1.8)%	0.0 %
Restructuring and related charges and credits	(18,046) ⁽¹⁾	1,047 ⁽³⁾	(1,823.6)%	(10.0)%	0.5 %
Operating income (loss)	\$ (24,698)	18,350	(234.6)%	(8.6)%	5.8 %
Depreciation by Segment					
Mattress Fabrics	\$ 3,635 ⁽²⁾	3,753	(3.1)%		
Upholstery Fabrics	9,227 ⁽²⁾	9,889	(6.7)%		
Total Depreciation	\$ 12,862	13,642	(5.7)%		

(1) The \$7.6 million represents restructuring related charges of \$6.0 million for accelerated depreciation and \$1.6 million for inventory write-downs. The \$18.0 million represents \$7.7 million in related charges for accelerated depreciation and inventory markdowns, \$5.6 million related to write-downs of buildings and equipment, \$2.5 million related to asset movement costs, and \$2.2 million related to employee termination costs.

(2) Excludes accelerated depreciation of approximately \$6.0 million associated with plant and equipment.

(3) The \$1.0 million restructuring credit represents adjustment of accrued employee benefit and other plant closing costs related to the shutdown of the Chattanooga and Lumberton operations.

<i>(dollars in thousands)</i>	TWELVE MONTHS ENDED				
	Amounts			Percent of Total Sales	
	May 2, 2004	April 27, 2003	% Over (Under)	May 2, 2004	April 27, 2003
Net Sales by Segment					
Mattress Fabrics					
Culp Home Fashions	\$ 106,322	99,550	6.8%	33.4%	29.3%
Upholstery Fabrics					
Culp Decorative Fabrics	124,272	144,047	(13.7)%	39.1%	42.4%
Culp Velvets/Prints	87,522	96,049	(8.9)%	27.5%	28.3%
	211,794	240,096	(11.8)%	66.6%	70.7%
Net Sales	\$ 318,116	339,646	(6.3)%	100.0 %	100.0%
Gross Profit by Segment				Gross Profit Margin	
Mattress Fabrics	\$ 23,376	22,835	2.4%	22.0%	22.9%
Upholstery Fabrics	34,946	37,656	(7.2)%	16.5%	15.7%
Restructuring related charges	0	(2,918) ⁽²⁾	(100.0)%	0.0%	(1.2)%
Gross Profit	\$ 58,322	57,573	1.3%	18.3%	17.0%
Operating Income by Segment				Operating Income Margin	
Mattress Fabrics	\$ 14,986	15,117	(0.9)%	14.1%	15.2%
Upholstery Fabrics	6,836	8,395	(18.6)%	3.2%	3.5%
Unallocated corporate expenses	(4,519)	(3,061)	47.6%	(1.4)%	(0.9)%
Restructuring and related charges and credits	1,047 ⁽¹⁾	(15,899) ⁽²⁾	(106.6)%	0.5%	(6.6)%
Operating income	\$ 18,350	4,552	303.1%	5.8%	1.3%
Depreciation by Segment					
Mattress Fabrics	\$ 3,753	2,679	40.1%		
Upholstery Fabrics	9,889	11,311	(12.6)%		
Total Depreciation	\$ 13,642	13,990	(2.5)%		

(1) The \$1.0 million restructuring credit represents adjustment of accrued employee benefit and other plant closing costs related to the shutdown of the Chattanooga and Lumberton operations.

(2) The \$2.9 million represents restructuring related charges of \$1.7 million for asset movement costs and \$1.2 million for inventory write-downs, related to CDF.

The \$15.9 million represents \$12.1 million of restructuring expenses related to CDF for lease termination expenses and personnel costs, \$1.7 million of restructuring related charges for asset movement costs regarding CDF, \$1.2 million of restructuring related charges for inventory write-downs regarding CDF, \$1.3 million of restructuring expenses related to write-downs of equipment in connection with the exit from the wet printed flock business by CVP, offset by a restructuring credit of \$354,000 for over accrued employee benefit and plant security costs.

2005 COMPARED WITH 2004

The company's net sales for fiscal 2005 decreased 9.9% to \$286.5 million; and the company reported a net loss of \$17.9 million, or \$1.55 per share diluted, versus net income of \$7.2 million, or \$0.61 per share diluted, in fiscal 2004. Restructuring and related charges of \$18.1 million and goodwill impairment of \$5.1 million were included in the net loss for fiscal 2005. In addition, restructuring credits of \$ 1.0 million and an early extinguishment of debt charge of \$ 1.7 million were included in net income for fiscal 2004.

During fiscal 2005, the company began two major restructuring initiatives. A detailed explanation of each plan is presented in the "Restructuring and Related Charges and Goodwill Impairment" sections below. The total charges incurred for both restructuring initiatives were \$23.2 million, of which \$5.1 million related to goodwill impairment. Of the total charges, \$10.4 million was recorded in restructuring expense, \$5.1 million was recorded in goodwill impairment, and \$113,000 was recorded in selling, general and administrative expenses in the 2005 Consolidated Statement of Income (Loss); and \$7.6 million was recorded in cost of sales in the 2005 Consolidated Statement of Income (Loss).

RESTRUCTURING AND RELATED CHARGES AND GOODWILL IMPAIRMENT

October 2004-Upholstery Fabrics: In October 2004, management and the board of directors approved a restructuring plan within the upholstery fabrics segment aimed at reducing costs, increasing asset utilization and improving profitability. Due to continued pressure on demand in this segment, management decided to adjust the company's cost structure and bring U.S. manufacturing capacity in line with demand. The restructuring plan principally involved consolidation of the company's decorative fabrics weaving operations by closing Culp's facility in Pageland, South Carolina, and consolidating those operations into the Graham, North Carolina facility. Additionally, the company consolidated its yarn operations by integrating the production of the Cherryville, North Carolina plant into the company's Shelby, North Carolina facility. Another element of the restructuring plan was a substantial reduction in certain raw material and finished goods stock keeping units, or SKUs, to reduce manufacturing complexities and lower costs, with the ongoing objective of identifying and eliminating products that were not generating acceptable volumes or margins. Finally, the company made reductions in selling, general, and administrative expenses. Overall, these restructuring actions reduced the number of associates by approximately 250 people, representing approximately 14 percent of Culp's upholstery fabrics segment employees.

During fiscal 2005, the total restructuring and related charges incurred for this restructuring initiative were \$16.3 million, of which approximately \$6.8 million related to accelerated depreciation associated with the plant and equipment disposed of, either by sale or by abandonment, and inventory mark-downs, \$5.1 million of goodwill impairment, which represented all of the remaining goodwill associated with the upholstery fabrics segment, \$2.4 million related to the dismantling, moving, and relocation of equipment to other company facilities, \$1.3 million related to write-downs of buildings and equipment, and \$722,000 related to employee termination costs. From this restructuring initiative, the company expects to realize annual savings of approximately \$9.5 million, of which approximately \$4.0 million will be in fixed manufacturing costs, an estimated \$2.0 million in variable manufacturing costs, and approximately \$3.5 million in selling, general and administrative costs.

April 2005-Upholstery Fabrics: In April 2005, management and the board of directors approved a restructuring plan within the upholstery fabrics segment designed to reduce costs, increase asset utilization, and improve profitability. The restructuring plan includes consolidation of the company's velvet fabrics manufacturing operations, additional fixed manufacturing cost reductions in the decorative fabrics operation, and significant reductions in selling, general, and administrative expenses within the upholstery fabrics segment. Another element of the restructuring plan will be a substantial reduction in raw material and finished goods stock keeping units, or SKUs, to simplify manufacturing processes, increase productivity and reduce inventories. The company is in the process of relocating velvet production equipment from the manufacturing facility in Burlington, North Carolina, to its other velvet plant in Anderson, South Carolina, resulting in significant reduction of fixed manufacturing costs. The Burlington facility will then be utilized as an inspection and distribution facility for fabrics imported from offshore sources and for finished goods warehousing of domestically produced upholstery fabrics. The company has also combined its sales, design, and customer service activities for Culp Decorative Fabrics and Culp Velvets/Prints, the two divisions within the upholstery fabrics segment, and has closed its stand-alone design center, also in Burlington. As a result, on June 30, 2005, the company sold two buildings, both located in Burlington, consisting of approximately 140,000 square feet. Once fully implemented, these initiatives will significantly reduce the company's selling, general, and administrative expenses. Overall, this restructuring action will reduce the number of employees by 225 people, representing approximately 17 percent of those in Culp's domestic upholstery fabrics segment. The implementation of this restructuring initiative began in early May, 2005 and is on schedule to be completed by August, 2005.

During fiscal 2005, the total restructuring and related charges incurred for this restructuring initiative were \$7.1 million, of which approximately \$4.3 million related to write-downs of building and equipment, \$1.9 million related to employee termination costs, \$874,000 related to accelerated depreciation associated with the plant and equipment scheduled to be disposed of, either by sale or by abandonment, and inventory mark-downs, and \$47,000 related to lease termination costs. As a result of this restructuring initiative, the company expects to achieve annual savings of \$11 million, of which approximately \$6 million will come from lower selling, general and administrative costs and \$5 million will come from lower fixed manufacturing costs.

MATTRESS FABRICS SEGMENT

Net Sales – For fiscal 2005, the mattress fabrics segment reported sales of \$105.4 million compared with \$106.3 million for fiscal 2004. Mattress fabrics sales represented approximately 37% of total sales for fiscal 2005, up from 33% in fiscal 2004. Mattress ticking yards sold during fiscal 2005 were 45.0 million compared with 43.0 million yards sold last fiscal year, an increase of 4.5%. This increase in yards sold is noteworthy because it occurred as the bedding industry completed the transition to selling predominantly one-sided mattresses, which utilize about one-third less mattress ticking. This transition at retail began in mid-to-late calendar year 2002 and affected sales on a comparable basis through early calendar 2005. The average selling price for mattress ticking was \$2.33 per yard compared to \$2.45 per yard last fiscal year, a decrease of 5.0%.

The mattress fabrics segment has faced a challenging pricing environment this fiscal year. This has been due in part to the way customers buy ticking. There is a current trend among mattress manufacturers toward using common SKU's and less expensive fabric for borders, which is the ticking that goes on the side of mattresses and box springs. In addition, mattress manufacturers are currently incurring higher costs for other mattress components, such as steel, as well as costs associated with flame retardant requirements. As a result of these increased costs, mattress manufacturers are placing additional pressure on mattress ticking prices, and in some instances manufacturers are moving to lower priced ticking.

Operating income – For fiscal 2005, the mattress fabrics segment reported operating income of \$9.4 million, or 8.9% of sales, compared with \$15.0 million, or 14.1% of sales, for fiscal 2004. During fiscal 2005, operating income was affected by industry wide pricing pressure, as well as higher raw material costs due primarily to the increased cost of petroleum based products. In addition to these pressures, operating income was affected by lower margins on closeout sales and manufacturing variances related to the relocation of mattress ticking looms.

The company is taking aggressive steps to address the challenges facing its business in this segment. First, the company has identified opportunities to reduce operating costs by consolidating mattress ticking operations. This \$7.0 million capital project involves relocation of ticking looms from an upholstery fabric plant to existing ticking facilities in the U.S. and Canada and the purchase of new weaving machines that are faster and more efficient than the equipment they will replace. This transition is well underway and is expected to be completed as planned by August 2005. More importantly, this transition is expected to generate \$4.5 million in annual savings. Second, to partially offset higher material costs, the company implemented a price increase of approximately three percent in this segment during the fourth quarter of this fiscal year. Lastly, the company is placing more design emphasis on new products with higher margins. Management believes the steps being taken will help this segment improve operating margins.

Segment Assets – Segment assets consist of accounts receivable, inventory and property, plant and equipment. As of May 1, 2005, accounts receivable and inventory totaled \$25.0 million, compared to \$24.6 million at the end of fiscal 2004. Also as of May 1, 2005, property, plant and equipment totaled \$26.7 million, compared to \$23.1 million at the end of fiscal 2004. Included in property, plant and equipment are assets located in the U.S. totaling \$12.2 million and \$9.8 million at May 1, 2005 and May 2, 2004, respectively.

UPHOLSTERY FABRICS SEGMENT

Net Sales – Upholstery fabric sales for fiscal 2005 decreased \$30.7 million, or 14.5%, to \$181.1 million from \$211.8 million in fiscal 2004. Upholstery fabric yards sold during fiscal 2005 were 42.4 million versus 49.6 million in fiscal 2004, a decline of 14.5%. Average selling price was \$4.19 per yard for fiscal 2005 compared with \$4.20 per yard in fiscal 2004.

The lower sales dollars and yards reflect continued soft demand industry wide for U.S. produced fabrics, as the result of the current consumer preference for leather and suede furniture and the growing competition from imported fabrics and cut and sewn kits, primarily from China. This paradigm shift in the industry is having a significant impact on the company's product mix, leading to significantly lower sales of domestically produced fabrics and rapidly growing sales of offshore manufactured and sourced products. Given these factors, it is difficult for management to predict demand for upholstery fabric manufactured in the U.S. or the extent to which the trend toward lower demand will continue.

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. As a result of the company's production and offshore sourcing efforts, including the China platform, the company is experiencing higher sales of upholstery fabric products produced outside of the company's U.S. manufacturing plants for fiscal 2005. For fiscal 2005, these sales increased 100.0% over the prior year and accounted for approximately \$31.3 million or 17.3% of upholstery fabric sales in fiscal 2005. Fabric produced offshore of \$15.6 million accounted for approximately 7.4% of upholstery fabric sales for fiscal 2004. The growth in offshore produced fabrics is a trend that is expected to continue.

A major component of the company's offshore business is its China operation, which began manufacturing 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 is currently leasing two facilities in the Shanghai region of China, where fabrics sourced in Asia are inspected and tested to assure compliance with the company's quality standards before shipment to its customers. In most cases, additional value-added finishing steps are applied to the fabrics in China before shipment. The

company's offshore business represents a significant growth opportunity in an increasing global furniture and fabrics market place. The company's U.S. customers have continued to move an increasing amount of their fabric purchases, including cut and sewn kits, to China, and the company is in position to meet their fabric needs.

Operating income (loss) – Operating loss for fiscal 2005 was \$6.4 million or 3.6% of sales, compared with operating income of \$6.8 million, or 3.2% of sales, for fiscal 2004. This significant decrease in segment operating income as compared to last year was primarily due to further underutilization of the company's U.S. manufacturing capacity and manufacturing variances related to restructuring activities. Additionally, the upholstery fabrics segment has been experiencing higher raw material costs due mainly to the increase in cost of petroleum based products.

During the fourth quarter of fiscal 2005, Solutia, which was the company's supplier for acrylic fiber, exited the acrylic fiber business. In response to this event, the company identified certain international suppliers as alternative sources for procuring acrylic fiber. However, in transitioning away from using Solutia, the company incurred higher fiber costs and increased inventory levels. To partially offset higher raw material prices, the company implemented a price increase of approximately three to four percent on domestically produced upholstery fabrics.

As previously discussed, the company is currently implementing aggressive restructuring initiatives to address the significant decline in operating profit in this segment. The restructuring initiatives are moving ahead as planned and management believes that the steps taken will improve operating efficiency and will result in higher asset utilization. However, management will continue to closely monitor trends in demand for upholstery fabrics produced by its domestic mills. If sales in the upholstery fabrics segment of U.S.-produced goods continue to decline and the segment is not able to produce acceptable levels of operating profit, the company will take additional actions to adjust its cost structure and capacity to match demand from its customers. The company could experience additional write-downs of its property, plant and equipment in this business if further restructuring actions or consolidations of assets take place.

Segment Assets – Segment assets consist of accounts receivable, inventory and property, plant and equipment. As of May 1, 2005, accounts receivable and inventory totaled \$54.4 million, compared to \$55.1 million at the end of fiscal 2004. Also as of May 1, 2005, property, plant and equipment totaled \$39.3 million, compared to \$54.6 million at the end of fiscal 2004. Included in property, plant and equipment are assets located in the U.S. totaling \$36.2 million and \$51.5 million for May 1, 2005, and May 2, 2004, respectively. The total of \$36.2 million includes allocations of \$5.3 million for the distribution facility and design center, both of which were sold in June 2005, and various other corporate allocations totaling \$4.2 million.

OTHER CORPORATE EXPENSES

Selling, General and Administrative Expenses – SG&A expenses of \$35.4 million for fiscal 2005 decreased \$5.7 million, or 13.8%, from fiscal 2004. As a percent of net sales, SG&A expenses decreased to 12.3% from 12.9% in fiscal 2004, due mostly to lower incentive compensation expense and significant cost reductions, mainly in the sales and marketing expense areas. The 13.8% spending decrease was achieved despite significantly higher professional fees, which included significant expenses incurred to comply with the requirements of the Sarbanes-Oxley Act of 2002.

Interest Expense (Income) – Interest expense for fiscal 2005 declined to \$3.7 million from \$5.5 million in fiscal 2004 due to lower borrowings outstanding. Interest income decreased to \$134,000 from \$376,000 in fiscal 2004 due to lower invested balances in fiscal 2005.

Income Taxes – The effective tax rate (taxes as a percentage of pretax income (loss)) for fiscal 2005 was 38.0% compared with 33.0% for fiscal 2004.

As of May 1, 2005, the company has net deferred income tax assets of \$17.1 million, an increase of \$12.0 million over net deferred income tax assets of \$5.1 million recorded at the fiscal year ended May 2, 2004. This increase results primarily from the federal and state tax benefits recorded for the loss from U.S. operations for fiscal 2005 (see note 9 in the Notes to Consolidated Financial Statements).

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, in fiscal 2003. Including the cumulative effect of accounting change, the company reported a loss of \$2.17 per share diluted for fiscal 2003. Restructuring credits of \$1.0 million and an early extinguishment of debt charge of \$1.7 million were included in net income for fiscal 2004. In addition, restructuring and related charges and credits of \$15.9 million 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 \$6.8 million, or 6.8%, to \$106.3 million from \$99.6 million in fiscal 2003, due principally to overall improved industry demand and continued gains with key customers. The 6.8% fiscal year sales gain in this segment was especially noteworthy because it occurred during the bedding industry's transition to selling predominantly one-sided mattresses, which utilize approximately 30% less mattress ticking.

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 fiscal 2003. This slight reduction in average selling price was due primarily to greater participation in cash discount terms.

Operating income – Operating income for fiscal 2004 was \$15.0 million or 14.1% of net sales, compared with operating income of \$15.1 million or 15.2% of net sales for fiscal 2003. This decrease in segment operating income compared to last year was primarily due to lower average selling prices offset by improved operating efficiencies.

UPHOLSTERY FABRICS SEGMENT

Net Sales – Upholstery fabric sales for fiscal 2004 decreased \$28.3 million, or 11.8%, to \$211.8 million from \$240.1 million in fiscal 2003, primarily reflecting a decline in sales in the Culp Decorative Fabrics division related to consumer preference for leather and competition from imported fabrics, including cut and sewn kits, primarily from China.

Upholstery fabric yards sold during fiscal 2004 were 49.6 million versus 57.7 million in fiscal 2003, a decline of 14.0%. Average selling price was \$4.20 per yard for fiscal 2004 compared with \$4.04 per yard in fiscal 2003, an increase of 4.0%, due primarily to higher average selling prices in the Culp Decorative Fabrics division.

Operating income – Operating income for fiscal 2004 was \$6.8 million or 3.2% of net sales, compared with operating income of \$8.4 million or 3.5% of net sales. This significant decrease in operating income as compared to fiscal 2003 was primarily due to a decline in sales in the Culp Decorative Fabrics division related to consumer preference for leather and competition from imported fabrics, including cut and sewn kits, primarily from China.

The company substantially increased its offshore sourcing of fabrics in fiscal 2004, increasing the proportion of upholstery fabrics from offshore to 7.4% compared to 4.1% in fiscal 2003. A major component of this offshore sourcing effort is the company's China operation, which was announced in March 2003 and began operations during the fourth quarter of fiscal 2004. As expected, the company experienced moderate operating losses in its China operations in fiscal 2004.

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% in fiscal 2003. 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 fiscal 2004 \$1.0 million restructuring credit resulted from the adjustment of accrued employee benefit and other plant closing costs related to the shutdown of the company's Chattanooga and Lumberton operations. The fiscal 2003 \$13.0 million restructuring expense represents \$12.1 million of restructuring expenses related to Culp Decorative Fabrics for lease termination expenses and personnel costs, \$1.3 million of restructuring expenses related to write-downs of equipment in connection with the wet printed flock business by Culp Velvets/Prints, offset by a restructuring credit of \$354,000 for over accrued employee benefit and plant security costs.

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 for fiscal 2004 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 incurred in fiscal 2004 represents premium and fees paid to reduce the \$75 million term loan balance.

Other Expense – Other expense for fiscal 2004 totaled \$750,000, compared with \$805,000 in fiscal 2003. 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.

HANDLING COSTS

The company records warehousing costs in Selling, General & Administrative expenses. These costs were \$4.4 million, \$4.6 million and \$4.9 million in fiscal 2005, fiscal 2004 and fiscal 2003, 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 \$21.8 million, or 7.6% in fiscal 2005, \$53.7 million, or 16.8% in fiscal 2004 and \$52.7 million, or 15.5% in fiscal 2003.

LIQUIDITY AND CAPITAL RESOURCES

The company's sources of liquidity include cash and cash equivalents, cash flow from operations and amounts available under its revolving credit line. These sources have been adequate for day-to-day operations and capital expenditures. The company believes its sources of liquidity continue to be adequate to meet its current needs. Cash and cash equivalents as of May 1, 2005, decreased to \$5.1 million from \$14.6 million at the end of fiscal 2004, primarily reflecting cash flow from operations of \$4.0 million, capital expenditures and payments on vendor financed capital expenditures of \$13.0 million, and payments on long-term debt of \$480,000.

WORKING CAPITAL

Accounts receivable as of May 1, 2005, decreased 6.2% from May 2, 2004, principally due to lower sales volume. The accounts payable balance as of May 1, 2005, increased 49.1% from May 2, 2004, primarily due to increased inventory purchases and capital expenditures related to the mattress fabrics capital project. Days sales outstanding totaled 35 days at May 1, 2005, and May 2, 2004. Inventories at the end of the fiscal year increased 3.0% from a year ago. Inventory turns for the year were 5.2 versus 5.3 for the year-earlier period. Operating working capital (comprised of accounts receivable and inventories, less trade accounts payable) was \$56.5 million at May 1, 2005, down from \$64.4 million at May 2, 2004.

FINANCING ARRANGEMENTS

The company's long-term debt of \$50.6 million is unsecured and is comprised of \$50.0 million in outstanding senior notes, with a fixed interest rate of 7.76% (payable semi-annually in March and September), and a \$575,000, non-interest bearing term loan with the Canadian government. Additionally, the company has a \$10.0 million revolving credit line with a bank. 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 1, 2005, there was \$1.4 million in outstanding letters of credit in support of inventory purchases and no borrowings outstanding under the agreement. The current bank agreement expires in August 2005. The first scheduled principal payment on the \$50.0 million senior notes is due March 2006 in the amount of \$7.5 million. The final payment on the Canadian government loan is due during the company's third quarter of fiscal 2006. The company was in compliance with all financial covenants in its loan agreements as of May 1, 2005.

In February 2005, the company amended its bank agreement with its lender to change the Interest and Leases Coverage Ratio such that at the end of each Fiscal Quarter beginning with the third Fiscal Quarter of Fiscal Year 2005, the Interest and Leases Coverage Ratio shall not be less than 1.25 to 1.0.

In December 2004, the company amended its bank agreement with its lender to provide for, among other things, a reduced revolving loan commitment of \$10.0 million from an existing commitment of \$15.0 million, including new letters of credits up to \$2.5 million.

COMMITMENTS

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

	2006	2007	2008	2009	2010	Thereafter	Total
Capital expenditure commitments	\$ 2,848	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,848
Accounts payable – capital expenditures	1,198	983	983	-	-	-	3,164
Operating leases ⁽¹⁾	3,894	2,926	1,661	395	104	6	8,986
Long-term debt	8,110	7,535	7,535	19,835	7,535	-	50,550
Total	\$ 16,050	\$ 11,444	\$ 10,179	\$ 20,230	\$ 7,639	\$ 6	\$ 65,548

Note: Payment Obligations by Fiscal Year Ending April

⁽¹⁾ Includes accrued restructuring expenses for the company's inactive Chattanooga manufacturing facility of \$869 for fiscal 2006, 2007, and 2008, respectively.

CAPITAL EXPENDITURES

Capital spending for fiscal 2005 was \$14.4 million, including \$1.5 million that is the non-cash portion of capital expenditures representing vendor financing. Also included in the \$14.4 million was approximately \$6.1 million in capital spending for the purchase of a building that serves as the company's new corporate offices and as new space for the company's showrooms. The company expects the annual operating costs of the new building to be significantly lower than the lease and related costs associated with the facilities that have been replaced by this new building. Also included in the \$14.4 million was \$4.5 million in capital spending related to the mattress fabrics capital project. Depreciation for fiscal 2005 was \$18.9 million, of which approximately \$6.0 million was related to accelerated depreciation associated with plant and equipment that has been disposed of or is scheduled to be disposed of, either by sale or abandonment, over the next three months. The company's capital budget for fiscal 2006 is \$4.5 million, including approximately \$2.0 million budgeted for the non-cash portion of expenditures representing vendor financing, which relates to the mattress fabrics capital project.

INFLATION

The cost of certain of the company's raw materials, principally fibers from petroleum derivatives, and utility/energy costs, increased during fiscal 2005 as oil and other energy prices increased and had an impact on the company's financial results, although these increases have moderated in recent months. These increases, however, are often not directly related to general economic inflation, which has not been a material factor in the company's recent financial results. Any significant increase in general economic inflation could have a material adverse impact on the company, however, because competitive conditions have limited the company's ability to pass significant operating cost increases on to its customers.

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 1, 2005, accounts receivable from furniture manufacturers totaled approximately \$18.2 million, and from bedding manufacturers approximately \$10.6 million. Additionally, as of May 1, 2005, the aggregate accounts receivable balance of the company's ten largest customers was \$10.9 million, or 35.4% 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. Significant management judgment and estimates must be used in connection with establishing the reserve for allowance for doubtful accounts. 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 increasing availability of low cost imports and 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, twelve and fifteen 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 follows the provisions of SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. SFAS No. 144 establishes an impairment accounting model for long-lived assets to be held and used, disposed of by sale, or disposed of by abandonment or other means.

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.

In fiscal 2005, the company prepared impairment evaluations on its Culp Decorative Fabrics and Culp Velvets/Prints divisions due to continued adverse business results requiring further restructuring of both businesses. The company's assessment indicated that the net undiscounted future operating cash flows of these businesses were sufficient to recover the carrying amount of the long-lived assets to be held and used.

The determination of future operating cash flows involves considerable estimation and judgment about future market conditions, future sales and profitability, and future asset utilization. Although the company believes it has based the impairment testing on reasonable estimates and assumptions, the use of different estimates and assumptions, or a decision to dispose of substantial portions of these assets, 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.

In October 2004, due to lower than expected operating profits and cash flow for the second quarter and year-to-date for fiscal 2005 in the Upholstery Fabrics segment, management determined that the remaining goodwill associated with this segment should be tested for impairment. An independent business valuation specialist was once again engaged to assist the company in the valuation. As a result of this valuation, the company recorded in its second quarter of fiscal 2005 a goodwill impairment charge of \$5.1 million (\$3.2 million net of taxes), or \$0.28 per share diluted.

As of May 1, 2005, the company's remaining \$4.1 million of goodwill relates to the Culp Home Fashions division.

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.

Restructuring Charges – 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)*. Under SFAS 146, 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 employee termination benefits that qualify under SFAS No. 112, *Employers' Accounting for Postemployment Benefits*.

The upholstery fabric industry continues to be under significant pressure from a variety of external forces, such as the current consumer preference for leather and suede furniture and the growing competition from imported fabrics and cut and sewn kits, primarily from China. In an effort to reduce operating expenses and scale U.S. productive capacity in line with demand, the company has undertaken restructuring initiatives during the past several years. These restructuring initiatives have resulted in restructuring charges related to the remaining lease costs of the closed facilities, the write-down of property, plant and equipment, workforce reduction and elimination of facilities.

Severance and related charges are accrued at the date the restructuring was approved by the board of directors based on an estimate of amounts that will be paid to affected employees, in accordance with SFAS 112. Under SFAS 144, 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. Other exit costs, which principally consist of charges for lease termination and losses from termination of existing contracts, equipment relocation costs and inventory markdowns that are related to the restructuring are accounted for in accordance with SFAS 146.

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.

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. At May 1, 2005, the company had deferred tax assets of \$25,249,000 (all of which are related to U.S. operations) and deferred tax liabilities of \$8,109,000, resulting in net deferred tax assets of \$17,140,000. The U.S. deferred tax liabilities total \$5,709,000 (all of which reverse in the carry forward period), resulting in net U.S. deferred tax assets of \$19,540,000. 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.

In making the judgment about the realization of the deferred tax assets, management has considered both negative and positive evidence, and concluded that sufficient positive evidence exists to overcome the cumulative losses experienced in recent years. Specifically, management considered the following, among other factors: nature of the company's products; history of positive earnings in the mattress fabrics segment; capital projects in progress to further enhance the company's globally competitive cost structure in the mattress fabrics segment; recent significant restructuring actions in the domestic upholstery fabrics business to adjust the domestic cost structure and bring U.S. manufacturing capacity in line with demand; and development of offshore manufacturing and sourcing programs to meet changing demands of upholstery fabric customers in the U.S. Management's analysis of taxable income also included the following considerations: none of the company's net operating loss carryforwards has previously expired unused; the U.S. federal carryforward period is 20 years; and the company's current losses principally expire in 17-20 years, fiscal 2022 through 2025.

Considerable judgment is involved in this process as ultimate realization of benefits is dependent on the generation of income from future operations.

RECENTLY ISSUED ACCOUNTING STANDARDS

In November 2004, the FASB issued SFAS No. 151, *Inventory Costs, and Amendment of ARB No. 43, Chapter 4*, which clarifies the types of costs that should be expensed rather than capitalized as inventory. This statement also clarifies the circumstances under which fixed overhead costs associated with operating facilities involved in inventory processing should be capitalized. The provisions of SFAS No. 151 are effective for fiscal years beginning after June 15, 2005 and the company will adopt this standard in fiscal 2007. Management has not determined the impact, if any, that this statement will have on our consolidated financial position or results of operations.

SFAS No. 123 (Revised 2004), *Share-Based Payment*, issued in December 2004, is a revision of FASB Statement 123, *Accounting for Stock-Based Compensation* and supersedes APB Opinion No. 25, *Accounting for Stock Issued to Employees*, and its related implementation guidance. The Statement focuses primarily on accounting for transactions in which an entity obtains employee services in share-based payment transactions. SFAS No. 123 (Revised 2004) requires a public entity to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award (with limited exceptions). That cost will be recognized over the period during which an employee is required to provide service in exchange for the award. The provisions of SFAS No. 123 (Revised 2004) are effective for fiscal years beginning after June 15, 2005 and the company will adopt this standard in fiscal 2007. Management has not determined the impact, if any, that this statement will have on our consolidated financial position or results of operations.

In December 2004, the FASB issued Staff Position FAS 109-1, which provides guidance on the application of SFAS No. 109, *Accounting for Income Taxes*, to the provision within the American Jobs Creation Act of 2004 that provides a tax deduction for qualified production activities. FAS 109-1 has not had, nor is it expected to have, a material impact on our financial reporting or disclosures.

CONSOLIDATED BALANCE SHEETS

May 1, 2005 and May 2, 2004

(dollars in thousands, except share data)

	2005	2004
ASSETS		
current assets:		
cash and cash equivalents	\$ 5,107	14,568
accounts receivable	28,824	30,719
inventories	50,499	49,045
deferred income taxes	7,054	9,256
other current assets	2,691	1,722
total current assets	94,175	105,310
property, plant and equipment, net	66,032	77,770
goodwill	4,114	9,240
deferred income taxes	10,086	0
other assets	1,716	1,496
total assets	\$176,123	193,816
LIABILITIES AND SHAREHOLDERS' EQUITY		
current liabilities:		
current maturities of long-term debt	\$ 8,110	528
accounts payable	22,852	15,323
accrued expenses	9,556	13,116
accrued restructuring costs	5,850	4,968
income taxes payable	1,544	1,850
total current liabilities	47,912	35,785
long-term debt, less current maturities	42,440	50,502
deferred income taxes	0	4,138
total liabilities	90,352	90,425
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 11,550,759 at May 1, 2005 and 11,546,634 at May 2, 2004	579	578
capital contributed in excess of par value	39,964	39,943
unearned compensation	(139)	(349)
retained earnings	45,367	63,219
total shareholders' equity	85,771	103,391
	\$176,123	193,816

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

CONSOLIDATED STATEMENTS OF INCOME (LOSS)

For the years ended May 1, 2005, May 2, 2004 and April 27, 2003

(dollars in thousands, except per share data)

	2005	2004	2003
net sales	\$286,498	318,116	339,646
cost of sales	260,341	259,794	282,073
gross profit	26,157	58,322	57,573
selling, general and administrative expenses	35,357	41,019	40,040
goodwill impairment	5,126	0	0
restructuring expense (credit) and asset impairments	10,372	(1,047)	12,981
income (loss) from operations	(24,698)	18,350	4,552
interest expense	3,713	5,528	6,636
interest income	(134)	(376)	(596)
early extinguishment of debt	0	1,672	0
other expense	517	750	805
income (loss) before income taxes	(28,794)	10,776	(2,293)
income taxes	(10,942)	3,556	(1,557)
income (loss) before cumulative effect of accounting change	(17,852)	7,220	(736)
cumulative effect of accounting change	0	0	(24,151)
net income (loss)	\$ (17,852)	7,220	(24,887)
basic income (loss) per share:			
income (loss) before cumulative effect of accounting change	\$ (1.55)	0.63	(0.06)
cumulative effect of accounting change	0.00	0.00	(2.11)
net income (loss)	\$ (1.55)	0.63	(2.17)
diluted income (loss) per share:			
income (loss) before cumulative effect of accounting change	\$ (1.55)	0.61	(0.06)
cumulative effect of accounting change	0.00	0.00	(2.11)
net income (loss)	\$ (1.55)	0.61	(2.17)

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

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

For the years ended May 1, 2005, May 2, 2004 and April 27, 2003

<i>(dollars in thousands, except share data)</i>	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 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
net loss					(17,852)		(17,852)
stock-based compensation				210			210
common stock issued in connection with stock option plans	4,125	1	21				22
balance, May 1, 2005	11,550,759	\$ 579	39,964	(139)	45,367	0	85,771

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended May 1, 2005, May 2, 2004, and April 27, 2003

<i>(dollars in thousands)</i>	2005	2004	2003
cash flows from operating activities:			
net income (loss)	\$ (17,852)	7,220	(24,887)
adjustments to reconcile net income (loss) to net cash provided by operating activities:			
cumulative effect of accounting change	0	0	24,151
depreciation	18,884	13,642	13,990
amortization of other assets	130	173	457
stock-based compensation	210	210	210
goodwill impairment	5,126	0	0
deferred income taxes	(12,022)	3,334	(2,507)
restructuring expense (credit)	10,372	(1,047)	12,981
changes in assets and liabilities:			
accounts receivable	1,895	1,540	11,107
inventories	(1,454)	507	8,347
other current assets	(969)	1,482	763
other assets	67	607	366
accounts payable	6,251	(951)	(8,558)
accrued expenses	(3,560)	(955)	(2,126)
accrued restructuring	(2,800)	(1,911)	(3,514)
income taxes payable	(306)	1,501	349
net cash provided by operating activities	3,972	25,352	31,129
cash flows from investing activities:			
capital expenditures	(11,448)	(5,976)	(6,830)
purchases of short-term investments	0	(17,282)	(10,043)
proceeds from the sale of short-term investments	0	27,325	0
net cash (used in) provided by investing activities	(11,448)	4,067	(16,873)
cash flows from financing activities:			
payments on vendor-financed capital expenditures	(1,527)	(3,932)	(1,294)
payments on long-term debt	(480)	(25,470)	(31,984)
proceeds from common stock issued	22	196	1,384
net cash used in financing activities	(1,985)	(29,206)	(31,894)
increase (decrease) in cash and cash equivalents	(9,461)	213	(17,638)
cash and cash equivalents at beginning of year	14,568	14,355	31,993
cash and cash equivalents at end of year	\$ 5,107	14,568	14,355

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 have been eliminated in consolidation.

Description of Business – The company 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 2005, 2004, and 2003 included 52, 53, and 52 weeks, respectively.

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.

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. The company does not have any off-balance sheet credit exposure related to its customers.

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. The fiscal 2003 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 \$212,000, \$50,000 and \$74,000 incurred during the years ended May 1, 2005, May 2, 2004, and April 27, 2003, 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 \$158,000, \$153,000 and \$60,000 are included in the other expense line item in the Consolidated Statements of Income (Loss) for the fiscal years ended May 1, 2005, May 2, 2004, and April 27, 2003, respectively.

Goodwill – 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.

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 initial application of SFAS No. 142, the company’s remaining goodwill related to the following divisions: Culp Decorative Fabrics - \$5.1 million and Culp Home Fashions - \$4.1 million.

Due to continued adverse business conditions the Culp Decorative Fabrics division within the upholstery fabrics segment experienced operating profits and cash flows in the second quarter of 2005 significantly lower than expected. As a result, management determined that the goodwill associated with the segment should be tested for impairment in accordance with the provisions of SFAS No. 142. An independent business valuation specialist was engaged to assist the company in the determination of the fair market value of the upholstery fabrics segment. The fair value of CDF, 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 \$5.1 million (\$3.2 million net of taxes of \$1.9 million), or \$0.28 per share diluted in the second quarter of fiscal 2005, related to the goodwill associated with the upholstery fabrics segment. After this goodwill impairment charge, the company's remaining goodwill of \$4.1 million relates to the mattress fabrics segment.

The company updated its goodwill impairment test as of May 1, 2005 for its mattress fabrics segment. This updated impairment test, which was prepared by the company, did not indicate any 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.

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 foreign subsidiaries were to be paid as dividends to the company, since the company intends that such earnings will continue to be invested. The company has determined that no amounts will be remitted under the foreign earnings repatriation provision of the American Jobs Creation Act of 2004. At May 1, 2005, the amount of such undistributed income was \$36.1 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 \$4.4 million, \$4.6 million and \$4.9 million in 2005, 2004 and 2003, 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. The company's stock-based compensation plans 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:

<i>(dollars in thousands, except per share data)</i>	2005	2004	2003
Net income (loss), as reported	\$ (17,852)	7,220	(24,887)
Add: Total stock-based employee compensation expense included in net income (loss), net of tax	132	141	67
Deduct: Total stock-based employee compensation expense determined under fair value-based method for all awards, net of tax	506	456	225
Pro forma net income (loss)	\$ (18,226)	6,905	(25,045)
Income (loss) per share:			
Basic – as reported	\$ (1.55)	0.63	(2.17)
Basic – pro forma	(1.58)	0.60	(2.19)
Diluted – as reported	(1.55)	0.61	(2.17)
Diluted – pro forma	(1.58)	0.59	(2.19)

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 1, 2005, the carrying value of the company's long-term debt is \$50.6 million and the fair value is \$49.7 million. At May 1, 2004, the carrying value of the company's long-term debt was \$51.0 million and the fair value was \$53.7 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.

Reclassifications – Certain items in the 2004 consolidated financial statements have been reclassified to conform with current year presentation.

2. RESTRUCTURING AND ASSET IMPAIRMENT

A summary of accrued restructuring follows:

<i>(dollars in thousands)</i>	May 1, 2005	May 1, 2004
April 2005 Upholstery Fabrics	\$ 1,944	0
October 2004 Upholstery Fabrics	309	0
Fiscal 2003 Culp Decorative Fabrics	3,587	4,834
Fiscal 2002 Wet Printed Flock	0	100
Fiscal 2001 Culp Decorative Fabrics	10	34
	<u>\$ 5,850</u>	<u>4,968</u>

April 2005 Upholstery Fabrics

In April 2005, management and the company's board of directors approved a restructuring plan within the upholstery fabrics segment designed to reduce costs, increase asset utilization, and improve profitability. The restructuring plan includes consolidation of the company's velvet fabrics manufacturing operations, additional fixed manufacturing cost reductions in the decorative fabrics operation, and significant reductions in selling, general, and administrative expenses within the upholstery fabrics segment. Another element of the restructuring plan will be a substantial reduction in raw material and finished goods stock keeping units, or SKUs, to simplify manufacturing processes, increase productivity and reduce inventories. The company will be relocating velvet production equipment from the manufacturing facility in Burlington, North Carolina, to its other velvet plant in Anderson, South Carolina, resulting in significant reduction of fixed manufacturing costs. The Burlington facility will then be utilized as an inspection and distribution facility for fabrics imported from offshore sources and for finished goods warehousing of domestically produced upholstery fabrics. The company also will combine its sales, design, and customer service activities for Culp Decorative Fabrics and Culp Velvets/Prints, the two divisions within the upholstery fabrics segment. As a result, on June 30, 2005, the company sold two buildings in Burlington consisting of approximately 140,000 square feet for proceeds of \$2,850,000. These initiatives will significantly reduce the company's selling, general, and administrative expenses. Overall, these restructuring actions will reduce the number of associates by 225 people, representing approximately 17 percent of Culp's domestic upholstery fabrics segment employees.

During fiscal 2005, the total restructuring and related charges incurred were \$7.1 million, of which approximately \$4.3 million related to write-downs of building and equipment, \$1.9 million related to employee termination costs, \$874,000 related to accelerated depreciation associated with the plant and equipment scheduled to be disposed of, either by sale or by abandonment, and inventory mark-downs, and \$47,000 related to lease termination costs. Of the total charge, \$6.2 million was recorded in restructuring expense in the 2005 Consolidated Statement of Income(Loss); \$761,000 related to accelerated depreciation and inventory mark-downs was recorded in cost of sales in the 2005 Consolidated Statement of Income(Loss); and \$113,000 related to accelerated depreciation was recorded in selling, general, and administrative expenses in the 2005 Consolidated Statement of Income (Loss).

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 2005	\$ 1,897	47	1,944
Paid in fiscal 2005	0	0	0
Balance May 1, 2005	\$ 1,897	47	1,944

As of May 1, 2005, assets classified as held for sale consisted of machinery and equipment with a value of \$198,000 and are included in other assets.

The company expects these restructuring activities to result in charges of approximately \$4.5 million in fiscal 2006. The \$4.5 million in charges are expected to consist of accelerated depreciation of \$3.5 million, \$500,000 in dismantling, moving, and relocation of equipment to other company facilities, and \$500,000 in contract termination costs.

October 2004 Upholstery Fabrics

In October 2004, management and the company's board of directors approved a restructuring plan within the upholstery fabrics segment aimed at reducing costs, increasing asset utilization and improving profitability. Due to continued pressure on demand in this segment, management decided to further adjust the company's cost structure and bring U.S. manufacturing capacity in line with current and expected demand. The restructuring plan principally involved consolidation of the company's decorative fabrics weaving operations by closing Culp's facility in Pageland, South Carolina, and consolidating those operations into the Graham, North Carolina, facility. Additionally, the company consolidated its yarn operations by integrating the production of the Cherryville, North Carolina, plant into the company's Shelby, North Carolina facility. Another element of the restructuring plan was a substantial reduction in certain raw material and finished goods stock keeping units, or SKUs, to reduce manufacturing complexities and lower costs, with the ongoing objective of identifying and eliminating products that are not generating acceptable volumes or margins. Finally, the company made reductions in selling, general, and administrative expenses. Overall, these restructuring actions reduced the number of associates by approximately 250 people, representing approximately 14 percent of Culp's upholstery fabrics segment employees.

During fiscal 2005, the total restructuring and related charges incurred were \$16.3 million, of which approximately \$6.8 million related to accelerated depreciation associated with the plant and equipment scheduled to be disposed of, either by sale or by abandonment, and inventory mark-downs, \$5.1 million of goodwill impairment, which represents all of the remaining goodwill associated with the upholstery fabrics segment, \$2.4 million related to the dismantling, moving, and relocation of equipment to other company facilities, \$1.3 million related to write-downs of buildings and equipment, and \$722,000 related to employee termination costs. Of the total charge, \$4.4 million was recorded in restructuring expense in the 2005 Consolidated Statement of Income(Loss); and \$6.8 million related to accelerated depreciation and inventory mark-downs was recorded in cost of sales in the 2005 Consolidated Statement of Income(Loss).

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 2005	\$ 1,305	0	1,305
Adjustments in fiscal 2005	(583)	0	(583)
Paid in fiscal 2005	(413)	0	(413)
Balance May 1, 2005	\$ 309	0	309

As of May 1, 2005, assets classified as held for sale consisted of machinery and equipment with a value of \$165,000 and are included in other assets.

The company expects these restructuring activities to result in charges of approximately \$700,000 in fiscal 2006. The \$700,000 in charges are expected to consist of dismantling, moving, and relocation of equipment to other company facilities.

Fiscal 2003 CDF Restructuring

In August 2002, management and the company's board of directors approved a restructuring plan within the Culp Decorative Fabrics division aimed at lowering manufacturing costs, simplifying the doobby 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 doobby 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.

During fiscal 2005, the accrual was reduced \$214,000 in employee termination benefits to reflect the current estimates of future health care claims and reduced \$169,000 in lease termination and other exit costs to reflect current estimates of sub-lease income.

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
Adjustments in fiscal 2005	(214)	(169)	(383)
Paid in fiscal 2005	(86)	(778)	(864)
Balance May 1, 2005	\$ 200	3,387	3,587

As of May 1, 2005 and May 2, 2004 there were no assets classified as held for sale related to the 2003 CDF restructuring.

Wet Printed Flock Restructuring

In April 2002, management and the company's board of directors approved a plan to exit the wet printed flock upholstery fabric business. The exit plan involved closing a printing facility and flocking operation within the Culp Velvets/Prints 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.

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.

During the first quarter fiscal 2005, assets held for sale consisting of land and a building valued at \$180,000 in the other assets line of the May 2, 2004 Consolidated Balance Sheet were sold, resulting in a restructuring credit of \$54,000. An additional restructuring credit of \$84,000 was recognized relating to the write-off of the remaining reserve balance, which consisted of building exit costs.

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

	Employee Termination Benefits	Lease Termination and Other Exit Costs	Total
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
Adjustments in fiscal 2005	0	(84)	(84)
Paid in fiscal 2005	0	(16)	(16)
Balance May 1, 2005	\$ 0	0	0

Fiscal 2001 CDF Restructuring

During fiscal 2001, management and the company's board of directors approved 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. 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.

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.

During fiscal 2005, the reserve was reduced \$12,000 to reflect current estimates of future health care claims.

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

	Employee Termination Benefits	Lease Termination and Other Exit Costs	Total
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
Adjustments in fiscal 2005	(12)	0	(12)
Paid in fiscal 2005	(12)	0	(12)
Balance May 1, 2005	\$ 10	0	10

As of May 1, 2005, and May 2, 2004, 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:

<i>(dollars in thousands)</i>	May 1, 2005	May 2, 2004
customers	\$ 30,803	33,064
allowance for doubtful accounts	(1,142)	(1,442)
reserve for returns and allowances and discounts	(837)	(903)
	<u>\$ 28,824</u>	<u>30,719</u>

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

<i>(dollars in thousands)</i>	2005	2004	2003
beginning balance	\$ (1,442)	(1,558)	(2,465)
provision for bad debt	272	(139)	570
net write-offs	28	255	337
ending balance	<u>\$ (1,142)</u>	<u>(1,442)</u>	<u>(1,558)</u>

4. INVENTORIES

A summary of inventories follows:

<i>(dollars in thousands)</i>	May 1, 2005	May 2, 2004
raw materials	\$ 23,204	21,015
work-in-process	3,000	2,489
finished goods	24,295	25,541
	<u>\$ 50,499</u>	<u>49,045</u>

5. PROPERTY, PLANT AND EQUIPMENT

A summary of property, plant and equipment follows:

<i>(dollars in thousands)</i>	depreciable lives (in years)	May 1, 2005	May 2, 2004
land and improvements	10	\$ 2,779	2,319
buildings and improvements	7-40	30,798	32,849
leasehold improvements	7-10	1,954	1,265
machinery and equipment	3-12	134,179	168,078
office furniture and equipment	3-10	8,463	9,849
capital projects in progress		4,880	3,690
		<u>183,053</u>	<u>218,050</u>
accumulated depreciation and amortization		<u>(117,021)</u>	<u>(140,280)</u>
		<u>\$ 66,032</u>	<u>77,770</u>

The company incurred total capital expenditures of \$14,360,000, \$6,747,000 and \$12,229,000 in fiscal years 2005, 2004 and 2003, respectively. The non-cash portion of these capital expenditures representing vendor financing totaled \$1,523,000, \$331,000 and \$5,366,000 in fiscal years 2005, 2004 and 2003, respectively.

6. GOODWILL

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

<i>(dollars in thousands)</i>	2005	2004	2003
beginning balance	\$ 9,240	9,240	9,240
impairment charge	(5,126)	0	0
ending balance	\$ 4,114	9,240	9,240

7. ACCOUNTS PAYABLE

A summary of accounts payable follows:

<i>(dollars in thousands)</i>	May 1, 2005	May 2, 2004
accounts payable - trade	\$ 19,688	13,438
accounts payable - capital expenditures	3,164	1,885
	\$ 22,852	15,323

8. ACCRUED EXPENSES

A summary of accrued expenses follows:

<i>(dollars in thousands)</i>	May 1, 2005	May 2, 2004
compensation, commissions and related benefits	\$ 5,483	8,040
interest	448	459
accrued rebates	1,444	2,258
other	2,181	2,359
	\$ 9,556	13,116

9. INCOME TAXES

Total income taxes (benefits) were allocated as follows:

<i>(dollars in thousands)</i>	2005	2004	2003
income (loss) from continuing operations	\$ (10,942)	3,556	(1,557)
cumulative effect of accounting change	0	0	(13,429)
shareholders' equity, related to the tax benefit arising from the exercise of stock options	(4)	(60)	(402)
	\$ (10,946)	3,496	(15,388)

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

<i>(dollars in thousands)</i>	2005	2004	2003
current			
federal	\$ 0	0	350
state	0	0	25
foreign	1,080	222	575
	1,080	222	950
deferred			
federal	(10,852)	3,144	(2,298)
state	(1,000)	520	(300)
foreign	(170)	(330)	91
	(12,022)	3,334	(2,507)
	\$ (10,942)	3,556	(1,557)

Income before income taxes related to the company's foreign operations for the years ended May 1, 2005, May 2, 2004, and April 27, 2003 was \$5,900,000, \$2,700,000 and \$2,300,000, 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:

	2005	2004	2003
federal income tax rate	(34.0)%	34.0%	(35.0)%
state income taxes, net of federal income tax benefit	(4.8)	3.2	(7.8)
extraterritorial income or foreign sales corporation benefit	(0.0)	(0.1)	(2.3)
adjustment to estimated income tax accruals	(0.0)	(5.6)	(19.6)
other	0.8	1.5	(3.2)
	(38.0)%	33.0%	(67.9)%

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

<i>(dollars in thousands)</i>	2005	2004
deferred tax assets:		
accounts receivable	\$ 656	792
inventories	2,846	1,666
goodwill	6,939	6,244
compensation	1,064	1,027
liabilities and reserves	2,605	2,477
alternative minimum tax	1,320	1,320
net operating loss carryforwards	9,819	4,287
gross deferred tax assets	25,249	17,813
valuation allowance	0	0
total deferred tax assets	25,249	17,813
deferred tax liabilities:		
property, plant and equipment, net	(8,070)	(11,817)
other	(39)	(878)
total deferred tax liabilities	(8,109)	(12,695)
	\$ 17,140	5,118

Federal and state net operating loss carryforwards with related tax benefits of \$9,819,000 at May 1, 2005, principally expire in 17-20 years, fiscal 2022 through fiscal 2025. The company also has an alternative minimum tax credit carryforward of approximately \$1,320,000 for federal income tax purposes that does not expire.

The realization of the company's deferred tax assets is dependent upon the generation of future taxable income. The company assesses the need to establish a valuation allowance against its deferred tax assets to the extent the company no longer believes it is more likely than not that the tax assets will be fully utilized. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income exclusive of reversing temporary differences and carryforwards, and tax planning strategies in making this assessment. Based upon the level of historical taxable income and projections for future operations, management believes it is more likely than not that the company will generate sufficient taxable income to realize the existing deferred tax assets. The amount of the deferred tax assets considered realizable, however, could be reduced if estimates of future taxable income during the carryforward period are reduced.

Income tax payments, net of income tax refunds, were \$1,328,000 in 2005. Income tax refunds, net of income tax payments, were \$1,338,000 in 2004 and \$1,470,000 in 2003.

10. LONG-TERM DEBT

A summary of long-term debt follows:

<i>(dollars in thousands)</i>	May 1, 2005	May 2, 2004
unsecured term notes	\$49,975	49,975
canadian government loan	575	1,055
	50,550	51,030
current maturities	(8,110)	(528)
	<u>\$42,440</u>	<u>50,502</u>

The company's long-term debt of \$50.6 million is unsecured and is comprised of \$50.0 million in outstanding senior notes, with a fixed interest rate of 7.76% (payable semi-annually in March and September) and a \$575,000 non-interest bearing term loan with the Canadian government. The unsecured senior notes are payable over an average remaining term of 4 years beginning March 2006 through March 2010. The final payment on the Canadian government loan is due during the company's third quarter of fiscal 2006.

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.

In December 2004, the company amended its agreement with its bank to provide for a reduced revolving loan commitment of \$10.0 million from an existing commitment of \$15.0 million, including letters of credit up to \$2.5 million. Borrowings under the facility generally carry interest at the London Interbank Offered Rate plus an adjustable margin based upon the company's debt/EBITDA ratio, as defined in the agreement. On February 18, 2005, the Interest and Leases Coverage ratio was amended such that at the end of each fiscal quarter beginning with the third quarter of fiscal 2005, the Interest and Leases Coverage Ratio shall not be less than 1.25 to 1.0. As of May 1, 2005 there were \$1.4 million in outstanding letters of credit in support of inventory purchases and no borrowings outstanding under the agreement. The current bank agreement expires in August 2005.

The company's loan agreements require, among other things, that the company maintain compliance with certain financial ratios. At May 1, 2005, the company was in compliance with these financial covenants.

The principal payment requirements of long-term debt during the next five fiscal years are: 2006 – \$8,110,000; 2007 – \$7,535,000; 2008 – \$7,535,000; 2009– \$19,835,000; and 2010 – \$7,535,000.

Interest paid during 2005, 2004 and 2003 totaled \$3,937,000, \$5,882,000, and \$7,058,000, 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 twelve 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 \$5,009,000 in 2005; \$5,013,000 in 2004; and \$5,673,000 in 2003. Future minimum rental commitments for noncancellable operating leases are \$3,894,000 in 2006; \$2,926,000 in 2007; \$1,661,000 in 2008; \$395,000 in 2009; and \$104,000 in 2010. 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 \$2.8 million as of May 1, 2005.

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 1, 2005, 556,450 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 1, 2005, May 2, 2004 and April 27, 2003 and changes during the years ended on those dates is presented below:

	2005		2004		2003	
	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
Outstanding at beginning of year	682,450	\$ 7.65	775,500	\$ 7.91	922,875	\$ 7.73
Granted	0	0.00	0	0.00	0	0.00
Exercised	(3,250)	3.44	(31,375)	4.35	(145,375)	6.74
Canceled/expired	(122,750)	8.18	(61,875)	12.33	(2,000)	9.00
Outstanding at end of year	556,450	7.56	682,450	7.65	775,500	7.91
Options exercisable at year-end	499,950	\$ 7.95	512,950	\$ 8.88	475,250	\$ 10.21
Weighted-average fair value of options granted during the year		\$ 0.00		\$ 0.00		\$ 0.00

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number Outstanding at 5/1/05	Weighted-Avg. Remaining Contractual Life	Weighted-Avg. Exercise Price	Number Exercisable at 5/1/05	Weighted-Avg. Exercise Price
\$ 3.03 - \$3.05	75,750	1.5 years	\$ 3.03	75,750	\$ 3.03
\$ 4.00 - \$ 7.50	223,575	1.4	4.29	167,075	4.36
\$ 7.63 - \$ 7.63	98,000	3.4	7.63	98,000	7.63
\$ 7.75 - \$12.13	78,500	1.6	9.77	78,500	9.77
\$ 13.34 - \$20.94	80,625	2.2	18.63	80,625	18.63
	556,450	1.9	\$ 7.56	499,950	\$ 7.95

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 1, 2005, there are no options outstanding under the plan. No options were exercised during fiscal 2005 and 2004 and 50,500 options were exercised in 2003. As all outstanding options under this plan have been fully vested, no compensation expense was recorded in fiscal 2005, 2004 and 2003.

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 1, 2005, the 71,000 options outstanding under the plan have exercise prices of \$1.00 and a weighted-average remaining contractual life of 1.7 years. There were no options exercised during fiscal 2005, 2004 and 2003, respectively. Compensation expense recorded under the plan was \$210,000 for fiscal 2005, 2004, and 2003, 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. As of May 1, 2005, 1,000,000 shares of common stock remain authorized for issuance under the plan. Of this total, 723,000 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 1, 2005, May 2, 2004, and April 27, 2003 and changes during the years ended on those dates is presented below:

	2005		2004		2003	
	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
Outstanding at beginning of year	180,000	\$10.25	93,250	\$13.43	0	\$ 0.00
Granted	128,750	7.14	88,750	6.99	93,250	13.43
Exercised	(875)	6.61	0	0.00	0	0.00
Canceled/expired	(31,750)	9.51	(2,000)	6.61	0	0.00
Outstanding at end of year	276,125	8.95	180,000	10.25	93,250	13.43
Options exercisable at year-end	85,250	\$10.57	43,000	\$11.62	11,250	\$ 9.37
Weighted-average fair value of options granted during the year		\$ 4.26		\$ 4.07		\$ 7.29

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number Outstanding at 5/1/05	Weighted-Avg. Remaining Contractual Life	Weighted-Avg. Exercise Price	Number Exercisable at 5/1/05	Weighted-Avg. Exercise Price
\$ 6.61 - \$ 6.61	64,625	3.1 years	\$ 6.61	15,500	\$ 6.61
\$ 7.13 - \$ 7.27	118,750	4.6	7.14	11,250	7.27
\$ 9.37 - \$ 9.57	22,500	7.9	9.47	22,500	9.47
\$13.99 - \$13.99	70,250	2.1	13.99	36,000	13.99
	276,125	3.9	\$ 8.95	85,250	\$ 10.57

Had compensation cost for the stock option plan with 556,450 options outstanding at May 1, 2005 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:

<i>(in thousands, except per share data)</i>		2005	2004	2003
Net income (loss)	As reported	\$(17,852)	7,220	(24,887)
	Pro forma	(18,226)	6,905	(25,045)
Net income (loss) per share, basic	As reported	\$ (1.55)	0.63	(2.17)
	Pro forma	(1.58)	0.60	(2.19)
Net income (loss) per share, diluted	As reported	\$ (1.55)	0.61	(2.17)
	Pro forma	(1.58)	0.59	(2.19)

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 2005, 2004 and 2003, respectively: dividend yield of 0%, 0% and 0%; risk-free interest rates of 4.2%, 1.9%, and 4.2%; expected volatility of 77%, 80%, and 78%; and expected life of 8.5 years.

13. DERIVATIVES

The company applies the provisions of SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*. 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 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. The company had outstanding foreign exchange option and forward contracts to purchase a total of 564,000 EURO at May 2, 2004. The company did not have foreign exchange option and forward contracts outstanding at May 1, 2005.

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:

<i>(in thousands)</i>	2005	2004	2003
Weighted-average common shares outstanding, basic	11,549	11,525	11,462
Effect of dilutive stock options	0	252	0
Weighted-average common shares outstanding, diluted	11,549	11,777	11,462

Options to purchase 495,969, 348,337 shares, and 413,844 shares of common stock were not included in the computation of diluted net income (loss) per share for fiscal 2005, 2004 and 2003, respectively, because the exercise price of the options was greater than the average market price of the common shares. Options to purchase 143,970 and 556,031 shares were not included in the computation of diluted net income (loss) per share for fiscal 2005 and 2003, 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 \$1,461,000 in 2005; \$1,583,000 in 2004; and \$1,799,000 in 2003.

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 2005, 2004 and 2003. The company's nonqualified plan liability of \$491,000 and \$308,000 at May 1, 2005 and May 2, 2004, respectively, is included in accrued expenses in the Consolidated Balance Sheets.

16. SEGMENT INFORMATION

The company's operations are classified into two business segments: mattress fabrics and upholstery fabrics. The mattress fabrics segment manufactures and sells fabrics to bedding manufacturers. The upholstery fabrics segment manufactures and sells fabrics primarily to residential and commercial (contract) furniture manufacturers. The upholstery fabrics segment consists of two divisions: Culp Decorative Fabrics and Culp Velvets/Prints. Since these divisions have similar products, manufacturing processes, customers, methods of distribution and economic characteristics, they are aggregated for segment reporting purposes.

International sales, of which 97%, 98% and 87% were denominated in U.S. dollars in 2005, 2004 and 2003, respectively, accounted for 11%, 11%, and 12% of net sales in 2005, 2004 and 2003, respectively and are summarized by geographic area as follows:

<i>(dollars in thousands)</i>	2005	2004	2003
North America (excluding USA)	\$ 22,503	26,740	30,375
Far East and Asia	8,690	6,954	4,926
All other areas	1,056	1,557	4,577
	<u>\$ 32,249</u>	<u>35,251</u>	<u>39,878</u>

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

Effective May 3, 2004, the Company began evaluating the operating performance of its segments based upon income (loss) from operations before restructuring and related charges or credits and certain unallocated corporate expenses. Previously, the company evaluated operating segment performance based upon gross profit. Operating income (loss) and gross profit for prior periods by segment is presented for comparative purposes. Unallocated corporate expenses represent primarily compensation and benefits of certain executive officers and all costs related to being a public company. Segment assets include assets used in the operation of each segment and consist of accounts receivable, inventories, and property, plant, and equipment. The company no longer allocates goodwill to its operating segments for the purposes of evaluating operating performance.

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

<i>(dollars in thousands)</i>	2005	2004	2003
Net sales:			
Upholstery Fabrics	\$ 181,066	211,794	240,096
Mattress Ticking	105,432	106,322	99,550
	<u>\$ 286,498</u>	<u>318,116</u>	<u>339,646</u>
Gross profit:			
Upholstery Fabrics	\$ 16,899	34,946	37,656
Mattress Ticking	16,819	23,376	22,835
Total segment gross profit	33,718	58,322	60,491
Restructuring related charges	(7,561) ⁽¹⁾	0	(2,918)
	<u>\$ 26,157</u>	<u>58,322</u>	<u>57,573</u>
Income (loss) from operations:			
Upholstery Fabrics	\$ (6,435)	6,836	8,395
Mattress Ticking	9,389	14,986	15,117
Total income from operations	2,954	21,822	23,512
Unallocated corporate expenses	(4,480)	(4,519)	(3,061)
Goodwill impairment	(5,126) ⁽²⁾	0	0
Restructuring and related charges	(18,046) ⁽³⁾	1,047	(15,899)
	<u>\$ (24,698)</u>	<u>18,350</u>	<u>4,552</u>

⁽¹⁾ Restructuring related charges primarily represent accelerated depreciation associated with the plant and equipment disposed of, either by sale or abandonment and inventory markdowns; both are included in the cost of sales line item in the Consolidated Statements of Income (Loss). These charges primarily relate to the Upholstery Fabrics segment.

⁽²⁾ The goodwill impairment was the result of an evaluation of all the remaining goodwill associated with the Upholstery Fabrics segment.

⁽³⁾ Restructuring and related charges primarily represent \$7.7 million in related charges for accelerated depreciation and inventory markdowns, \$5.6 million related to write-downs of buildings and equipment, \$2.5 million related to the dismantling, moving, and relocation of equipment to other company facilities, and \$2.2 million related to employee termination costs (see note 2). Restructuring charges are included in the restructuring expense line item in the Consolidated Statements of Income (Loss). These charges primarily relate to the Upholstery Fabrics segment.

One customer represented approximately 15%, 13%, and 14% of consolidated net sales for 2005, 2004 and 2003, respectively. No other customer accounted for 10% or more of consolidated net sales during those years.

Balance sheet information for the company's operating segments follow:

<i>(dollars in thousands)</i>	2005	2004	2003
Segment assets			
Mattress Fabrics			
current assets	\$ 24,951	24,639	21,018
property, plant, and equipment	26,658 ⁽⁴⁾	23,126	25,991
Total mattress fabrics assets	\$ 51,609	47,765	47,009
Upholstery Fabrics			
current assets	\$ 54,372	55,125	60,793
property, plant, and equipment	39,273 ⁽⁵⁾	54,644	58,971
Total upholstery fabrics assets	\$ 93,645	109,769	119,764
Total segment assets	145,254	157,534	166,773
Non-segment assets			
cash and cash equivalents	5,107	14,568	14,355
short-term investments	0	0	10,043
deferred income taxes	17,140	9,256	12,303
other current assets	2,691	1,722	3,204
property, plant, and equipment	101	0	0
goodwill	4,114	9,240	9,240
other assets	1,716	1,496	2,235
Total assets	\$176,123	193,816	218,153
Capital expenditures:			
Mattress Fabrics	\$ 6,321	913	4,456
Upholstery Fabrics	1,895	5,834	7,773
Unallocated corporate	6,144 ⁽⁶⁾	0	0
	\$ 14,360	6,747	12,229
Depreciation expenses			
Mattress Fabrics	\$ 3,635	3,753	2,679
Upholstery Fabrics	9,227	9,889	11,311
Total segment depreciation expense	12,862	13,642	13,990
Accelerated depreciation – upholstery fabrics	6,022	0	0
	\$ 18,884	13,642	13,990

⁽⁴⁾ Included in property, plant, and equipment are assets located in the U.S. totaling \$12.2 million, \$9.8 million, and \$9.8 million for 2005, 2004, and 2003, respectively.

⁽⁵⁾ Included in property, plant, and equipment are assets located in the U.S. totaling \$36.2 million, \$51.5 million, and \$55.5 million for 2005, 2004, and 2003, respectively. Also, included in property, plant, and equipment for 2005 are allocations totaling \$5.3 million for the distribution facility and design center that were sold in June 2005 and various other corporate allocations totaling \$4.2 million.

⁽⁶⁾ Unallocated corporate expenditures for fiscal 2005 primarily represent capital spending for the new corporate office building.

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 net sales to this customer was approximately \$42,286,000 in 2005; \$41,819,000 in 2004; and \$47,593,000 in 2003. The amount due from this customer at May 1, 2005 and May 2, 2004 was approximately \$3,659,000 and \$4,768,000, respectively.

Rents paid to entities owned by certain shareholders and officers of the company and their immediate families were approximately \$622,000 in 2005, \$682,000 in 2004, and \$708,000 in 2003. Effective May 2, 2005, the company modified a lease agreement with a related party to reduce their monthly base rent from \$45,375 to \$15,000 and extend the expiration date from February 2006 to April 2007.

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:

<i>(dollars in thousands)</i>	2005	2004	2003
Net income (loss)	\$ (17,852)	7,220	(24,887)
Gain (loss) on foreign exchange options, net of taxes:			
Net gains reclassified into earnings	0	0	(7)
	<u>\$ (17,852)</u>	<u>7,220</u>	<u>(24,894)</u>

19. RECENTLY ISSUED ACCOUNTING STANDARDS

In November 2004, the FASB issued SFAS No. 151, *Inventory Costs, and Amendment of ARB No. 43, Chapter 4*, which clarifies the types of costs that should be expensed rather than capitalized as inventory. This statement also clarifies the circumstances under which fixed overhead costs associated with operating facilities involved in inventory processing should be capitalized. The provisions of SFAS No. 151 are effective for fiscal years beginning after June 15, 2005 and the company will adopt this standard in fiscal 2007. Management has not determined the impact, if any, that this statement will have on our consolidated financial position or results of operations.

SFAS No. 123 (Revised 2004), *Share-Based Payment*, issued in December 2004, is a revision of FASB Statement 123, *Accounting for Stock-Based Compensation* and supersedes APB Opinion No. 25, *Accounting for Stock Issued to Employees*, and its related implementation guidance. The Statement focuses primarily on accounting for transactions in which an entity obtains employee services in share-based payment transactions. SFAS No. 123 (Revised 2004) requires a public entity to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award (with limited exceptions). That cost will be recognized over the period during which an employee is required to provide service in exchange for the award. The provisions of SFAS No. 123 (Revised 2004) are effective for fiscal years beginning after June 15, 2005 and the company will adopt this standard in fiscal 2007. Management has not determined the impact, if any, that this statement will have on our consolidated financial position or results of operations.

In December 2004, the FASB issued Staff Position FAS 109-1, which provides guidance on the application of SFAS No. 109, *Accounting for Income Taxes*, to the provision within the American Jobs Creation Act of 2004 that provides a tax deduction for qualified production activities. FAS 109-1 has not had, nor is it expected to have, a material impact on our financial reporting or disclosures.

	fiscal 2005 4th quarter	fiscal 2005 3rd quarter	fiscal 2005 2nd quarter	fiscal 2005 1st quarter	fiscal 2004 4th quarter	fiscal 2004 3rd quarter	fiscal 2004 2nd quarter	fiscal 2004 1st quarter
<i>(amounts in thousands, except per share amounts)</i>								
INCOME (LOSS) STATEMENT DATA								
net sales	\$ 74,183	69,060	75,406	67,849	85,148	76,561	82,731	73,676
cost of sales	68,835	66,493	65,839	59,174	69,510	62,093	65,993	62,198
gross profit	5,348	2,567	9,567	8,675	15,638	14,468	16,738	11,478
SG & A expenses	9,048	8,191	8,838	9,280	9,925	10,282	10,296	10,516
goodwill impairment	0	0	5,126	0	0	0	0	0
restructuring expense (credit) and asset impairments	8,083	1,135	1,292	(138)	(1,047)	0	0	0
income (loss) from operations	(11,783)	(6,759)	(5,689)	(467)	6,760	4,186	6,442	962
interest expense	924	912	937	940	988	1,534	1,509	1,497
interest income	(36)	(42)	(29)	(27)	(20)	(113)	(121)	(122)
early extinguishment of debt	0	0	0	0	0	1,672	0	0
other expense	81	49	173	214	220	229	62	239
income (loss) before income taxes	(12,752)	(7,678)	(6,770)	(1,594)	5,572	864	4,992	(652)
income taxes	(5,022)	(2,801)	(2,577)	(542)	1,839	112	1,846	(241)
net income (loss)	(7,730)	(4,877)	(4,193)	(1,052)	3,733	752	3,146	(411)
depreciation	4,379	7,605	3,538	3,362	3,348	3,411	3,439	3,444
weighted average shares outstanding	11,550	11,550	11,549	11,547	11,531	11,529	11,524	11,515
weighted average shares outstanding, assuming dilution	11,550	11,550	11,549	11,547	11,815	11,859	11,774	11,515
PER SHARE DATA								
net income (loss) per share - basic	\$ (0.67)	(0.42)	(0.36)	(0.09)	0.32	0.07	0.27	(0.04)
net income (loss) per share - diluted	(0.67)	(0.42)	(0.36)	(0.09)	0.32	0.06	0.27	(0.04)
book value	7.43	8.09	8.51	8.87	8.95	8.63	8.55	8.28
BALANCE SHEET DATA								
operating working capital (3)	\$ 56,471	57,750	59,926	61,468	64,441	62,492	61,262	54,854
property, plant and equipment, net	66,032	71,024	76,062	78,880	77,770	78,909	81,219	83,299
total assets	176,123	175,931	182,040	188,599	193,816	193,853	224,812	214,387
capital expenditures	6,033	2,776	1,008	4,543	2,377	1,103	1,427	1,840
long-term debt (1)	50,550	50,559	51,163	51,064	51,030	51,063	76,616	76,551
shareholders' equity	85,771	93,441	98,265	102,398	103,391	99,467	98,605	95,340
capital employed (2)	136,321	144,000	149,428	153,462	154,421	150,530	175,221	171,891
RATIOS & OTHER DATA								
gross profit margin	7.2%	3.7%	12.7%	12.8%	18.4%	18.9%	20.2%	15.6%
operating income (loss) margin	(15.9)	(9.8)	(7.5)	(0.7)	7.9	5.5	7.8	1.3
net income (loss) margin	(10.4)	(7.1)	(5.6)	(1.6)	4.4	1.0	3.8	(0.6)
effective income tax rate	39.4	36.5	38.1	34.0	33.0	13.0	37.0	37.0
long-term debt-to-total capital employed ratio (1)	37.1	35.1	34.1	33.3	33.0	33.9	43.7	44.5
operating working capital turnover (3)	4.8	4.9	4.9	5.1	5.2	5.3	5.3	5.1
days sales in receivables	35	32	32	30	33	31	34	32
inventory turnover	5.7	5.6	5.2	4.7	5.5	4.7	5.1	5.0
STOCK DATA								
stock price								
high	\$ 6.55	6.97	8.00	9.10	12.28	12.25	10.95	8.03
low	4.20	4.96	5.80	6.64	8.52	9.98	6.75	5.05
close	4.70	6.39	6.00	7.80	8.61	11.56	10.72	7.42
daily average trading volume (shares)	15.0	24.3	16.5	29.2	22.9	32.0	56.0	107.9

(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

<i>(amounts in thousands, except per share amounts)</i>	fiscal 2005	fiscal 2004	fiscal 2003	fiscal 2002	fiscal 2001	percent change 2005/2004
INCOME (LOSS) STATEMENT DATA						
net sales	\$286,498	318,116	339,646	382,574	410,609	(9.9)%
cost of sales (6)	260,341	259,794	282,073	319,717	354,622	0.2
gross profit	26,157	58,322	57,573	62,857	55,987	(55.2)
S G & A expenses	35,357	41,019	40,040	48,059	50,366	(13.8)
goodwill impairment/amortization	5,126	0	0	1,395	1,395	100.0
restructuring (credit) expense and asset impairment (6)	10,372	(1,047)	12,981	10,368	5,625	(1,090.6)
income (loss) from operations	(24,698)	18,350	4,552	3,035	(1,399)	(234.6)
interest expense	3,713	5,528	6,636	7,907	9,114	(32.8)
interest income	(134)	(376)	(596)	(176)	(46)	(64.4)
early extinguishment of debt	0	1,672	0	0	0	(100.0)
other expense	517	750	805	1,444	1,941	(31.1)
income (loss) before income taxes	(28,794)	10,776	(2,293)	(6,140)	(12,408)	(367.2)
income taxes	(10,942)	3,556	(1,557)	(2,700)	(4,097)	N.M
income (loss) before cumulative effect of accounting change	(17,852)	7,220	(736)	(3,440)	(8,311)	(347.3)
cumulative effect of accounting change, net of income tax (7)	0	0	(24,151)	0	0	N.M
net income (loss)	\$ (17,852)	7,220	(24,887)	(3,440)	(8,311)	347.3
depreciation	\$ 18,884	13,642	13,990	17,274	19,391	38.4
cash dividends	0	0	0	0	1,177	-
weighted average shares outstanding	11,549	11,525	11,462	11,230	11,210	0.2
weighted average shares outstanding, assuming dilution	11,549	11,777	11,462	11,230	11,210	(1.9)
PER SHARE DATA						
basic income (loss) per share:						
income (loss) before cumulative effect of accounting change	\$ (1.55)	0.63	(0.06)	(0.31)	(0.74)	N.M
cumulative effect of accounting change (7)	0	0	(2.11)	0	0	-
net income (loss)	\$ (1.55)	0.63	(2.17)	(0.31)	(0.74)	345.4
diluted income (loss) per share:						
income (loss) before cumulative effect of accounting change	\$ (1.55)	0.61	(0.06)	(0.31)	(0.74)	N.M
cumulative effect of accounting change (7)	0	0	(2.11)	0	0	-
net income (loss)	\$ (1.55)	0.61	(2.17)	(0.31)	(0.74)	353.4
cash dividends	\$ 0.00	0.00	0.00	0.00	0.105	0.0
book value	7.43	8.95	8.33	10.52	10.85	(17.0)
BALANCE SHEET DATA						
operating working capital (5)	\$ 56,471	64,441	61,937	76,938	90,475	(12.4)%
property, plant and equipment, net	66,032	77,770	84,962	89,772	112,322	(15.1)
total assets	176,123	193,816	218,153	287,713	289,580	(9.1)
capital expenditures	14,360	6,747	12,229	4,729	8,050	112.8
long-term debt (1)	50,550	51,030	76,500	108,484	111,656	(0.9)
shareholders' equity	85,771	103,391	95,765	119,065	121,802	(17.0)
capital employed (3)	136,321	154,421	172,265	227,549	233,458	(11.7)
RATIOS & OTHER DATA						
gross profit margin	9.1%	18.3%	17.0%	16.4%	13.6%	
operating income (loss) margin	(8.6)	5.8	1.3	0.8	(0.3)	
net income (loss) margin before cumulative effect of accounting change	(6.2)	2.3	(0.2)	(0.9)	(2.0)	
effective income tax rate	38.0	33.0	67.9	44.0	33.0	
long-term debt to total capital employed ratio (1)	37.1	33.0	44.4	47.7	47.8	
operating working capital turnover (5)	4.8	5.2	5.0	4.5	4.0	
days sales in receivables	37	35	35	41	51	
inventory turnover	5.2	5.3	5.3	5.4	5.3	
STOCK DATA						
stock price						
high	\$ 9.10	12.28	17.89	10.74	7.25	
low	4.20	5.05	3.75	2.12	1.63	
close	4.70	8.61	5.00	9.30	4.95	
P/E ratio (2)						
high (4)	N.M	20.1	N.M	N.M	N.M	
low (4)	N.M	8.3	N.M	N.M	N.M	
daily average trading volume (shares)	21.1	55.9	92.3	24.9	16.2	

(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

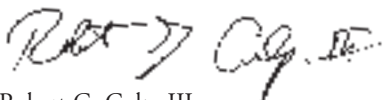
(6) The company incurred restructuring and related charges in fiscal 2005, 2003, 2002 and 2001. See note 2 of the company's consolidated financial statements

(7) See summary of significant accounting policies of the company's consolidated financial statements

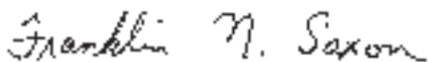
MANAGEMENT'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING

To the Shareholders of Culp, Inc.
High Point, North Carolina

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Exchange Act Rule 13a-15(f). Under the supervision and with the participation of management, including the principal executive officer and principal financial officers, the Company conducted an evaluation of the effectiveness of internal control over financial reporting based on the framework in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on the Company's evaluation under that framework, management concluded that the Company's internal control over financial reporting was effective as of May 1, 2005. Management's assessment of the effectiveness of internal control over financial reporting as of May 1, 2005 has been audited by KPMG LLP, the Company's independent registered public accounting firm, as stated in their reports which are included herein.



Robert G. Culp, III
Chairman and Chief Executive
Officer (principal executive officer)
June 28, 2005



Franklin N. Saxon
President and
Chief Operating Officer
(principal financial officer)
June 28, 2005



Kenneth R. Bowling
Vice President, Finance and
Treasurer
(principal accounting officer)
June 28, 2005

REPORT OF INDEPENDENT REGISTERED
PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders
Culp, Inc.:

We have audited the accompanying consolidated balance sheets of Culp, Inc. and subsidiaries (the Company) as of May 1, 2005 and May 2, 2004, 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 1, 2005. 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 1, 2005 and May 2, 2004, and the results of their operations and their cash flows for each of the years in the three-year period ended May 1, 2005, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 1 to the consolidated financial statements, in 2004, 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.

As discussed in Note 1 to the consolidated financial statements, in 2003, the Company adopted the provisions of Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company's internal control over financial reporting as of May 1, 2005, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated June 28, 2005, expressed an unqualified opinion on management's assessment of, and the effective operation of, internal control over financial reporting.



Greensboro, North Carolina
June 28, 2005

The Board of Directors and Shareholders
Culp, Inc.:

We have audited management's assessment, included in the accompanying Management's Report on Internal Control over Financial Reporting, that Culp, Inc. and subsidiaries (the Company) maintained effective internal control over financial reporting as of May 1, 2005, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit 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 effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that the Company maintained effective internal control over financial reporting as of May 1, 2005, is fairly stated, in all material respects, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Also, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of May 1, 2005, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Culp, Inc. and subsidiaries as of May 1, 2005 and May 2, 2004, 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 1, 2005, and our report dated June 28, 2005 expressed an unqualified opinion on those consolidated financial statements.

KPMG LLP

Greensboro, North Carolina
June 28, 2005

CORPORATE DIRECTORY

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

Howard L. Dunn
*Retired Vice Chairman of the Board
Director*

Franklin N. Saxon
*President
Director (E)*

Robert G. Culp, IV
President, Culp Home Fashions division

Boyd B. Chumbley
President, Culp Velvets/Prints division

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

Jean L.P. Brunel
*Managing Principal of Brunel Associates
Bonita Springs, FL
Director (A,C,N)*

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 R. Larson
*President and Chief Executive Officer
Slumberland Furniture
Little Canada, MN
Director (A,C,N)*

Kenneth W. McAllister
*Member, The McAllister Firm, 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

Corporate Address

Post Office Box 2686
1823 Eastchester Drive
High Point, NC 27265

Telephone: (336) 889-5161
Fax: (336) 887-7089
www.culpinc.com

Registrar and Transfer Agent

EquiServe Trust Company, N.A.
c/o Computershare Investor Services
Post Office Box 43023
Providence, Rhode Island 02940-3023

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

**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.

NYSE and SEC Certifications

Culp, Inc filed with the New York Stock Exchange (NYSE) on September 30, 2004, the Annual CEO Certification as required by the NYSE corporate governance listing standards. The company has also filed as exhibits to its Annual Report on Form 10-K the CEO and CFO certifications as required by Section 302 of the Sarbanes-Oxley Act.

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
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 1, 2005, Culp, Inc. had approximately 1,700 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 27, 2005, at the company's corporate offices, 1823 Eastchester Drive, High Point, North Carolina.



CULP

Post Office Box 2686
1823 Eastchester Drive
High Point, NC 27265
(336) 889-5161