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CULP INC
Form 8-K
February 24, 2004

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities
Exchange Act of 1934

Date of Report (Date of earliest event reported) February 24, 2004

CULP, INC.

(Exact name of registrant as specified in its charter)

North Carolina	0-12781	56-1001967
(State or other jurisdiction of incorporation)	(Commission File No.)	(IRS Employer Identification No.)

101 South Main Street
High Point, North Carolina 27260
(Address of principal executive offices)
(336) 889-5161
(Registrant's telephone number, including area code)

(Former name or former address, if changed since last report)

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Item 7 -- Exhibits

99(a) News Release dated February 24, 2004

99(b) Financial Information Release dated February 24, 2004

Item 12 -- Results of Operations and Financial Condition

On February 24, 2004, Culp, Inc. (the "Registrant") issued a news release to announce its financial results for the quarter ended February 1, 2004. The news release is attached hereto as Exhibit 99(a).

Also on February 24, 2004, the Registrant released a Financial Information Release containing additional financial information and disclosures about the Registrant's third quarter ended February 1, 2004. The news release and financial information release contain disclosures about free cash flow, a non-GAAP performance measure, that management believes provides useful information to investors because it measures the company's available cash flow for potential debt repayment, stock repurchases and additions to cash, cash equivalents and short-term investments. In addition, the news release and financial information release contain proforma income statements which reconcile the reported income statements with proforma results, which exclude restructuring and related charges, one-time expenses related to early extinguishment of debt, and cumulative effect of accounting change. The company has included this proforma information in order to show operational performance excluding the effects of restructuring charges and expenses related to early debt repayment that are not expected to occur on a regular basis.

Forward Looking Information. This Report and the exhibits attached hereto 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 sales, gross profit margins, SG&A or other expenses, and earnings, as well as any statements regarding the company's view of estimates of the company's future results by analysts. Factors that could influence the matters discussed in such statements include the level of housing starts and sales of existing homes, consumer confidence, trends in disposable

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income, and general economic conditions. Decreases in these economic indicators could have a negative effect on the company's business and prospects. Likewise, increases in interest rates, particularly home mortgage rates, and increases in consumer debt or the general rate of inflation, could affect the company adversely. In addition, strengthening of the U. S. dollar against other currencies could make the company's products less competitive on the basis of price in markets outside the United States. Also, economic and political instability in international areas could affect the company's operations or sources of goods in those areas, as well as demand for the company's products in international markets. Finally, unanticipated delays or costs in executing restructuring actions could cause the cumulative effect of restructuring actions to fail to meet the objectives set forth by management. Other factors that could affect the matters discussed in forward looking statements are included in the company's periodic reports filed with the Securities and Exchange Commission.

SIGNATURE

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

CULP, INC.
(Registrant)

By: Franklin N. Saxon

Executive Vice President and
Chief Financial Officer

Dated: February 24, 2004

Exhibit 99(a)

NEWS RELEASE

Investor Contact: Kathy J. Hardy	Media Contact: Kenneth M. Ludwig
Corporate Secretary	Senior Vice President,
336-888-6209	Human Resources
	336-889-5161

CULP ANNOUNCES THIRD QUARTER FISCAL 2004 RESULTS

HIGH POINT, N.C. (February 24, 2004) - Culp, Inc. (NYSE: CFI) today reported financial and operating results for the third quarter and nine months ended February 1, 2004. The highlights for the quarter include:

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- o Net income of \$0.16 per diluted share, excluding a charge for the early extinguishment of debt
- o Gross profit margin of 18.9%, driven by continued improvement in the upholstery fabrics segment
- o Prepayment of \$25 million of the company's \$75 million of outstanding senior notes
- o Debt to capital ratio reduced to 33.9%, the lowest level for Culp since fiscal 1993
- o Earnings expectation for the fourth quarter of fiscal 2004 is \$0.31 to \$0.35 per diluted share.

For the three months ended February 1, 2004, net sales were \$76.6 million, compared with \$79.5 million a year ago. The company reported net income of \$752,000, or \$0.06 per diluted share, for the third quarter of fiscal 2004. The results for the third fiscal quarter include a one-time charge of \$1.7 million, or \$0.10 per diluted share, related to the previously announced \$25 million prepayment of the company's \$75 million of outstanding senior notes. Excluding this charge for the early extinguishment of debt, net income for the third fiscal quarter was \$1.9 million, or \$0.16 per diluted share. The company reported net income of \$1.7 million, or \$0.14 per diluted share, including restructuring and related charges for the third quarter of fiscal 2003. The financial results for the third quarter of fiscal 2003 include a total of \$397,000 in restructuring and related charges. Excluding these charges, net income for the third fiscal quarter of 2003 was \$1.9 million, or \$0.16 per diluted share. (A reconciliation to the net income and earnings per share calculations has been set forth on Page 5.)

For the nine months ended February 1, 2004, the company reported net sales of \$233.0 million compared with \$249.2 million for the same period a year ago. Net income for the first nine months of fiscal 2004 was \$3.5 million, or \$0.30 per diluted share, compared with a net loss of \$28.2 million, or \$2.46 per diluted share, including restructuring charges and the cumulative effect of accounting change, for the first nine months of fiscal 2003. Excluding the \$1.7 million charge for the early extinguishment of debt described above, net income for the first nine months of fiscal 2004 was \$4.6 million, or \$0.39 per diluted share. Excluding restructuring and related charges and the cumulative effect of accounting change, net income for the first nine months of fiscal 2003 was \$5.1 million, or \$0.43 per diluted share. The year-to-date period for fiscal 2004 included 40 weeks versus 39 weeks for the same period of fiscal 2003.

"Our results for the third fiscal quarter of 2004 reflect continued productivity improvement and solid profitability in spite of a modest decline in sales," remarked Robert G. Culp, III, chief executive officer of Culp, Inc. "Mattress ticking sales continued to gain momentum with a 6.9% increase over the prior year period, and a 5.8% increase for the fiscal year to date. This growth trend is particularly meaningful in light of the bedding industry's ongoing transition to selling predominantly one-sided mattresses, which utilize about one-third less fabric. Upholstery fabric sales declined 8.1% over the same period last year, primarily related to consumer preference for leather furniture and competition from imported fabrics and cut and sewn kits. However, our gross profit margin for the quarter was 18.9%, the highest in sixteen years for the company's third quarter. This improved profitability reflects gains in operating efficiencies within the upholstery fabrics segment. Our ability to drive higher gross profit margins in this segment confirms the value of our strategic initiatives over the past year to streamline our operations and focus on improving the profitability of our sales mix.

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"Strengthening our balance sheet has been an important focus for our company," added Culp. "During the third fiscal quarter, we elected to make a \$25.0 million prepayment on \$75.0 million of outstanding senior notes. Including this prepayment, we have generated sufficient free cash flow to reduce our long-term debt by a total of \$86.0 million over the past three and a half years. By taking this opportunity to further reduce our debt on favorable terms, our long-term debt now stands at \$51.1 million. As a result, our long-term debt-to-capital ratio improved to 33.9% at the end of the third fiscal quarter of 2004, compared with 51.1% a year ago. We will realize annualized savings of approximately \$1.7 million, or \$0.09 per share, in net interest expense in each of the next two years, and a declining amount over the remainder of the notes' term until 2010."

Culp added, "While the home furnishings retail environment appears to be improving, we anticipate our consolidated sales for the fourth fiscal quarter will decrease slightly over last year's level. Mattress ticking segment sales are expected to continue to increase over the prior year and we believe the gain will be significantly higher than the 6.9 percent increase this quarter. Upholstery fabrics segment sales are expected to decline at about the same rate we experienced this quarter. Based on these sales expectations and the current industry outlook, we expect to report net income in the range of \$0.31 to \$0.35 per share diluted for the fourth fiscal quarter, with the actual results depending primarily upon the level of demand throughout the quarter. Culp's results to date demonstrate the strength of our operations and our ability to execute our strategy, and we look forward to building on this momentum for the remainder of fiscal 2004."

Culp, Inc. is one of the world's largest marketers of upholstery fabrics for furniture and is a leading marketer of mattress ticking for bedding. The Company's fabrics are used principally in the production of residential and commercial furniture and bedding products.

This release contains statements that may be deemed "forward-looking statements" within the meaning of the federal securities laws, including the Private Securities Litigation Reform Act of 1995 (Section 27A of the Securities Act of 1933 and Section 27A of the Securities and Exchange Act of 1934). Such statements are inherently subject to risks and uncertainties. Further, forward-looking statements are intended to speak only as of the date on which they are made. Forward-looking statements are statements that include projections, expectations or beliefs about future events 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 sales, gross profit margins, SG&A or other expenses, and earnings, as well as any statements regarding the company's view of estimates of the company's future results by analysts. Factors that could influence the matters discussed in such statements include the level of housing starts and sales of existing homes, consumer confidence, trends in disposable income, and general economic conditions. Decreases in these economic indicators could have a negative effect on the company's business and prospects. Likewise, increases in interest rates, particularly home mortgage rates, and increases in consumer debt or the general rate of inflation, could affect the company adversely. In addition, strengthening of the U. S. dollar against other currencies could make the company's products less competitive on the basis of price in markets outside the United States. Also, economic and political instability in international areas could affect the company's operations or sources of goods in those areas, as well as demand for the company's products in international markets. Finally, unanticipated delays or costs in executing restructuring actions could cause the cumulative effect of restructuring actions to fail to meet the objectives set forth by management. Other factors that could affect the matters discussed in

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forward-looking statements are included in the company's periodic reports filed with the Securities and Exchange Commission.

CULP, INC. Condensed Financial Highlights (Unaudited)

	Three Months Ended	
	February 1, 2004	January 26, 2003
Net sales	\$ 76,561,000	\$ 79,492,000
Net income	\$ 752,000	\$ 1,667,000
Net income per share:		
Basic	\$ 0.07	\$ 0.15
Diluted	\$ 0.06	\$ 0.14
Net income per share, diluted, excluding restructuring and related charges and early extinguishment of debt*	\$ 0.16	\$ 0.16
Average shares outstanding:		
Basic	11,529,000	11,485,000
Diluted	11,859,000	11,714,000
Nine Months Ended		
	February 1, 2004	January 26, 2003
Net sales	\$ 232,968,000	\$ 249,240,000
Income (loss) before cumulative effect of accounting change	\$ 3,487,000	\$ (4,008,000)
Cumulative effect of accounting change, net of income taxes	-0-	(24,151,000)
Net income (loss)	\$ 3,487,000	\$ (28,159,000)
Basic and diluted income (loss) per share:		
Income (loss) before cumulative effect of accounting change	\$ 0.30	\$ (0.35)
Cumulative effect of accounting change	0.00	(2.11)
Net income (loss) per share	\$ 0.30	\$ (2.46)
Net income per share, diluted, excluding restructuring and related charges, early extinguishment of debt and cumulative effect of accounting change**	\$ 0.39	\$ 0.43
Average shares outstanding:		
Basic	11,522,000	11,450,000
Diluted	11,764,000	11,450,000

* Excludes charge for early extinguishment of debt of \$1.7 million, or \$0.10 per diluted share, for the third quarter of fiscal 2004. Excludes restructuring and related charges of \$397,000 (\$240,000, or \$0.02 per diluted share, after

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taxes) for the third quarter of fiscal 2003.

** Excludes charge for early extinguishment of debt of \$1.7 million, or \$0.10 per diluted share, for the first nine months of fiscal 2004. Excludes cumulative effect of accounting change, net of income taxes, of \$24.2 million (\$2.11 per diluted share) for the first nine months of fiscal 2003. Excludes restructuring and related charges of \$14.9 million (\$9.1 million, or \$0.80 per share diluted, after taxes) for the first nine months of fiscal 2003.

CULP, INC.

Reconciliation of Net Income (Loss) as Reported to Pro Forma Net Income (Unaudited)

	Three Months Ended		Nine Months Ended	
	February 1, 2004	January 26, 2003	February 1, 2004	January 26, 2003
Net income (loss), as reported	\$ 752,000	\$ 1,667,000	\$ 3,487,000	\$ (28,159,000)
Cumulative effect of accounting change, net of income taxes	--	--	--	24,151,000
Restructuring and related charges, net of income taxes	--	240,000	--	9,114,000
Early extinguishment of debt, net of income taxes	1,120,000	--	1,120,000	--
Pro forma net income (loss)	\$ 1,872,000	\$ 1,907,000	\$ 4,607,000	\$ 5,106,000

Reconciliation of Net Income (Loss) Per Share as Reported to Pro Forma Net Income Per Share (Unaudited)

Diluted net income (loss) per share	\$ 0.06	\$ 0.14	\$ 0.30	\$ (2.46)
Cumulative effect of accounting change, net of income taxes	--	--	--	2.11
Restructuring and related charges, net of income taxes	--	0.02	--	0.80
Early extinguishment of debt, net of income taxes	0.10	--	0.10	--
Effect of dilutive stock options	--	--	(0.01)	(0.02)
Diluted net income per share, adjusted	\$ 0.16	\$ 0.16	\$ 0.39	\$ 0.43

Reconciliation of Cash Flow from Operations to Free Cash Flow

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(Unaudited)

	Nine Months Ended	
	February 1, 2004	January 26, 2003
Cash flow from operations	\$ 16,782,000	\$ 23,864,000
Capital expenditures	(4,097,000)	(5,224,000)
Change in accounts payable-capital expenditures	(2,772,000)	(778,000)
Free cash flow	\$ 9,913,000	\$ 17,862,000

Exhibit 99(b)

CULP, INC. FINANCIAL INFORMATION RELEASE
CONSOLIDATED STATEMENTS OF INCOME (LOSS)
FOR THE THREE MONTHS AND NINE MONTHS ENDED FEBRUARY 1, 2004 AND JANUARY 26, 2003
(UNAUDITED)
(Amounts in Thousands, Except for Per Share Data)

	THREE MONTHS ENDED		
	Amounts		% Over (Under)
	February 1, 2004	January 26, 2003	
Net sales	\$ 76,561	79,492	(3.7) %
Cost of sales	62,093	65,704	(5.5) %
Gross profit	14,468	13,788	4.9 %
Selling, general and administrative expenses	10,282	9,798	4.9 %
Restructuring expense	0	(354)	(100.0) %
Income from operations	4,186	4,344	3.6 %
Interest expense	1,534	1,665	(7.9) %
Interest income	(113)	(143)	(21.0) %
Early extinguishment of debt	1,672	0	100.0 %
Other expense (income), net	229	192	19.3 %
Income before income taxes	864	2,630	(67.1) %
Income taxes*	112	963	(88.4) %
Net income	\$ 752	1,667	54.9 %

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Net income per share-basic	\$0.07	\$0.15	(53.3) %
Net income per share-diluted	\$0.06	\$0.14	(57.1) %
Net income per share, diluted, excluding restructuring and related charges and early extinguishment of debt (see proforma statement on page 6)	\$0.16	\$0.16	0.0 %
Average shares outstanding-basic	11,529	11,485	0.4 %
Average shares outstanding-diluted	11,859	11,714	1.2 %

		NINE MONTHS E		

		Amounts		
		February 1, 2004	January 26, 2003	% Over (Under)
		-----	-----	-----
Net sales	\$	232,968	249,240	(6.5) %
Cost of sales		190,283	207,855	(8.5) %
		-----	-----	-----
Gross profit		42,685	41,385	3.1 %
Selling, general and administrative expenses		31,089	29,716	4.6 %
Restructuring expense		0	13,006	(100.0) %
		-----	-----	-----
Income (loss) from operations		11,596	(1,337)	967.3 %
Interest expense		4,540	5,244	(13.4) %
Interest income		(356)	(414)	(14.0) %
Early extinguishment of debt		1,672	0	100.0 %
Other expense (income), net		536	645	(16.9) %
		-----	-----	-----
Income (loss) before income taxes		5,204	(6,812)	176.4 %
Income taxes*		1,717	(2,804)	161.2 %
		-----	-----	-----
Income (loss) before cumulative effect of accounting change		3,487	(4,008)	187.0 %
Cumulative effect of accounting change, net of income taxes		0	(24,151)	
		-----	-----	
Net income (loss)	\$	3,487	(28,159)	
		=====	=====	
Basic income (loss) per share:				
Income (loss) before cumulative effect of accounting change	\$	0.30	(0.35)	186.5 %
Cumulative effect of accounting change		0.00	(2.11)	100.0 %
		-----	-----	-----
Net income (loss)	\$	0.30	(2.46)	112.3 %
		=====	=====	=====
Diluted income (loss) per share:				
Income (loss) before cumulative effect of accounting change	\$	0.30	(0.35)	184.7 %

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Cumulative effect of accounting change		0.00	(2.11)	100.0	%
		-----	-----	-----	
Net income (loss)	\$	0.30	(2.46)	112.1	%
		=====	=====	=====	
Net income per share, diluted, excluding restructuring and related charges, early extinguishment of debt and cumulative effect of accounting change (see proforma statement on page 7)		\$0.39	\$0.43	(9.3)	%
Average shares outstanding-basic		11,522	11,450	0.6	%
Average shares outstanding-diluted		11,764	11,450	2.7	%

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

CULP, INC. FINANCIAL INFORMATION RELEASE
CONSOLIDATED BALANCE SHEETS
FEBRUARY 1, 2004, JANUARY 26, 2003 AND APRIL 27, 2003
UNAUDITED
(Amounts in Thousands)

	Amounts		Increase (Decrease)		
	February 1, 2004	January 26, 2003	Dollars	Percent	*April 27, 2003
	-----	-----	-----	-----	-----
Current assets					
Cash and cash equivalents	\$ 8,932	38,480	(29,548)	(76.8)%	14,355
Short-term investments	0	0	0	0.0%	10,043
Accounts receivable	28,282	32,427	(4,145)	(12.8)%	32,259
Inventories	52,000	53,560	(1,560)	(2.9)%	49,552
Deferred income taxes	12,303	9,447	2,856	30.2%	12,303
Other current assets	2,610	5,892	(3,282)	(55.7)%	3,204
	-----	-----	-----	-----	-----
Total current assets	104,127	139,806	(35,679)	(25.5)%	121,716
Property, plant & equipment, net					
Goodwill	9,240	9,240	0	0.0%	9,240
Other assets	1,577	2,311	(734)	(31.8)%	2,235
	-----	-----	-----	-----	-----
Total assets	\$ 193,853	236,753	(42,900)	(18.1)%	218,153
	=====	=====	=====	=====	=====
Current liabilities					
Current maturities of long-term debt	\$ 544	13,133	(12,589)	(95.9)%	500
Accounts payable	17,790	21,924	(4,134)	(18.9)%	19,874
Accrued expenses	12,901	14,646	(1,745)	(11.9)%	14,071
Accrued restructuring	6,353	8,465	(2,112)	(24.9)%	7,743
Income taxes payable	2,428	0	2,428	100.0%	349
	-----	-----	-----	-----	-----
Total current liabilities	40,016	58,168	(18,152)	(31.2)%	42,537

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Long-term debt	50,519	83,008	(32,489)	(39.1)%	76,000
Deferred income taxes	3,851	3,502	349	10.0 %	3,851
Total liabilities	94,386	144,678	(50,292)	(34.8)%	122,388
Shareholders' equity	99,467	92,075	7,392	8.0 %	95,765
Total liabilities and shareholders' equity \$	193,853	236,753	(42,900)	(18.1)%	218,153
Shares outstanding	11,529	11,487	42	0.4 %	11,515

* Derived from audited financial statements

CULP, INC. FINANCIAL INFORMATION RELEASE
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS ENDED FEBRUARY 1, 2004 AND JANUARY 26, 2003
Unaudited
(Amounts in Thousands)

	NINE MONTHS ENDED	
	Amounts	
	February 1, 2004	January 26, 2003
Cash flows from operating activities:		
Net income (loss)	\$ 3,487	(28,159)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Cumulative effect of accounting change, net of income taxes	0	24,151
Depreciation	10,294	10,554
Amortization of other assets	136	286
Stock-based compensation	157	158
Restructuring expense	0	13,006
Changes in assets and liabilities:		
Accounts receivable	3,977	10,939
Inventories	(2,448)	4,339
Other current assets	594	(1,885)
Other assets	522	295
Accounts payable	544	(5,477)
Accrued expenses	(1,170)	(1,551)
Accrued restructuring	(1,390)	(2,792)
Income taxes payable	2,079	0
Net cash provided by operating activities	16,782	23,864

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Cash flows from investing activities:		
Capital expenditures	(4,097)	(5,224)
Proceeds from the sale of short-term investments	10,043	0
Net cash provided by (used) in investing activities	5,946	(5,224)
Cash flows from financing activities:		
Payments on vendor-financed capital expenditures	(2,772)	(778)
Principal payments of long-term debt	(25,437)	(12,343)
Proceeds from common stock issued	58	968
Net cash used in financing activities	(28,151)	(12,153)
Increase (decrease) in cash and cash equivalents	(5,423)	6,487
Cash and cash equivalents at beginning of period	14,355	31,993
Cash and cash equivalents at end of period	\$ 8,932	38,480
Free Cash Flow (1)	\$ 9,913	17,862

(1) Free Cash Flow reconciliation is as follows:	3rd QTR FY 2004	3rd QTR FY 2003
A) Net cash provided by operating activities	16,782	23,864
B) Minus: Capital Expenditures	(4,097)	(5,224)
C) Minus: Payments on vendor-financed capital expenditures	(2,772)	(778)
	9,913	17,862

CULP, INC. FINANCIAL INFORMATION RELEASE
FINANCIAL ANALYSIS
FEBRUARY 1, 2004

	FISCAL 03	FISCAL	FISCAL
	Q3	Q1	Q2
INVENTORIES			
Inventory turns	4.8	5.0	5.1
RECEIVABLES			
Days sales in receivables	34	32	34
WORKING CAPITAL			

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Current ratio	3.1	3.1	2.9
Operating working capital turnover (1)	4.9	5.1	5.3
Operating working capital (1)	\$64,063	\$54,854	\$61,262
PROPERTY, PLANT & EQUIPMENT			
Depreciation rate	6.2%	6.2%	6.3%
Percent property, plant & equipment are depreciated	61.0%	62.3%	62.9%
Capital expenditures	\$12,229 (2)	\$1,781	\$1,360
LEVERAGE			
Total liabilities/equity	157.1%	124.7%	128.0%
Long-term debt/equity	104.4%	80.3%	77.7%
Long-term debt/capital employed	51.1%	44.5%	43.7%
Long-term debt	\$96,141	\$76,551	\$76,616
OTHER			
Book value per share	\$8.02	\$8.28	\$8.55
Employees at quarter end	2,534	2,383	2,373
Sales per employee (annualized)	\$124,306	\$121,628	\$139,161
Capital employed	\$188,216	\$171,891	\$175,221

(1) Working capital for this calculation is accounts receivable, inventories and accounts payable

(2) Expenditures for entire year

(3) Capital employed represents long-term debt plus stockholders equity; Long-term debt is long-term debt plus current maturities of long-term debt

CULP, INC. FINANCIAL INFORMATION RELEASE
 SALES / GROSS PROFIT BY SEGMENT/DIVISION
 FOR THE THREE AND NINE MONTHS ENDED FEBRUARY 1, 2004 AND JANUARY 26, 2003

(Amounts in thousands)

Segment/Division Sales (1)	THREE MONTHS ENDED (UNANNUALIZED)			P Feb
	Amounts			
	February 1, 2004	January 26, 2003	% Over (Under)	
Upholstery Fabrics				
Culp Decorative Fabrics	\$ 29,173	31,798	(8.3)%	
Culp Velvets/Prints	21,769	22,841	(4.7)%	
Culp Yarn	505	1,356	(62.8)%	
	51,447	55,995	(8.1)%	
Mattress Ticking				
Culp Home Fashions	25,114	23,497	6.9 %	
	\$ 76,561	79,492	(3.7)%	

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Segment Gross Profit

Upholstery Fabrics	\$	9,375	8,088	15.9 %
Restructuring related charges		0	751	(100.0)%
Pro forma Upholstery Fabrics gross profit (2)		9,375	8,839	6.1 %
Mattress Ticking		5,093	5,700	(10.6)%
Pro forma gross profit	\$	14,468	14,539	(0.5)%

NINE MONTHS ENDED (UNADJUSTED)

Segment/Division Sales (1)	Amounts			% Over (Under)
	February 1, 2004	January 26, 2003		
Upholstery Fabrics				
Culp Decorative Fabrics	\$	88,002	100,473	(12.4)%
Culp Velvets/Prints		62,093	69,277	(10.4)%
Culp Yarn		3,751	4,702	(20.2)%
		153,846	174,452	(11.8)%
Mattress Ticking				
Culp Home Fashions		79,122	74,788	5.8 %
	\$	232,968	249,240	(6.5)%

Segment Gross Profit

Upholstery Fabrics	\$	25,191	23,738	6.1 %
Restructuring related charges		0	1,911	(100.0)%
Pro forma Upholstery Fabrics gross profit (2)		25,191	25,649	(1.8)%
Mattress Ticking		17,494	17,647	(0.9)%
Pro forma gross profit	\$	42,685	43,296	(1.4)%

(1) International Sales and portion of total sales is: Q3 - \$8.5 million FY04 (11.1%) & \$8.2 million FY03 (10.3%); YTD - \$26.1 million FY04 (11.2%) & \$29.8 million FY03 (12.0%)

(2) Pro forma includes \$751,000 and \$1.9 million of restructuring related charges from the shut Chattanooga operation for the three and nine month period of fiscal 2003, respectively.

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PROFORMA CONSOLIDATED STATEMENTS OF INCOME
FOR THE THREE MONTHS ENDED FEBRUARY 1, 2004 AND JANUARY 26, 2003
(Amounts in Thousands, Except for Per Share Data)

	THREE MONTHS ENDED					
	As Reported February 1, 2004	% of Sales	Adjustments	% of Sales	February 1, 2004 Proforma Net of Adjustments	%
Net sales	\$ 76,561	100.0%	0	0.0%	76,561	100.0%
Cost of sales	62,093	81.1%	0	0.0%	62,093	81.1%
Gross profit	14,468	18.9%	0	0.0%	14,468	18.9%
Selling, general and administrative expenses	10,282	13.4%	0	0.0%	10,282	13.4%
Restructuring expense	0	0.0%	0	0.0%	0	0.0%
Income from operations	4,186	5.5%	0	0.0%	4,186	5.5%
Interest expense	1,534	2.0%	0	0.0%	1,534	2.0%
Interest income	(113)	-0.1%	0	0.0%	(113)	-0.1%
Early extinguishment of debt	1,672	2.7%	(1,672)	0.0%	0	0.0%
Other expense (income), net	229	0.3%	0	0.0%	229	0.3%
Income before income taxes	864	1.1%	1,672	2.2%	2,536	3.3%
Income taxes (1)	112	13.0%	552	33.0%	664	26.2%
Net income (loss)	\$ 752	1.0%	1,120	1.5%	1,872	2.4%
Net income (loss) per share-basic	\$0.07		\$0.10		\$0.16	
Net income (loss) per share-diluted	\$0.06		\$0.10		\$0.16	
Average shares outstanding-basic	11,529		11,529		11,529	
Average shares outstanding-diluted	11,859		11,529		11,859	

CULP, INC.
PROFORMA CONSOLIDATED STATEMENTS OF INCOME
FOR THE THREE MONTHS ENDED FEBRUARY 1, 2004 AND JANUARY 26, 2003
(Amounts in Thousands, Except for Per Share Data)

	THREE MONTHS ENDED					
	As Reported January 26, 2003	% of Sales	Adjustments	% of Sales	January 26, 2003 Proforma Net of Adjustments	%
Net sales	\$ 79,492	100.0%	0	0.0%	79,492	100.0%
Cost of sales	65,704	82.7%	(751)	-0.9%	64,953	81.7%
Gross profit	13,788	17.3%	(751)	-0.9%	14,539	18.3%
Selling, general and administrative expenses	9,798	12.3%	0	0.0%	9,798	12.3%
Restructuring expense	(354)	-0.4%	354	0.4%	0	0.0%

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Income from operations	4,344	5.5%	(397)	-0.5%	4,741
Interest expense	1,665	2.1%	0	0.0%	1,665
Interest income	(143)	-0.2%	0	0.0%	(143)
Early extinguishment of debt	0	0.0%	0	0.0%	0
Other expense (income), net	192	0.2%	0	0.0%	192
Income before income taxes	2,630	3.3%	(397)	-0.5%	3,027
Income taxes (1)	963	36.6%	(157)	39.5%	1,120
Net income (loss)	\$ 1,667	2.1%	(240)	-0.3%	1,907
Net income (loss) per share-basic	\$0.15		(\$0.02)		\$0.17
Net income (loss) per share-diluted	\$0.14		(\$0.02)		\$0.16
Average shares outstanding-basic	11,485		11,485		11,485
Average shares outstanding-diluted	11,714		11,485		11,714

Notes:

- (1) Percent of net sales column for income taxes is calculated as a % of income (loss) before income taxes
- (2) Premium and fees paid to reduce private placement loan balance
- (3) The \$751,000 represents restructuring related charges for inventory markdowns and movement of the Chattanooga plant closing
- (4) The \$354,000 restructuring credit represents the reversal of excess accrued employment benefits associated with the shutdown of the wet printed flock operation

CULP, INC.

PROFORMA CONSOLIDATED STATEMENTS OF INCOME (LOSS)
FOR THE NINE MONTHS ENDED FEBRUARY 1, 2004 AND JANUARY 26, 2003
(Amounts in Thousands, Except for Per Share Data)

	NINE MONTHS ENDED				
	As Reported February 1, 2004	% of Sales	Adjustments	% of Sales	Fe
Net sales	\$ 232,968	100.0%	0	0.0%	
Cost of sales	190,283	81.7%	0	0.0%	
Gross profit	42,685	18.3%	0	0.0%	
Selling, general and administrative expenses	31,089	13.3%	0	0.0%	
Restructuring expense	0	0.0%	0	0.0%	
Income (loss) from operations	11,596	5.0%	0	0.0%	
Interest expense	4,540	1.9%	0	0.0%	
Interest income	(356)	-0.2%	0	0.0%	
Early extinguishment of debt	1,672	0.7%	(1,672)	0.0%	(2)
Other expense (income), net	536	0.2%	0	0.0%	
Income (loss) before income taxes	5,204	2.2%	1,672	0.7%	
Income taxes (1)	1,717	33.0%	552	33.0%	
Income (loss) before cumulative effect of	\$ 3,487	1.5%	1,120	0.5%	

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accounting change		-----	=====
Cumulative effect of accounting change, net of income taxes	0	-----	-----
Net income (loss)	3,487	=====	=====
Basic income (loss) per share:			
Income (loss) before cumulative effect of accounting change	\$ 0.30		0.10
Cumulative effect of accounting change	0.00	-----	-----
Net income (loss)	0.30	=====	=====
Diluted income (loss) per share:			
Income (loss) before cumulative effect of accounting change	\$ 0.30		0.10
Cumulative effect of accounting change	0.00	-----	-----
Net income (loss)	0.30	=====	=====
Average shares outstanding-basic	11,522		11,522
Average shares outstanding-diluted	11,764		11,522

CULP, INC.
PROFORMA CONSOLIDATED STATEMENTS OF INCOME (LOSS)
FOR THE NINE MONTHS ENDED FEBRUARY 1, 2004 AND JANUARY 26, 2003
(Amounts in Thousands, Except for Per Share Data)

	NINE MONTHS ENDED				
	As Reported	%		%	Janu
	January 26,	of	Adjustments	of	P
	2003	Sales		Sales	of
Net sales	\$ 249,240	100.0%	0		
Cost of sales	207,855	83.4%	(1,911)	-0.8%	(3)
Gross profit	41,385	16.6%	(1,911)	-0.8%	
Selling, general and administrative expenses	29,716	11.9%	0	0.0%	
Restructuring expense	13,006	5.2%	(13,006)	-5.2%	(4)
Income (loss) from operations	(1,337)	-0.5%	(14,917)	-6.0%	
Interest expense	5,244	2.1%	0	0.0%	
Interest income	(414)	-0.2%	0	0.0%	
Early extinguishment of debt	0	0.0%	0	0.0%	
Other expense (income), net	645	0.3%	0	0.0%	
Income (loss) before income taxes	(6,812)	-2.7%	(14,917)	-6.0%	
Income taxes (1)	(2,804)	41.2%	(5,803)	38.9%	

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Income (loss) before cumulative effect of accounting change	(4,008)	-1.6%	(9,114)	-3.7%
Cumulative effect of accounting change, net of income taxes	(24,151)		24,151	
Net income (loss)	(28,159)			
Basic income (loss) per share:				
Income (loss) before cumulative effect of accounting change	\$ (0.35)		(\$0.80)	
Cumulative effect of accounting change	(2.11)		2.11	
Net income (loss)	(2.46)			
Diluted income (loss) per share:				
Income (loss) before cumulative effect of accounting change	\$ (0.35)		0.80)	
Cumulative effect of accounting change	(2.11)		2.11	
Net income (loss)	(2.46)			
Average shares outstanding-basic	11,450		11,450	
Average shares outstanding-diluted	11,450		11,450	

Notes:

- (1) Percent of net sales column for income taxes is calculated as a % of income (loss) before income taxes
- (2) Premium and fees paid to reduce private placement loan balance
- (3) The \$1.9 million represents restructuring related charges for inventory markdowns and movement of inventory relating to the Chattanooga plant closing
- (4) The \$13.0 million represents restructuring charges for the shut down of the Chattanooga operations, including an additional write-down of wet printed assets held for sale, \$1.3 million offset by a restructuring credit of \$354,000 for over accrued employee benefit and plant severance

CULP, INC. FINANCIAL INFORMATION RELEASE
FINANCIAL NARRATIVE

for the three and nine months ended February 1, 2004 and January 26, 2003

OVERVIEW

Highlights for the third quarter ended February 1, 2004, include:

- o Net income of \$0.16 per diluted share, excluding a charge for early extinguishment of debt;
- o Gross profit margin of 18.9%, driven by continued improvement in the upholstery fabrics segment;
- o Prepayment of \$25 million of the company's \$75 million of outstanding

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senior notes;

- o Debt to capital ratio reduced to 33.9%, the lowest level for Culp since fiscal 1993; and
- o Earnings expectation for the fourth quarter of fiscal 2004 is \$0.31 to \$0.35 per diluted share.

GENERAL -- For the third quarter of fiscal 2004, net sales decreased 3.7% to \$76.6 million; and the company reported net income of \$752,000, or \$0.06 per share diluted, compared with net income of \$1.7 million, or \$0.14 per share diluted, in the third quarter of fiscal 2003. Included in the current quarter results was a \$1.7 million charge, or \$0.10 per share diluted, associated with the \$25 million prepayment of the company's \$75 million of outstanding senior notes. Excluding this charge for the early extinguishment of debt, net earnings for the third quarter of fiscal 2004 were \$1.9 million or \$0.16 per share diluted. Excluding restructuring and related charges, net earnings for the third quarter of fiscal 2003 were \$1.9 million or \$0.16 per share diluted (see reconciliation on page 6). For the first nine months of fiscal 2004, net sales decreased 6.5% to \$233 million; and the company reported net income of \$3.5 million, or \$0.30 per share diluted, compared to a net loss of \$28.2 million, or \$2.46 per share diluted, for the same period last year. Excluding the \$1.7 million charge for the early extinguishment of debt, earnings for the first nine months of fiscal 2004 were \$4.6 million or \$0.39 per share diluted, compared with earnings for the same period last year of \$5.1 million, or \$0.43 per share diluted, excluding restructuring and related charges and the cumulative effect of accounting change (see reconciliation on page 7). The year-to-date period for fiscal 2004 included 40 weeks versus 39 weeks for the same period of fiscal 2003.

INCOME STATEMENT COMMENTS

UPHOLSTERY FABRICS SEGMENT (See page 5 - Sales and Gross Profit by Segment)

Net Sales -- Upholstery fabric sales for the third quarter of fiscal 2004 decreased 8.1% to \$51.4 million when compared to the third quarter of fiscal 2003, primarily reflecting a decline in orders in the Culp Decorative Fabrics (CDF) division related to consumer preference for leather and competition from imported fabrics, including cut and sewn kits. Although the 8.1% decline is higher than the 4.3% decline experienced during the previous quarter, this quarterly sales decline is a substantial improvement over the 22.5% decrease in the first quarter of fiscal 2004 and the 17.2% decrease in the fourth quarter of fiscal 2003.

With the company's offshore sourcing efforts, including the China platform, the company is increasing significantly sales of upholstery fabric products produced outside of the company's U.S. manufacturing plants. These sales, which include micro denier suedes, accounted for approximately 8.5% of upholstery fabric sales for the third quarter of fiscal 2004, almost double the percentage from the year earlier quarter

Upholstery fabric yards sold during the third quarter were 11.8 million versus 13.2 million in the third quarter of fiscal 2003, a decline of 10.6%. Average selling price was \$4.28 for the third quarter compared with \$4.11 in the same quarter of last year, an increase of 4.1%, due primarily to higher average selling prices in the Culp Decorative Fabrics division.

Gross Profit -- Gross profit for the third quarter of fiscal 2004 was \$9.4 million, or 18.2%, versus \$8.1 million, or 14.4%, for the same quarter of last year. Excluding restructuring related charges of \$751,000, which were included

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in cost of sales in last year's third quarter, gross profit dollars and margins were \$8.8 million and 15.8%, respectively. The increase in gross profit and margins primarily reflects significant gains in manufacturing operating efficiencies within the CDF division.

China Operations -- The start up of the company's China operation is generally proceeding in accordance with previously announced plans. During the third quarter, the company completed the installation of manufacturing equipment and began running some production trials. During the fourth quarter, the company expects to begin incoming fabric inspection and testing, and to start shipping fabric to customers. Limited finishing operations are also anticipated to begin in the fourth quarter of this fiscal year. As expected, the company is experiencing modest operating losses in its China operation during the start up phase, which is expected to be completed by the end of this fiscal year, although some level of operating losses from the China operation is expected to continue until some time in fiscal 2005.

MATTRESS TICKING SEGMENT (See page 5 - Sales and Gross Profit by Segment)

Net Sales -- Mattress ticking sales for the third quarter of fiscal 2004 increased 6.9% to \$25.1 million, due to better industry demand and continued gains with key customers. The 5.8% fiscal year to date sales gain in this segment is especially noteworthy because it continues to occur during the bedding industry's transition to selling predominately one-sided mattresses, which utilize about one-third less mattress ticking. This transition at retail began in late calendar year 2002 and is expected to continue through early calendar year 2005.

Mattress ticking yards sold during the third quarter of fiscal 2004 were 10.0 million compared with 9.0 million yards in the third quarter of last year. The average selling price was \$2.50 for the third quarter, compared to \$2.59 in the same quarter last year.

Gross Profit -- For the third quarter of fiscal 2004, the mattress ticking segment reported gross profit dollars and margins of \$5.1 million and 20.3%, respectively, compared with \$5.7 million and 24.3% for the same period of last year. The reduction in gross profit was due principally to lower selling margins.

SG&A EXPENSES -- SG&A expenses of \$10.3 million for the third quarter increased approximately \$500,000, or 4.9%, from the prior year amount. As a percent of net sales, SG&A expenses increased to 13.4% from 12.3% the previous year. This increase over the prior year was due primarily to a \$435,000 credit to bad debt expense in the third quarter of fiscal 2003 resulting from a net reduction in the allowance for doubtful accounts, due to a decrease in past due receivable balances. The company did not have any bad debt expense or credit to bad debt expense in the third quarter of fiscal 2004.

INTEREST EXPENSE AND INTEREST INCOME -- Interest expense for the third quarter declined to \$1.5 million from \$1.7 million the previous year due to lower borrowings outstanding. Interest income decreased to \$113,000 from \$143,000 the previous year due to lower interest rates earned in fiscal 2004 as compared to the previous year.

EARLY EXTINGUISHMENT OF DEBT - See LONG-TERM DEBT discussion below.

INCOME TAXES -- The effective tax rate (taxes as a percentage of pretax income (loss)) for the first nine months of fiscal 2004 was 33.0% compared with 41.2% for the first nine months of fiscal 2003. The higher rate for the prior

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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. Excluding the cumulative effect of accounting change and restructuring and related charges, the effective tax rate for the first nine months of fiscal 2003 was 37.0%. The lower rate for fiscal 2004 also reflects the benefit from the company's decrease in estimated accruals during the third quarter, which reduced the annual effective rate from 37.0% to 33.0%, and increased earnings for the quarter and year-to-date by \$208,000, or \$0.02 per diluted share.

BALANCE SHEET COMMENTS

CASH, CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS - Cash, cash equivalents and short-term investments as of February 1, 2004 decreased to \$8.9 million from \$24.4 million at the end of fiscal 2003, reflecting free cash flow of \$9.9 million for the first nine months of fiscal 2004, and the \$25 million prepayment of the company's \$75 million outstanding senior notes (see additional discussion of free cash flow and debt below).

WORKING CAPITAL -- Accounts receivable as of February 1, 2004 decreased 12.8% from the year-earlier level, principally due to an increase in the number of customers taking the cash discount for shorter payment terms. Days sales outstanding totaled 31 days at February 1, 2004, compared to 34 days for the same period last fiscal year. Inventories at the close of the third quarter decreased 2.9% from a year ago. Inventory turns for the third quarter were 4.7 versus 4.8 for the year-earlier period. Operating working capital (comprised of accounts receivable, inventories and trade accounts payable) was \$62.5 million at February 1, 2004, down from \$64.1 million a year ago.

PROPERTY, PLANT AND EQUIPMENT -- Capital spending for the first nine months of fiscal 2004 was \$4.2 million. Depreciation is estimated at \$14.0 million for the full fiscal year, which is unchanged from the previous year. For fiscal 2004, the company expects capital expenditures to be approximately \$7.0 million, of which approximately \$3.5 million is related to the company's China operations. The China investment includes manufacturing equipment and leasehold improvements. For fiscal 2005, the company anticipates capital expenditures to be approximately \$8.0 million.

INTANGIBLE ASSETS -- As of February 1, 2004, \$9.2 million in goodwill is the company's only intangible asset.

LONG-TERM DEBT - During the third quarter of fiscal 2004, the company made a \$25.0 million prepayment on its \$75.0 million of outstanding senior notes. As part of the transaction, the company negotiated a five percent, or \$1.25 million, premium to be paid to the current note holders for the prepayment of this principal amount. This premium amount, along with other related transaction costs, resulted in a charge of \$1.7 million, or \$0.10 per share, in the third quarter of fiscal 2004. As a result of this prepayment, the company will realize annualized savings of approximately \$1.7 million, or \$0.09 per share, in net interest expense in each of the next two years, and a declining amount over the remainder of the notes' term until 2010. In addition, the company's long-term debt to capital ratio improved to 33.9% compared with 51.1% for the same period last year. During the past three and one half years the company has generated sufficient cash flow from operations to reduce long-term debt by \$86.0 million, or 62.0%.

The company's remaining \$51.1 million in long-term debt is unsecured and is comprised of \$50 million in outstanding senior notes, with a fixed interest rate of 7.76%, and a \$1.1 million, non-interest bearing term loan with the Canadian government. Additionally, the company has a \$15.0 million revolving credit line with a bank, of which no balance is outstanding at February 1, 2004. The bank agreement expires in August 2004. The first scheduled principal payment on the

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\$50 million term loan is due March 2006 in the amount of \$7.5 million. The Canadian government loan is repaid in annual installments of approximately \$500,000 per year. The company was in compliance with all financial covenants in its loan agreements as of February 1, 2004.

FREE CASH FLOW COMMENTS

Free cash flow (see reconciliation on page 3 of this release) was \$9.9 million for the first nine months of fiscal 2004, compared with \$17.9 million for the same period last year. This decrease is primarily due to less cash flow generated from working capital. For fiscal 2004, the company believes free cash flow will be substantially less than fiscal 2003 primarily because the company does not expect the continued significant reduction in working capital reflected in each of the previous three years. In addition, the company will have higher payments on vendor-financed capital expenditures (\$3.7 million in fiscal 2004 compared with \$1.3 million in fiscal 2003).

BUSINESS OUTLOOK

While the home furnishings retail environment appears to be improving, the company expects that fourth quarter consolidated sales will decrease slightly from the same quarter of last year. Mattress ticking segment sales are expected to continue to increase in the fourth quarter at a significantly higher rate than the 6.9% growth in the third quarter. Upholstery fabric segment sales are expected to decline from the same quarter of last year at about the same rate of 8.1% experienced in the third quarter, due primarily to softness in incoming orders for CDF. With these sales expectations and the current industry outlook, the company expects to report net income in the range of \$0.31 to \$0.35 per diluted share, with actual results primarily depending upon the level of demand throughout the quarter.