

SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the period ended January 26, 1997

Commission File No. 0-12781

CULP, INC.

(Exact name of registrant as specified in its charter)

NORTH CAROLINA
(State or other jurisdiction of
incorporation or other organization)

56-1001967
(I.R.S. Employer Identification No.)

101 S. Main St., High Point, North Carolina
(Address of principal executive offices)

27261-2686
(zip code)

(910) 889-5161
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 of the Securities Exchange Act of 1934 during the preceding 12 months and (2) has been subject to the filing requirements for at least the past 90 days.

YES NO

Common shares outstanding at January 26, 1997: 11,352,477
Par Value: \$.05

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January 26, 1997

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CULP, INC.
CONSOLIDATED INCOME STATEMENTS
FOR THE THREE MONTHS AND NINE MONTHS ENDED JANUARY 26, 1997 AND JANUARY 28, 1996

(Amounts in Thousands, Except for Per Share Data)

THREE MONTHS ENDED (UNAUDITED)					
	Amounts			Percent of Sales	
	January 26, 1997	January 28, 1996	% Over (Under)	1997	1996
	-----	-----	-----	-----	-----
Net sales	\$ 97,468	86,476	12.7 %	100.0 %	100.0 %
Cost of sales	80,317	71,447	12.4 %	82.4 %	82.6 %
	-----	-----	-----	-----	-----
Gross profit	17,151	15,029	14.1 %	17.6 %	17.4 %
Selling, general and administrative expenses	10,760	9,639	11.6 %	11.0 %	11.1 %
	-----	-----	-----	-----	-----
Income from operations	6,391	5,390	18.6 %	6.6 %	6.2 %
Interest expense	1,228	1,279	(4.0)%	1.3 %	1.5 %
Interest income	(73)	0	** %	(0.1)%	0.0 %
Other expense (income), net	421	266	58.3 %	0.4 %	0.3 %
	-----	-----	-----	-----	-----
Income before income taxes	4,815	3,845	25.2 %	4.9 %	4.4 %
Income taxes *	1,805	1,430	26.2 %	37.5 %	37.2 %
	-----	-----	-----	-----	-----
Net income	\$ 3,010	2,415	24.6 %	3.1 %	2.8 %
	=====	=====	=====	=====	=====
Average shares outstanding	11,342	11,232	1.0 %		
Net income per share	\$0.27	\$0.22	22.7 %		
Dividends per share	\$0.0325	\$0.0275	18.2 %		

NINE MONTHS ENDED (UNAUDITED)					
	Amounts			Percent of Sales	
	January 26 1997	January 28, 1996	% Over (Under)	1997	1996
	-----	-----	-----	-----	-----
Net sales	\$ 293,201	249,505	17.5 %	100.0 %	100.0 %
Cost of sales	241,008	206,171	16.9 %	82.2 %	82.6 %
	-----	-----	-----	-----	-----
Gross profit	52,193	43,334	20.4 %	17.8 %	17.4 %
Selling, general and administrative expenses	33,328	27,768	20.0 %	11.4 %	11.1 %
	-----	-----	-----	-----	-----
Income from operations	18,865	15,566	21.2 %	6.4 %	6.2 %
Interest expense	3,652	3,964	(7.9)%	1.2 %	1.6 %
Interest income	(190)	0	** %	(0.1)%	0.0 %
Other expense (income), net	1,117	592	88.7 %	0.4 %	0.2 %
	-----	-----	-----	-----	-----
Income before income taxes	14,286	11,010	29.8 %	4.9 %	4.4 %
Income taxes *	5,356	4,080	31.3 %	37.5 %	37.1 %
	-----	-----	-----	-----	-----
Net income	\$ 8,930	6,930	28.9 %	3.0 %	2.8 %
	=====	=====	=====	=====	=====
Average shares outstanding	11,317	11,218	0.9 %		
Net income per share	\$0.79	\$0.62	27.4 %		
Dividends per share	\$0.0975	\$0.0825	18.2 %		

* Percent of sales column is calculated as a % of income before income taxes.
** Measurement is not meaningful.

CULP, INC.
CONSOLIDATED BALANCE SHEETS
JANUARY 26, 1997, JANUARY 28, 1996 AND APRIL 28, 1996

(Unaudited, Amounts in Thousands)

	Amounts		Increase (Decrease)		* April 28,
	January 26, 1997	January 28, 1996	Dollars	Percent	1996
Current assets					
Cash and cash investments	\$ 406	1,841	1,435)	(77.9)%	498
Accounts receivable	50,157	43,642	6,515	14.9 %	52,038
Inventories	50,755	49,960	795	1.6 %	47,395
Other current assets	3,701	3,436	265	7.7 %	4,167
	-----	-----	-----	-----	-----
Total current assets	105,019	98,879	6,140	6.2 %	104,098
Restricted investments	11,778	0	11,778		5,274
Property, plant & equipment, net	86,146	73,356	12,790	17.4 %	76,961
Goodwill	22,413	23,037	(624)	(2.7)%	22,871
Other assets	2,906	2,432	474	19.5 %	2,440
	-----	-----	-----	-----	-----
Total assets	228,262	197,704	30,558	15.5 %	211,644
	=====	=====	=====	=====	=====
Current Liabilities					
Current maturities of long-term debt	\$ 6,100	11,555	(5,455)	(47.2)%	7,100
Accounts payable	20,833	22,516	(1,683)	(7.5)%	27,308
Accrued expenses	15,644	11,181	4,463	39.9 %	12,564
Income taxes payable	1,753	1,336	417	31.2 %	197
Total current liabilities	44,330	46,588	(2,258)	(4.8)%	47,169
	-----	-----	-----	-----	-----
Long-term debt	86,266	68,112	18,154	26.7 %	74,941
Deferred income taxes	8,088	5,381	2,707	50.3 %	8,088
Total liabilities	138,684	120,081	18,603	15.5 %	130,198
	-----	-----	-----	-----	-----
Shareholders' equity	89,578	77,623	11,955	15.4 %	81,446
	-----	-----	-----	-----	-----
Total liabilities and shareholders' equity	\$228,262	197,704	30,558	15.5 %	211,644
	=====	=====	=====	=====	=====
Shares outstanding	11,352	11,265	87	0.8 %	11,290
	=====	=====	=====	=====	=====

Derived from audited financial statements.

CULP, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS ENDED JANUARY 26, 1997 AND JANUARY 28, 1996
(Unaudited, Amounts in Thousands)

	NINE MONTHS ENDED	
	Amounts	
	January 26, 1997	January 28, 1996
Cash flows from operating activities:		
Net income	\$ 8,930	6,930
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	9,440	9,278
Amortization of intangible assets	634	544
Provision for deferred income taxes	0	(37)
Changes in assets and liabilities:		
Accounts receivable	1,881	610
Inventories	(3,360)	(4,189)
Other current assets	466	(242)
Other assets	(642)	(57)
Accounts payable	(2,213)	(2,838)
Accrued expenses	3,080	(351)
Income taxes payable	1,556	675
	19,772	10,323
Cash flows from investing activities:		
Capital expenditures	(18,625)	(7,710)
Purchases of restricted investments	(9,681)	0
Purchase of investments to fund deferred compensation liability	0	(1,286)
Proceeds from sale of restricted investments	3,177	795
	(25,129)	(8,201)
Cash flows from financing activities:		
Proceeds from issuance of long-term debt	15,900	10,500
Principal payments on long-term debt	(5,575)	(4,575)
Change in accounts payable-capital expenditures	(4,262)	(6,896)
Dividends paid	(1,103)	(926)
Proceeds from sale of common stock	305	223
	5,265	(1,674)
Increase (decrease) in cash and cash investments	(92)	448
Cash and cash investments at beginning of period	498	1,393
Cash and cash investments at end of period	\$ 406	1,841

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

(Dollars in thousands, except per share data)

	Common Stock		Capital Contributed in Excess of Par Value	Retained Earnings	Total Shareholders' Equity
	Shares	Amount			
Balance, April 30, 19	11,204,766	\$ 560	\$ 16,577	\$ 54,259	\$ 71,396
Cash dividends (\$.11 per share)				(1,236)	(1,236)
Net income				10,980	10,980
Common stock issued in connection with stock option plan	85,534	5	301		306
Balance, April 28, 19	11,290,300	\$ 565	\$ 16,878	\$ 64,003	\$ 81,446
Cash dividends (\$.0975 per share)				(1,103)	(1,103)
Net income				8,930	8,930
Common stock issued in connection with stock option plan	62,177	1	304		305
Balance, January 26,	11,352,477	\$ 566	\$ 17,182	\$ 71,830	\$ 89,578

Culp, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

1. Basis of Presentation

The financial information included herein is unaudited; however, such information reflects all adjustments (consisting of normal recurring adjustments) which the management of the company considers necessary for a fair statement of results for the interim periods.

Certain amounts for fiscal year 1996 have been reclassified to conform with the fiscal year 1997 presentation. Such reclassifications had no effect on net income as previously reported. All such adjustments are of a normal recurring nature.

The results of operations for the nine months ended January 26, 1997 are not necessarily indicative of the results to be expected for the full year.

2. Accounts Receivable

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

	January 26, 1997	April 28, 1996
Customers	\$ 51,807	\$ 53,321
Factors	-0-	71
Allowance for doubtful accounts	(1,304)	(1,016)
Reserve for returns and allowances	(346)	(338)
	\$ 50,157	\$ 52,038

3. Inventories

Inventories are carried at the lower of cost of market. Cost is determined for substantially all inventories using the LIFO (last-in, first-out) method.

A summary of inventories follows (dollars in thousands):

	January 26, 1997	April 28, 1996
Raw materials	\$ 31,042	\$ 29,150
Work-in-process	3,548	5,067
Finished goods	20,842	16,708
Total inventories valued at FIFO cost	55,432	50,925
Adjustments of certain inventories to the LIFO cost method	(4,677)	(3,530)
	\$ 50,755	\$ 47,395

4. Restricted Investments. Restricted investments were purchased with proceeds from industrial revenue bond issues and are invested pending application of such proceeds to project costs or repayment of the bonds. The investments are stated at cost which approximates market value.

5. Accounts Payable

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

	January 26, 1997	April 28, 1996
Accounts payable-trade	\$ 19,357	\$ 21,570
Accounts payable-capital expenditures	1,476	5,738
	\$ 20,833	\$ 27,308

6. Accrued Expenses

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

	January 26, 1997	April 28, 1996
Compensation and benefits	\$ 10,791	\$ 8,153
Other	4,853	4,411
	\$ 15,644	\$ 12,564

7. Long-term Debt

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

	January 26, 1997	April 28, 1996
Industrial revenue bonds and other obligations	\$ 31,666	\$ 22,241
Revolving credit line	29,700	23,300
Term loan	31,000	35,500
Subordinated note payable	-0-	1,000
	92,366	82,041
Less current maturities	(6,100)	(7,100)
	\$ 86,266	\$ 74,941

Culp, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

The company has an unsecured loan agreement with two banks, which provides for a \$31,000,000 five-year term loan and a \$33,500,000 revolving credit line, which also has a five-year term. The term loan requires monthly installments of \$500,000 and a final payment of \$6,500,000 on March 1, 2001. The revolving credit line requires payment of an annual facility fee in advance.

The company's loan agreements require, among other things, that the company maintain certain financial ratios. At January 26, 1997, the company was in compliance with these required financial covenants.

At January 26, 1997, the company had three interest rate swap agreements in order to reduce its exposure to floating interest rates on a portion of its variable rate borrowings.

The following table summarizes certain data regarding the interest rate swaps:

notional amount -----	interest rate -----	expiration date -----
\$ 15,000,000	7.3%	April 2000
\$ 5,000,000	6.9%	June 2002
\$ 5,000,000	6.6%	July 2002

Net amounts paid under these agreements increased interest expense for the nine months ended January 26, 1997 and January 28, 1996 by approximately \$233,000 and \$196,000, respectively. Management believes the risk of incurring losses resulting from the inability of the bank to fulfill its obligation under the interest rate swap agreements to be remote and that any losses incurred would be immaterial.

The estimated amount at which the company could have terminated these agreements as of January 26, 1997 is approximately \$185,000.

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8. Cash Flow Information

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

	1997	1996
Interest	\$ 3,437	\$ 3,990
Income taxes	4,003	3,148

=====
9. Foreign Exchange Forward Contracts

The company generally enters into foreign exchange forward contracts as a hedge against its exposure to currency fluctuations on firm commitments to purchase certain machinery and equipment and raw materials. Machinery and equipment and raw material purchases hedged by foreign exchange forward contracts are valued by using the exchange rate of the applicable foreign exchange forward contract. At January 26, 1997, the company had approximately \$2,600,000 of foreign exchange forward contracts outstanding.

Culp, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

10. Subsequent Event

On January 30, 1997, the company sold 1,200,000 shares of common stock in a public offering which provided net proceeds of approximately \$16,300,000. The net proceeds from the offering were used to reduce outstanding borrowings under the company's revolving credit line.

CULP, INC.

SALES BY PRODUCT CATEGORY/BUSINESS UNIT
FOR THREE MONTHS AND NINE MONTHS ENDED JANUARY 26, 1997 AND JANUARY 28, 1996

(Amounts in thousands)

THREE MONTHS ENDED (UNAUDITED)

Product Category/Business	Amounts		% Over (Under)	Percent of Total Sales	
	January 26, 1997	January 28, 1996		1997	1996
Upholstery Fabrics					
Culp Textures	\$ 20,389	20,685	(1.4)%	20.9 %	23.9 %
Rossville/Chromatex	18,953	18,567	2.1 %	19.4 %	21.5 %
	39,342	39,252	0.2 %	40.4 %	45.4 %
Velvets/Prints	40,387	31,836	26.9 %	41.4 %	36.8 %
	79,729	71,088	12.2 %	81.8 %	82.2 %
Mattress Ticking					
Culp Home Fashions	17,739	15,388	15.3 %	18.2 %	17.8 %
	* \$ 97,468	86,476	12.7 %	100.0 %	100.0 %

NINE MONTHS ENDED (UNAUDITED)

Product Category/Business	Amounts		% Over (Under)	Percent of Total Sales	
	January 26, 1997	January 28, 1996		1997	1996
Upholstery Fabrics					
Culp Textures	\$ 65,191	60,984	6.9 %	22.2 %	24.4 %
Rossville/Chromatex	58,840	51,885	13.4 %	20.1 %	20.8 %
	124,031	112,869	9.9 %	42.3 %	45.2 %
Velvets/Prints	115,487	87,440	32.1 %	39.4 %	35.0 %
	239,518	200,309	19.6 %	81.7 %	80.3 %
Mattress Ticking					
Culp Home Fashions	53,683	49,196	9.1 %	18.3 %	19.7 %
	* \$293,201	249,505	17.5 %	100.0%	100.0%

*US. sales were \$70,931 and \$67,506 for the three months of fiscal 1997 and fiscal 1996, respectively; and \$220,791 and \$196,543 for the nine months of fiscal 1997 and fiscal 1996, respectively. The percentage increases in U.S. sales were 5.1% for the three months and 12.3% for the nine months.

CULP, INC.
INTERNATIONAL SALES BY GEOGRAPHIC AREA
FOR THREE MONTHS AND NINE MONTHS ENDED JANUARY 26, 1997 AND JANUARY 28, 1996

(Amounts in thousands)

Geographic Area	THREE MONTHS ENDED (UNAUDITED)			Percent of the Company's Total Sales	
	Amounts		% Over (Under)	1997	1996
	January 26, 1997	January 28, 1996			
North America (Excluding USA) \$	6,482	5,488	18.1 %	6.7 %	6.3 %
Europe	7,213	5,590	29.0 %	7.4 %	6.5 %
Middle East	4,580	2,383	92.2 %	4.7 %	2.8 %
Far East & Asia	6,862	4,052	69.3 %	7.0 %	4.7 %
South America	855	703	21.6 %		
All other areas					
	\$ 26,537	18,970	39.9 %	27.2 %	21.9 %

Geographic Area	NINE MONTHS ENDED (UNAUDITED)			Percent of the Company's Total Sales	
	Amounts		% Over (Under)	1997	1996
	January 26, 1997	January 28, 1996			
North America (Excluding USA)\$	20,555	16,275	26.3 %	7.0 %	6.5 %
Europe	17,573	13,072	34.4 %	6.0 %	5.2 %
Middle East	13,736	7,933	73.2 %	4.7 %	3.2 %
Far East & Asia	15,893	9,821	61.8 %	5.4 %	3.9 %
South America	2,464	2,297	7.3 %	0.8 %	0.9 %
All other areas	2,189	3,564	(38.6)%		
	\$ 72,410	52,962	36.7 %	24.7 %	21.2 %

International sales, and the percentage of total sales, for each of the last seven fiscal years follows: fiscal 1991- \$20,295 (12%); fiscal 1992-\$ 34,094 (18%); fiscal 1993-\$40,729 (20%); fiscal 1994-\$44,038 (18%); fiscal 1995-\$57,971 (19%); and fiscal 1996-\$77,397 (22%).

Certain amounts for fiscal year 1996 have been reclassified to conform with the fiscal 1997 presentation.

Management's Discussion and Analysis of Operations

The following analysis of the financial condition and results of operations should be read in conjunction with the Financial Statements and Notes and other exhibits included elsewhere in this report.

Overview

For the three months ended January 26, 1997, net sales rose 13% to \$97.5 million compared with \$86.5 million in the year-earlier period. Net income for the quarter totaled \$3.0 million, or \$0.27 per share, compared with \$2.4 million, or \$0.22 per share, for the third quarter of fiscal 1996. The increase in sales primarily reflected higher shipments of upholstery fabrics and, to a lesser degree, increased sales of mattress ticking to both U.S.-based and international manufacturers. The company experienced a generally favorable pattern in incoming orders during the period, but the year-to-year gain in sales was lower than in either the first or second fiscal quarters. Business with U.S.-based customers increased 5% from a year ago while sales to customers outside the United States rose 40% for the quarter. International sales are continuing to account for an increasing percentage of the company's total sales. Demand for the company's products is dependent on the various factors which affect consumer purchases of upholstered furniture and bedding including housing starts and sales of existing homes, the level of consumer confidence, prevailing interest rates for home mortgages and the availability of consumer credit.

Three And Nine Months Ended January 26, 1997 Compared With Three And Nine Months Ended January 28, 1996

Net Sales. For the third fiscal quarter, net sales increased \$11 million, or 13%, compared with the year-earlier period. Sales of upholstery fabrics increased \$8.6 million, or 12%, from a year ago. In this product category, Velvets/Prints had significantly higher sales for the quarter and first nine months, Rossville/Chromatex had slightly higher sales for the quarter and substantially higher sales for the nine month period, and Culp Textures had slightly lower sales for the quarter with a moderate increase for the nine month period. Sales of mattress ticking for the quarter rose \$2.4 million, or 15%, from a year ago. International sales, consisting primarily of upholstery fabrics increased \$7.6 million from the year-earlier period. International sales accounted for 27% of the company's sales for the third quarter and 25% for the first nine months compared with 22% and 21%, respectively, a year ago.

Gross Profit and Cost of Sales. Gross profit for the third quarter and first nine months increased both in absolute dollars and as a percentage of net sales. Factors contributing to the higher profitability included the increased absorption of fixed costs as a result of the growth in sales as well as the benefit from the company's ongoing capital investment in equipment designed to lower manufacturing costs and raise productivity. During the first nine months, the company also began to experience a stabilization in the cost of raw materials and, in some instances, has realized lower costs.

Selling, general and administrative expenses. Selling, general and administrative expenses decreased as a percentage of net sales for the third quarter and increased as a percentage of sales for the first nine months of fiscal 1997. Although the company is continuing to emphasize cost-containment programs, planned increases in expenses related to resources for designing new fabrics and higher selling commissions related to international sales contributed to the higher ratio of SG&A expenses to net sales for the first nine months. The accrual for incentive-based compensation thus far in fiscal 1997 has also been a significant factor behind the increase in these expenses.

Interest Expense. Net interest expense of \$1.2 million for the third quarter was down from \$1.3 million in the year-earlier period due to lower average borrowings outstanding.

Income Taxes. The effective tax rate for the third quarter and first nine months was 37.5%

Other Expense. Other expense increased \$525,000 for the first nine months of fiscal 1997 compared with a year ago, principally due to the non-recurring write-off of certain fixed assets totaling \$175,000 and the recognition in the year-earlier period of a gain of \$100,000 related to an indemnification for an environmental matter.

Liquidity and Capital Resources

Liquidity. Cash and cash investments were \$406,000 as of January 26, 1997 compared with \$498,000 at the end of fiscal 1996. Funded debt (long-term debt, including current maturities, less restricted investments) increased to \$80.6 million at the close of the third quarter from \$76.8 million at the end of fiscal 1996. As a percentage of total capital (funded debt plus total shareholders' equity), the company's borrowings amounted to 47.4% as of January 26, 1997 compared with 48.5% at the end of fiscal 1996. The company's working capital as of January 26, 1997 was \$60.7 million compared with \$56.9 million at the close of fiscal 1996.

Cash flow from operations was \$19.8 million for the first nine months of fiscal 1997, consisting of \$19.0 million from earnings (net income plus depreciation, amortization and deferred income taxes) and \$768,000 from changes in working capital. The funds from operations were used principally to fund capital expenditures of \$18.6 million.

Financing Arrangements. The company has an unsecured loan agreement with two banks, which provides for a \$31.0 million five-year term loan and a \$33.5 million revolving credit agreement, both of which mature on March 1, 2001. As of January 26, 1997, the company had outstanding balances of \$60.7 million under the bank facilities and an additional \$3.8 million in borrowings available under the revolving credit facility. On December 17, 1996, the company received "best efforts" commitments from its principal bank lenders, Wachovia Bank of North Carolina, N.A. and First Union National Bank of North Carolina to refinance the existing term loan and revolving line of credit with a \$125 million syndicated five-year, unsecured, multi-currency credit facility. Although the agent for the lenders, Wachovia Bank of Georgia, N.A., has agreed to use commercially reasonable efforts to complete this refinancing, subject to certain conditions including the completion of satisfactory loan documentation, there can be no assurance that this refinancing will be completed.

The company also has a total of \$31.1 million in currently outstanding industrial revenue bonds ("IRBs") which have been used to finance capital expenditures. The IRBs are collateralized by restricted investments of \$11.8 million as of January 26, 1997 and letters of credit for the outstanding balance of the IRBs and certain interest payments due thereunder. In December 1996, the company borrowed a total of \$9.5 million under two IRBs to finance certain capital investments and expects to finance approximately \$8.0 million through an additional IRB to fund a new wet-printing facility in Lumberton, North Carolina.

As of January 26, 1997, the company was in compliance with the required financial covenants of its loan agreements.

Capital Expenditures. The company is continuing a significant program of capital expenditures intended to increase capacity, enhance manufacturing efficiencies through modernization and increase vertical integration. The company expects total capital expenditures for fiscal 1997 will be approximately \$31 million and is currently planning to spend approximately \$20 million in fiscal 1998. The company believes that cash flows from operations, funds from a recently completed secondary offering and funds available under existing credit facilities and committed IRB financings will be sufficient to fund capital expenditures and working capital requirements during the remainder of fiscal 1997 and for fiscal 1998.

Stock Offering. On January 30, 1997 the company sold 1.2 million shares in a public offering which provided net proceeds of approximately \$16.3 million. The company plans to use the net proceeds on a near-term basis to reduce the outstanding balance of its revolving line of credit.

Inflation

The company experienced generally higher costs of raw materials during fiscal 1996 and fiscal 1995. Other operating expenses, such as labor, utilities and manufacturing supplies, also increased over these periods. Competitive conditions did not allow the company to fully offset the impact of these increases through higher prices, thereby putting pressure on profit margins. The cost of the company's raw materials has stabilized during the first nine months of fiscal 1997, and in some cases, has declined, thereby helping to raise margins. The net impact on margins from changes in the costs of raw materials will continue to be influenced by product mix, other operating costs and competitive conditions.

Forward-Looking Information

This discussion on Form 10-Q contains forward-looking statements that are inherently subject to risks and uncertainties. Factors that could influence the matters discussed in the forward-looking statements include the level of housing starts and sales of existing homes, consumer confidence and trends in disposable income. 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 adversely affect the company.

Part II - OTHER INFORMATION

Item 1. Legal Proceedings

There are no legal proceedings that are required to be disclosed under this item.

Item 2. Change in Securities

None

Item 3. Default Upon Senior Securities

None

Item 4. Submission of Matters to a Vote of Security Holders

None

Item 5. Other Information

None

Item 6. Exhibits and Reports on Form 8-K

(a) The following exhibits are filed as part of this report or incorporated by reference:

- 3(i) Articles of Incorporation of the company, as amended, were filed as Exhibit 3(i) to the company's Form 10-Q for the quarter ended January 29, 1995, filed March 15, 1995, and are incorporated herein by reference.
- 3(ii) Restated and Amended Bylaws of the company, as amended, were filed as Exhibit 3(b) to the company's Form 10-K for the year ended April 28, 1991, filed July 25, 1991, and are incorporated herein by reference.
- 4(a) Form of Common Stock Certificate of the company was filed as Exhibit 4(a) to Amendment No. 1 to the company's registration statement No. 2-85174, filed on August 30, 1983, and is incorporated herein by reference.
- 10(a) Loan Agreement dated December 1, 1988 with Chesterfield County, South Carolina relating to Series 1988 Industrial Revenue Bonds in the principal amount of \$3,377,000 and related Letter of

Credit and Reimbursement Agreement dated December 1, 1988 with First Union National Bank of North Carolina were filed as Exhibit 10(n) to the company's Form 10-K for the year ended April 29, 1989, and are incorporated herein by reference.

- 10(b) Loan Agreement dated November 1, 1988 with the Alamance County Industrial Facilities and Pollution Control Financing Authority relating to Series A and B Industrial Revenue Refunding Bonds in the principal amount of \$7,900,000, and related Letter of Credit and Reimbursement Agreement dated November 1, 1988 with First Union National Bank of North Carolina were filed as exhibit 10(o) to the company's Form 10-K for the year ended April 29, 1990, and are incorporated herein by reference.
- 10(c) Loan Agreement dated January 5, 1990 with the Guilford County Industrial Facilities and Pollution Control Financing Authority, North Carolina, relating to Series 1989 Industrial Revenue Bonds in the principal amount of \$4,500,000, and related Letter of Credit and Reimbursement Agreement dated January 5, 1990 with First Union National Bank of North Carolina was filed as Exhibit 10(d) to the company's Form 10-K for the year ended April 19, 1990, filed on July 15, 1990, and is incorporated herein by reference.
- 10(d) Loan Agreement dated as of December 1, 1993 between Anderson County, South Carolina and the company relating to \$6,580,000 Anderson County, South Carolina Industrial Revenue Bonds (Culp, Inc. Project) Series 1993, and related Letter of Credit and Reimbursement Agreement dated as of December 1, 1993 by and between the company and First Union National Bank of North Carolina were filed as Exhibit 10(o) to the Company's Form 10-Q for the quarter ended January 30, 1994, filed March 16, 1994, and is incorporated herein by reference.
- 10(e) Severance Protection Agreement, dated September 21, 1989, was filed as Exhibit 10(f) to the company's Form 10-K for the year ended April 29, 1990, filed on July 25 1990, and is incorporated herein by reference.(*)
- 10(f) Lease Agreement, dated January 19, 1990, with Phillips Interests, Inc. was filed as Exhibit 10(g) to the company's Form 10-K for the year ended April 29, 1990, filed on July 25, 1990, and is incorporated herein by reference.
- 10(g) Management Incentive Plan of the company, dated August 1986 and amended July, 1989, was filed as Exhibit 10(o) to the company's Form 10-K for the year ended May 3, 1992, filed on August 4, 1992, and is incorporated herein by reference.(*)
- 10(h) Lease Agreement, dated September 6, 1988, with Partnership 74 was filed as Exhibit 10(h) to the company's Form 10-K for the year ended April 28, 1991, filed on July 25, 1990, and is incorporated herein by reference.
- 10(i) Amendment and Restatement of the Employees's Retirement Builder Plan of the company dated May 1, 1981 with amendments dated January 1, 1990 and January 8, 1990 were filed as Exhibit 10(p) to the company's Form 10-K for the year ended May 3, 1992, filed on August 4, 1992, and is incorporated herein by reference.(*)
- 10(j) First Amendment of Lease Agreement dated July 27, 1992 with Partnership 74 Associates was filed as Exhibit 10(n) to the company's Form 10-K for the year ended May 2, 1993, filed on July 29, 1993, and is incorporated herein by reference.
- 10(k) Second Amendment of Lease agreement dated April 16, 1993, with Partnership 52 Associates was filed as Exhibit 10(l) to the company's Form 10-K for the year ended May 2, 1993, filed on July 29, 1993, and is incorporated herein by reference.
- 10(l) 1993 Stock Option Plan was filed as Exhibit 10(o) to the company's Form 10-K for the year ended May 2, 1993, filed on July 29, 1993, and is incorporated herein by reference.(*)
- 10(m) First Amendment to Loan Agreement dated as of December 1, 1993 by and between The Guilford County Industrial Facilities and Pollution Control Financing Authority and the company, was filed as Exhibit 10(p) to the company's Form 10-Q, filed on March 15,

1994, and is incorporated herein by reference.

10(n) First Amendment to Loan Agreement dated as of December 16, 1993 by and between The Alamance County Industrial Facilities and Pollution Control Financing Authority and the company, was filed as Exhibit 10(q) to the company's Form 10-Q filed, on March 15, 1994, and is incorporated herein by reference.

10(o) First Amendment to Loan Agreement dated as of December 16, 1993 by and between Chesterfield County, South Carolina and

the company, was filed as Exhibit 10(r) to the company's Form 10-Q, filed on March 15, 1994, and is incorporated herein by reference.

- 10(p) Amendment to Lease dated as of November 4, 1994, by and between the company and RDC, Inc. was filed as Exhibit 10(w) to the company's Form 10-Q, for the quarter ended January 29, 1995, filed on March 15, 1995, and is incorporated herein by reference.
- 10(q) Amendment to Lease Agreement dated as of December 14, 1994, by and between the company and Rossville Investments, Inc. (formerly known as A & E Leasing, Inc.) was filed as Exhibit 10(y) to the company's Form 10-Q, for the quarter ended January 29, 1995, filed on March 15, 1995, and is incorporated herein by reference.
- 10(r) Interest Rate Swap Agreement between company and First Union National Bank of North Carolina dated April 17, 1995, was filed as Exhibit 10(aa) to the company's Form 10-K for the year ended April 30, 1995, filed on July 26, 1995, and is incorporated herein by reference.
- 10(s) Performance-Based Stock Option Plan, dated June 21, 1994, was filed as Exhibit 10(bb) to the company's Form 10-K for the year ended April 30, 1995, filed on July 26, 1995, and is incorporated herein by reference. (*)
- 10(t) Interest Rate Swap Agreement between company and First Union National Bank of North Carolina, dated May 31, 1995 was filed as exhibit 10(w) to the company's Form 10-Q for the quarter ended July 30, 1995, filed on September 12, 1995, and is incorporated herein by reference.
- 10(u) Interest Rate Swap Agreement between company and First Union National Bank of North Carolina, dated July 7, 1995 was filed as exhibit 10(x) to the company's Form 10-Q for the quarter ended July 30, 1995, filed on September 12, 1995, and is incorporated herein by reference.
- 10(v) Second Amendment of Lease Agreement dated June 15, 1994 with Partnership 74 Associates was filed as Exhibit 10(v) to the company's Form 10-Q for the quarter ended October 29, 1995, filed on December 12, 1995, and is incorporated herein by reference.

- 10(w) Lease Agreement dated November 1, 1993 by and between the company and Chromatex, Inc. was filed as Exhibit 10(w) to the company's Form 10-Q for the quarter ended October 29, 1995, filed on December 12, 1995, and is incorporated herein by reference.
- 10(x) Lease Agreement dated November 1, 1993 by and between the company and Chromatex Properties, Inc. was filed as Exhibit 10(x) to the company's Form 10-Q for the quarter ended October 29, 1995, filed on December 12, 1995, and is incorporated herein by reference.
- 10(y) Amendment to Lease Agreement dated May 1, 1994 by and between the company and Chromatex Properties, Inc. was filed as Exhibit 10(y) to the company's Form 10-Q for the quarter ended October 29, 1995, filed on December 12, 1995, and is incorporated herein by reference.
- 10(z) Canada-Quebec Subsidiary Agreement on Industrial Development (1991), dated January 4, 1995, was filed as Exhibit 10(z) to the company's Form 10-Q for the quarter ended October 29, 1995, filed on December 12, 1995, and is incorporated herein by reference.
- 10(aa) Loan Agreement between Chesterfield County, South Carolina and the company dated as of April 1, 1996 relating to Tax Exempt Adjustable Mode Industrial Development Bonds (Culp, Inc. Project) Series 1996 in the aggregate amount of \$6,000,000 was filed as Exhibit 10(aa) to the company's Form 10-K for the year ended April 28, 1996 on July 25, 1996, and is incorporated herein by reference.
- 10(bb) 1996 Amended and Restated Credit Agreement dated as of April 1, 1996 by and among the company, First Union National Bank of North Carolina and Wachovia Bank of North Carolina, N.A. was filed as Exhibit 10(bb) to the company's Form 10-K for the year ended April 28, 1996 on July 25, 1996, and is incorporated herein by reference.
- 10(cc) Loan Agreement between the Alamance County Industrial Facilities and Pollution Control Financing Authority, North Carolina and the company, dated December 1, 1996, relating to Tax Exempt Adjustable Mode Industrial Development Revenue Bonds, (Culp, Inc. Project Series 1996) in the aggregate amount of \$6,000,000.

- 10(dd) Loan Agreement between Luzerne County, North Carolina and the company, dated as of December 1, 1996, relating to Tax-Exempt Adjustable Mode Industrial Development Revenue Bonds (Culp, Inc. Project) Series 1996 in the aggregate principal amount of \$3,500,000.
- 10(ee) First Amendment to 1996 Amended and Restated Credit Agreement, dated as of December 1, 1996, by and among the company, First Union National Bank of North Carolina, and Wachovia Bank of North Carolina, N.A

27 Financial Data Schedule.

(b) Reports on Form 8-K:

The following report on Form 8-K was filed during the period covered by this report:

- (1) Form 8-K dated November 6, 1996, included under Item 5, Other Events, disclosure of the company's press release for quarterly earnings and the company's Financial Information Release relating to the financial information for the second quarter ended October 27, 1996.
- (2) Form 8-K/A dated December 19, 1996, included under item 5, Other Events, amending the company's Form 8-K filed November 6, 1996.

SIGNATURES

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

CULP, INC.
(Registrant)

Date: March 11, 1997

By: s/s Franklin N. Saxon
Franklin N. Saxon
Sr. Vice President and
Chief Financial Officer

(Authorized to sign on behalf
of the registrant and also
signing as principal accounting
officer)

Date: March 11, 1997

By s/s Stephen T. Hancock
Stephen T. Hancock
General Accounting Manager

(Chief Accounting Officer)

LOAN AGREEMENT

between

THE ALAMANCE COUNTY INDUSTRIAL FACILITIES AND
POLLUTION CONTROL FINANCING AUTHORITY

and

CULP, INC.

Dated as of December 1, 1996

Relating to
Tax-Exempt Adjustable Mode
Industrial Development Revenue Bonds
(Culp, Inc. Project)
Series 1996

in the aggregate principal amount of \$6,000,000

CERTAIN RIGHTS OF THE ISSUER UNDER THIS AGREEMENT HAVE BEEN ASSIGNED TO, AND ARE SUBJECT TO A SECURITY INTEREST IN FAVOR OF FIRST-CITIZENS BANK & TRUST COMPANY, AS TRUSTEE UNDER AN INDENTURE OF TRUST, DATED AS OF THE DATE FIRST ABOVE WRITTEN, AS AMENDED OR SUPPLEMENTED FROM TIME TO TIME. INFORMATION CONCERNING SUCH SECURITY INTEREST MAY BE OBTAINED FROM THE TRUSTEE AT 2917 HIGHWOODS BOULEVARD, RALEIGH, NORTH CAROLINA 27604, ATTENTION: CORPORATE TRUST DEPARTMENT.

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- Exhibit A - Description of the Project
- Exhibit B - Form of Requisition and Certificate
- Exhibit C - Form of Promissory Note
- Exhibit D - Representations and Warranties

LOAN AGREEMENT

THIS LOAN AGREEMENT, dated as of December 1, 1996, is made and entered into by and between THE ALAMANCE COUNTY INDUSTRIAL FACILITIES AND POLLUTION CONTROL FINANCING AUTHORITY (the "Issuer"), a political subdivision duly organized and existing under the Constitution and laws of the State of North Carolina (the "State"), and CULP, INC. (the "Company"), a North Carolina corporation;

W I T N E S S E T H:

WHEREAS, the Industrial and Pollution Control Facilities Financing Act, Chapter 159C of the General Statutes of North Carolina, as amended (the "Act"), authorizes the creation of industrial facilities and pollution control financing authorities by the several counties in North Carolina and empowers such authorities to acquire, construct, own, repair, maintain, extend, improve, rehabilitate, renovate, furnish, equip and sell, lease, exchange, transfer or otherwise dispose of industrial or manufacturing facilities to the end that such authorities may be able to promote the right to gainful employment opportunity and private industry and thereby promote the general welfare of the inhabitants of North Carolina by exercising such powers to aid in financing industrial or manufacturing facilities for the purpose of alleviating unemployment or raising below average manufacturing wages and further authorizes such authorities to loan to others the proceeds of bonds issued for the purpose of paying for all or any part of an industrial or manufacturing facility, to mortgage and pledge any or all of such facilities, whether then owned or thereafter acquired, as security for the payment of the principal of, premium, if any, and interest on any such bonds and any agreements made in connection therewith and to pledge or assign the revenues and receipts from such facilities or loan or from any other source to the payment of such bonds; and

WHEREAS, the Issuer has been duly organized pursuant to the Act; and

WHEREAS, in order to further the purposes of the Act, the Issuer proposes to undertake the financing of the acquisition and installation of finishing equipment for upholstery fabric (the "Project") in its existing facility in Alamance County, North Carolina, which constitutes an industrial project under the Act, and to obtain the funds therefor by the issuance of its Bonds (as hereinafter defined) under an Indenture of Trust securing such Bonds, between the Issuer and First-Citizens Bank & Trust Company, Raleigh, North Carolina, as Trustee, dated as of the date hereof (the "Indenture"); and

WHEREAS, the Issuer proposes to loan the proceeds from the sale of the Bonds, as hereinafter defined, to the Company to acquire and install the Project upon the terms and conditions hereinafter set forth; and

WHEREAS, the Company and Wachovia Bank of North Carolina, National Association will enter into a Reimbursement Agreement (the "Reimbursement Agreement") dated as of the date hereof pursuant to which the Bank will issue an irrevocable letter of credit in an amount not to exceed \$_____ to the Trustee at the request and for the account of the Company upon the terms set forth in the Reimbursement Agreement; and

WHEREAS, it has been determined that the financing of the acquisition and installation of the Project will require the issuance, sale and delivery by the Issuer of a series of bonds in the aggregate principal amount of Six Million and no/100 Dollars (\$6,000,000) (the "Bonds"); and

NOW, THEREFORE, in consideration of the premises and the mutual covenants hereinafter contained, the parties hereto covenant, agree and bind themselves as follows;

ARTICLE IARTICLE I

DEFINITIONS AND RULES OF CONSTRUCTION

Section I.1. Definitions. In addition to the words and terms elsewhere defined in this Agreement, the following words and terms as used herein shall have the following meanings unless the context or use clearly indicates another or different meaning or intent, and any other words and terms defined in the Indenture shall have the same meanings when used herein as assigned in the Indenture unless the context or use clearly indicates another or different meaning or intent:

"Acquisition", when used with reference to the Project, means acquisition and installation of the Project.

"Agreement" shall mean this Loan Agreement between the Issuer and the Company and any modifications, alterations and supplements hereto made in accordance with the provisions hereof and of the Indenture.

"Bond Documents" means, collectively, the Bonds, this Agreement, the Note, the Indenture, the Credit Facility, the Credit Agreement, the Placement Agreement, the Remarketing Agreement and the Offering Memorandum.

"Bond Proceeds" means the principal of the Bonds and any investment earnings thereon while on deposit in the Initial Fund.

"Cessation of Operation" has the meaning set forth in Section 11.3 hereof.

"Commission" means the Local Government Commission of North Carolina, a division of the Department of the State Treasurer, and any successor or successors thereto.

"Company Representative" means any one of the persons at the time designated to act on behalf of the Company by written certificate furnished to the Issuer and the Trustee containing the specimen signatures of such persons and signed on behalf of the Company by the President or any Vice President of the Company.

"Completion Date" means, with respect to the Project, the date on which the Company Representative delivers a completion certificate to the Trustee pursuant to Section 3.3.

"Cost(s) of the Project", "Cost" or "Costs" means all costs and allowances which the Issuer or the Company may properly pay or accrue for the Project and which, under generally accepted accounting principles, are chargeable to the capital account of the Project or could be so charged either with a proper election to capitalize such costs or, but for a proper election, to expense such costs, including (without limitation) the following costs:

(a) fees and expenses incurred in preparing the plans and specifications for the Project (including any preliminary study or planning or any aspect thereof); any labor, services, materials and supplies used or furnished in site improvement; any equipment for the Project; any acquisition necessary to provide utility or other services, including water supply, sewage and waste disposal facilities; and all tangible personal property deemed necessary by the Company and acquired in connection with the Project;

(b) fees for architectural, engineering, supervisory and consulting services;

(c) any fees and expenses incurred in connection with perfecting and protecting title to the Project and any fees and expenses incurred in connection with preparing, recording or filing such documents, instruments or financing statements as either the Company or the Issuer may deem desirable to perfect or protect the rights of the Issuer or the Trustee under the Bond Documents;

(d) any legal, accounting or financial advisory fees and expenses, including, without limitation, fees and expenses of Bond Counsel and counsel to the Issuer, the Company, the Credit Issuer, the Placement Agent, the Remarketing Agent or the Trustee, any fees and expenses of the Issuer, Trustee, Remarketing Agent, Placement Agent, Credit Issuer, Tender Agent, Paying Agent or any rating agency, filing fees, and printing and engraving costs, incurred in connection with the authorization, issuance, sale and purchase of the Bonds, and the preparation of the Bond Documents and all

other documents in connection with the authorization, issuance and sale of the Bonds;

(e) interest to accrue on the Bonds during construction of the Project;

(f) any administrative or other fees charged by the Issuer or reimbursement thereto of expenses in connection with the Project until the Completion Date; and

(g) any other costs and expenses relating to the Project which could constitute costs or expenses for which the Issuer may expend Bond proceeds under the Act.

"Eminent Domain" means the taking of title to, or the temporary use of, the Project or any part thereof pursuant to eminent domain or condemnation proceedings, or by any settlement or compromise of such proceedings, or any voluntary conveyance of the Project or any part thereof during the pendency of, or as a result of a threat of, such proceedings.

"Event of Default" shall have the meaning set forth in Section-10.1.

"Governing Body" means the board, commission, council or other body in which the general legislative powers of the Issuer are vested.

"Issuer Representative" means any one of the persons at the time designated to act on behalf of the Issuer by written certificate furnished to the Company and the Trustee containing the specimen signatures of such persons and signed on behalf of the Issuer by its Chairman or Vice Chairman.

"Net Proceeds", when used with respect to any proceeds of insurance or proceeds resulting from Eminent Domain, means the gross proceeds therefrom less all expenses (including attorneys' fees) incurred in realization thereof.

"Note" means the Company's promissory note in the principal amount of \$6,000,000 in the form of Exhibit C, as it may be amended from time to time.

"Offering Memorandum" means the Preliminary Offering Memorandum and the final Offering Memorandum prepared and used in connection with the initial placement of the Bonds on the Issue Date.

"Plans and Specifications" shall mean the plans and specifications used in the Acquisition of the Project, as the same may be revised from time to time by the Company in accordance with Section-3.8.

"Project" means, collectively, the property described in Exhibit-A hereto, as the same may at any time exist.

"Remarketing Agreement" means the Remarketing and Interest Services Agreement, dated as of December 1, 1996, between the Company and the Remarketing Agent.

"Tax Regulations" means the applicable treasury regulations promulgated under the Code or under Section 103 of the Internal Revenue Code of 1954, as amended, whether at the time proposed, temporary, final or otherwise.

I.2. Rules of Construction. Unless the context clearly indicates to the contrary, the following rules shall apply to the construction of this Agreement:

(a) Capitalized terms used but not defined in this Agreement shall have the meaning ascribed to them in the Indenture.

(b) Words importing the singular number shall include the plural number and vice versa.

(c) The table of contents, captions and headings herein are solely for convenience of reference only and shall not constitute a part of this Agreement nor shall they affect its meaning, construction or effect.

(d) Words of the masculine gender shall be deemed and construed to include correlative words of the feminine and neuter genders, and words of the neuter gender shall be deemed and construed to include correlative words of the masculine and feminine genders.

(e) All references in this Agreement to particular Articles or Sections are references to Articles and Sections of this Agreement, unless otherwise indicated.

REPRESENTATIONS

Section II.1. Representations by the Issuer. The Issuer represents and warrants as follows:

(a) The Issuer is a political subdivision within the meaning of the Act and is authorized by the Act to execute and to enter into this Agreement and to undertake the transactions contemplated herein and to carry out its obligations hereunder.

(b) The Issuer has all requisite power, authority and legal right to execute and deliver the Bond Documents to which it is a party and all other instruments and documents to be executed and delivered by the Issuer pursuant thereto, to perform and observe the provisions thereof and to carry out the transactions contemplated by the Bond Documents. All corporate action on the part of the Issuer which is required for the execution, delivery, performance and observance by the Issuer of the Bond Documents has been duly authorized and effectively taken, and such execution, delivery, performance and observation by the Issuer do not contravene applicable law or any contractual restriction binding on or affecting the Issuer.

(c) The Issuer has duly approved the issuance of the Bonds and the loan of the proceeds thereof to the Company for the Acquisition of the Project; no other authorization or approval or other action by, and no notice to or filing with, any governmental authority or regulatory body is required as a condition to the performance by the Issuer of its obligations under any Bond Documents. THE ISSUER MAKES NO REPRESENTATION OR WARRANTY WHATSOEVER AS TO THE USE OF THE PROCEEDS OF THE BONDS OR TO THE SUITABILITY OF THE PROJECT FOR THE COMPANY'S PURPOSES.

(d) This Agreement is, and each other Bond Document to which the Issuer is a party when delivered will be, legal, valid and binding special obligations of the Issuer enforceable against the Issuer in accordance with its terms.

(e) There is no default of the Issuer in the payment of the principal of or interest on any of its indebtedness for borrowed money or under any instrument or instruments or agreements under and subject to which any indebtedness for borrowed money has been incurred which does or could affect the validity and enforceability of the Bond Documents or the ability of the Issuer to perform its obligations thereunder, and no event has occurred and is continuing under the provisions of any such instrument or agreement which constitutes or, with the lapse of time or the giving of notice, or both, would constitute such a default.

(f) With respect to the Bonds, there are no other obligations of the Issuer that have been, are being or will be sold (i) at substantially the same time, (ii) under a common plan of marketing, and (iii) at substantially the same rate of interest.

(g) There is pending or, to the knowledge of the undersigned officers of the Issuer, threatened no action or proceeding before any court, governmental agency or arbitrator (i) to restrain or enjoin the issuance or delivery of the Bonds or the collection of any revenues pledged under the Indenture, (ii) in any way contesting or affecting the authority for the issuance of the Bonds or the validity of any of the Bond Documents, or (iii) in any way contesting the existence or powers of the Issuer.

(h) In connection with the authorization, issuance and sale of the Bonds, the Issuer has complied with all provisions of the Constitution and laws of the State, including the Act.

(i) The Issuer has not assigned or pledged and will not assign or pledge its interest in this Agreement for any purpose other than to secure the Bonds under the Indenture. The Bonds constitute the only bonds or other obligations of the Issuer in any manner payable from the revenues to be derived from this Agreement, and except for the Bonds, no bonds or other obligations have been or will be issued on the basis of this Agreement.

(j) The Issuer is not in default under any of the provisions of the laws of the State, where any such default would affect the issuance, validity or enforceability of the Bonds or the transactions contemplated by this Agreement or the Indenture.

(k) The Issuer has obtained from the Governing Body approval of the issuance of the Bonds required by Section 159C-4(d) of the Act, from the Secretary of the Department of Commerce of the State approval of the Project required by Section 159C 7 of the Act and from the Local Government Commission of the State the approvals required by Sections 159C-6, -8 and -9 of the Act.

II.2. Representations by the Company. The Company represents and warrants as follows:

(a) The Company is a corporation duly incorporated, validly existing and in good standing under the laws of the State of North Carolina, is in good standing under the laws of the State, and has corporate and other legal power and authority to enter into and to perform the agreements and covenants on its part contained in the Bond Documents to which it is a party, and has duly authorized the execution, delivery and performance of the Bond Documents to which it is a party and has duly approved the Bond Documents.

(b) The execution and delivery of the Bond Documents to which it is a party, consummation of the transactions contemplated hereby and thereby and by the Bond Documents to which it is not a party, and the fulfillment of or compliance with the terms and conditions hereof and thereof will not conflict with or constitute a breach of or a default under the Company's articles of incorporation or bylaws or any agreement or instrument to which the Company is a party or any existing law, administrative regulation, court order or consent decree to which the Company is subject, or by which it or any of its property is bound.

(c) There is no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, public board or body, pending or threatened against or affecting the Company or any of its officers, nor to the best knowledge of the Company is there any basis therefor, wherein an unfavorable decision, ruling or finding would materially adversely affect the transactions contemplated by this Agreement or that would adversely affect, in any way, the validity or enforceability of any of the Bond Documents or any other agreement or instrument to which the Company is a party and that is to be used or contemplated for use in the consummation of the transactions contemplated hereby.

(d) No further authorizations, consents or approvals of governmental bodies or agencies are required in connection with the execution and delivery by the Company of this Agreement or the other Bond Documents to which the Company is a party or in connection with the carrying out by the Company of its obligations under this Agreement or the other Bond Documents to which the Company is a party.

(e) The financing of the Project as provided under this Agreement, and commitments therefor made by the Issuer have induced the Company to expand or locate its operations in the jurisdiction of the Issuer.

(f) The Company anticipates that upon completion of the Acquisition of the Project, the Company will operate the Project as a "project" within the meaning of the Act until the Bonds have been paid in full.

(g) The Project is of the type authorized and permitted by the Act, and the Project is substantially the same in all material respects to that described in the notice of public hearing published on _____, 1996.

(h) The Project will be acquired and installed and will be operated by the Company in such manner as to conform with all applicable zoning, planning, building, environmental and other regulations of the governmental authorities having jurisdiction over the Project.

(i) The Company will cause all of the proceeds of the Bonds to be applied solely to the payment of Costs of the Project.

(j) The Company has taken no action, and has not omitted to take any action, which action or omission to take action would in any way affect or impair the excludability of interest on the Bonds from gross income of the Holders thereof for federal income tax purposes.

(k) The Company presently in good faith estimates the Cost of the Project to equal or exceed the original principal amount of the Bonds.

(l) The Project will be located wholly within Alamance County.

(m) The representations and warranties contained in Exhibit D and made a part hereof are true and complete.

ARTICLE IIIARTICLE III

ACQUISITION OF THE PROJECT

Section III.1. Agreement to Undertake and Complete the Project. The Company covenants and agrees to undertake and complete the Acquisition of the Project. Upon written request of the Issuer or the Trustee, the Company agrees to make available to the Issuer and the Trustee (for review and

copying) all the then current Plans and Specifications for the Project.

The Company agrees to cause the Project to be completed as soon as may be practicable and to cause all proceeds of the Bonds, including investment earnings, to be expended no later than three years from the Issue Date. For Costs of the Project incurred prior to receipt by the Issuer of the proceeds of the Bonds, the Company agrees to advance all funds necessary for such purpose. Such advances may be reimbursed from the Initial Fund to the extent permitted by Section 3.2.

The Company shall obtain or cause to be obtained all necessary permits and approvals for the Acquisition, operation and maintenance of the Project.

III.2. Section Disbursements from the Initial Fund. In the Indenture, the Issuer has authorized and directed the Trustee to use the moneys in the Initial Fund for payment or reimbursement to the Company of the Costs of the Project.

Each payment for a Cost of the Project shall be made only upon the receipt by the Trustee and, upon written request therefor, the Issuer of a requisition and certificate, substantially in the form attached hereto as Exhibit B and signed by the Company Representative, certifying:

(a) the requisition and certificate number;

(b) the payee, which may be the Issuer or the Trustee for the payment of the fees and expenses of the Issuer or the Trustee, as the case may be, and which may be the Company in the case of (i) work performed by the Company's personnel, or (ii) payments advanced by the Company for the Project;

(c) the amount to be paid;

(d) that the payment is due, is a proper charge against the Initial Fund, and has not been the basis for any previous withdrawal from the Initial Fund;

(e) that all funds being requisitioned shall be used in compliance with the Code and the Tax Regulations promulgated thereunder, and that substantially all such funds shall be used for the acquisition or installation of property of a character subject to the allowance for depreciation as prescribed by Section 144(a)(1)(A) of the Code and the Tax Regulations promulgated thereunder. The Company agrees, however, that it will not request any such disbursement which, if paid, would result in (i) less than substantially all (at least ninety-five percent (95%)) of the proceeds of the Bonds being used to provide land or property subject to the allowance for depreciation under Section 167 of the Code, constituting the Project, (ii) less than all of the proceeds of the Bonds being used to provide the Project under the Act, or (iii) the inclusion of the interest on any of the Bonds in the gross income of any Holder for purposes of federal income taxation (as long as such Holder is not a "related person" or a "substantial user" of the Project as such terms are used in Section 144 of the Code); and

(f) that no Event of Default, as defined in Section 10.1 of this Agreement, has occurred which has not been waived and that the Company is not aware of any then existing event or condition which, with the passage of time, would constitute an Event of Default under Section 10.1.

Interest on the Bonds and all legal, consulting and issuance expenses shall be set forth separately in any requisition and certificate requesting payment therefor. Such requisitions and certificates shall be consecutively numbered. Upon request, the Company shall furnish the Issuer or the Trustee with copies of invoices or other appropriate documentation supporting payments or reimbursements requested pursuant to this Section. The Issuer and the Trustee may rely conclusively upon any statement made in any such requisition and certificate.

Section III.3. Establishment of Completion Date and Certificate as to Completion. The Completion Date shall be the date on which the Company Representative signs and delivers to the Trustee a certificate stating that, except for amounts retained by the Trustee for Costs of the Project not then due and payable, or the liability for which the Company is, in good faith, contesting or disputing, (a) the Project has been completed to the satisfaction of the Company, and all labor, services, materials and supplies used in such Acquisition have been paid for, and (b) the Project is suitable and sufficient for the efficient operation as a "project" (as defined in the Act).

Notwithstanding the foregoing, such certificate may state that it is given without prejudice to any rights against third parties which exist at

the date of such certificate or which may subsequently come into being.

Section III.4. Closeout of Initial Fund; Disposition of Balance in III.4.1 Fund
Closeout of Initial Fund; Disposition of Balance in Initial Fund. All moneys and any unliquidated investments remaining in the Initial Fund on the Completion Date and after payment in full of the Costs of the Project (except for costs not then due and payable for the payment of which the Trustee shall have retained amounts as hereinafter provided) shall, as soon as practicable after the Completion Date, and no later than ninety days thereafter, at the direction of the Company, be delivered to the Trustee for deposit in the Surplus Fund. The Trustee shall, at the direction of the Company Representative, retain moneys in the Initial Fund for payment of Costs of the Project not then due and payable. Any balance of such retained funds remaining after full payment of such Costs of the Project shall at the direction of the Company be delivered to the Trustee for deposit in the Surplus Fund to be applied to the redemption of Bonds in accordance with the terms of the Indenture.

Section III.5. Company Required to Pay Costs in Event Initial Fund III.5.1
Company Required to Pay Costs in Event Initial Fund Insufficient. If the moneys in the Initial Fund available for payment of the Costs of the Project should not be sufficient to make such payments in full, the Company agrees to pay directly (or to deposit moneys in the Initial Fund for the payment of) such costs of completing the Project as may be in excess of the moneys available therefor in the Initial Fund. THE ISSUER DOES NOT MAKE ANY WARRANTY OR REPRESENTATION (EITHER EXPRESS OR IMPLIED) THAT THE MONEYS DEPOSITED INTO THE INITIAL FUND AND AVAILABLE FOR PAYMENT OF THE COSTS OF THE PROJECT, UNDER THE PROVISIONS OF THIS AGREEMENT, WILL BE SUFFICIENT TO PAY ALL OF THE COSTS OF THE PROJECT. If, after exhausting the moneys in the Initial Fund for any reason (including, without limitation, losses on investments made by the Trustee under the Indenture), the Company pays, or deposits moneys in the Initial Fund for the payment of, any portion of the Costs of the Project pursuant to the provisions of this Section, the Company shall not be entitled to any reimbursement therefor from the Issuer or from the Trustee, nor shall it be entitled to any diminution of the amounts payable under Section-5.2.

III.6. Sectio
Company and Issuer Representatives and Successors. At or prior to the initial sale of the Bonds, the Company and the Issuer shall appoint a Company Representative and an Issuer Representative, respectively, for the purpose of taking all actions and delivering all certificates required to be taken and delivered by the Company Representative and the Issuer Representative under the provisions of this Agreement. The Company and the Issuer, respectively, may appoint alternate Company Representatives and alternate Issuer Representatives to take any such action or make any such certificate if the same is not taken or made by the Company Representative or the Issuer Representative. In the event any of such persons, or any successor appointed pursuant to the provisions of this Section, should resign or become unavailable or unable to take any action or deliver any certificate provided for in this Agreement, another Company Representative or alternate Company Representative, or another Issuer Representative or alternate Issuer Representative, shall thereupon be appointed by the Company or the Issuer, respectively. If the Company or the Issuer fails to make such designation within ten (10) days following the date when the then incumbent Company Representative or Issuer Representative resigns or becomes unavailable or unable to take any such actions, the President or any Vice President of the Company, or the Chairman or the Vice Chairman of the Issuer, shall serve as the Company Representative or the Issuer Representative, respectively.

Whenever the provisions of this Agreement require the Company's approval or require the Issuer or the Trustee to take some action at the request or direction of the Company, the Company Representative shall make, in writing, such approval or such request or direction unless otherwise specified in this Agreement. Any Company action so taken with the written approval of or at the written direction of the Company Representative shall be binding upon the Company.

III.7. Sectio
Investment of Moneys in Funds. The Trustee may invest or reinvest any moneys held pursuant to the Indenture to the extent permitted by Section 4.7 of the Indenture and by law (but subject to the provisions of Section 8.9(a) hereof), in Permitted Investments, as defined in the Indenture, as directed by a Company Representative.

Any such securities may be purchased at the offering or market price thereof at the time of such purchase.

The Trustee may make any and all such investments through its own bond department or trust investments department. Any interest accruing on or profit realized from the investment of any moneys held as part of the Initial Fund shall be credited to the Initial Fund, and any loss resulting from such investment shall be charged to the Initial Fund. Any interest accruing on or

profit realized from the investment of any moneys held as a part of the Bond Fund shall be credited to the Bond Fund, and any loss resulting from such investment shall be charged to the Bond Fund. Neither the Issuer nor the Trustee shall be liable for any loss resulting from any such investments, provided the Trustee has performed its respective obligations under Section 4.7 of the Indenture in accordance with Section 7.1(b) of the Indenture. For the purposes of this Section, any interest-bearing deposits, including certificates of deposit, issued by or on deposit with the Trustee shall be deemed to be investments and not deposits.

III.8. Section Plans and Specifications. The Company shall maintain a set of Plans and Specifications at the Project which shall be available to the Issuer and the Trustee for inspection and examination during the Company's regular business hours. The Issuer, the Trustee and the Company agree that the Company may supplement, amend and add to the Plans and Specifications, and that the Company shall be authorized to omit or make substitutions for components of the Project, without the approval of the Issuer and the Trustee, provided that no such change shall be made which, after giving effect to such change, would cause any of the representations and warranties set forth in Section 2.2 hereof to be false or misleading in any material respect, or would result in a violation of the covenant set forth in Section 8.5. If any such change would render materially incorrect or inaccurate the description of the initial components of the Project as set forth in Exhibit A to this Agreement, the Company shall deliver to the Issuer and the Trustee an opinion of Bond Counsel to the effect that such change will not cause the interest on the Bonds to be includable in the gross income of the owners thereof for federal income tax purposes, and thereafter, the Company and the Issuer shall amend such Exhibit A to reflect such change. No approvals of the Issuer and the Trustee shall be required for the Acquisition of the Project or for the solicitation, negotiation, award or execution of contracts relating thereto.

ARTICLE IV ARTICLE IV

ISSUANCE OF THE BONDS

Section IV.1. Agreement to Issue the Bonds. To provide funds for the Acquisition of the Project, the Issuer agrees that it will sell, issue and deliver the Bonds in the aggregate principal amount of \$6,000,000 to the initial purchasers thereof and will cause the proceeds of the Bonds to be applied as provided in Section 4.5 of the Indenture.

IV.2. No Third-Party Beneficiary. It is specifically agreed between the parties executing this Agreement that it is not intended by any of the provisions of any part of this Agreement to establish in favor of the public or any member thereof, other than as expressly provided herein or as contemplated in the Indenture, the rights of a third-party beneficiary hereunder, or to authorize anyone not a party to this Agreement to maintain a suit for personal injuries or property damage pursuant to the terms or provisions of this Agreement. The duties, obligations and responsibilities of the parties to this Agreement with respect to third parties shall remain as imposed by law.

ARTICLE V ARTICLE V

LOAN; PAYMENT PROVISIONS

Section V.1. Loan of Proceeds. The Issuer agrees, upon the terms and conditions contained in this Agreement and the Indenture, to lend to the Company the proceeds received by the Issuer from the sale of the Bonds. The loan shall be made by depositing the accrued interest, if any, from the initial sale of the Bonds into the Bond Fund and the remainder of said proceeds in the Initial Fund in accordance with Section 4.5 of the Indenture. Such proceeds shall be disbursed to or on behalf of the Company as provided in Section-3.2. The Company's obligation to repay the loan shall be evidenced by a Promissory Note, the form of which is attached hereto as Exhibit C, dated the Issue Date.

V.2. Amounts Payable. The Company hereby agrees to pay the Note and repay the loan made pursuant to this Agreement by making the following payments:

(a) The Company shall pay or cause to be paid to the Trustee in immediately available funds for the account of the Issuer for deposit into the Bond Fund on or before any Interest Payment Date for the Bonds or any other date that any payment of interest, premium, if any, or principal is required to be made in respect of the Bonds pursuant to the Indenture, until the principal of, premium, if any, and interest on the Bonds shall have been fully paid or provision for the payment thereof shall have been made in accordance with the Indenture, a sum which, together with any Eligible Funds available for such payment in the Bond Fund, will enable the Trustee to pay the amount payable on such date as principal of (whether at maturity or upon

redemption or acceleration or otherwise), premium, if any, and interest on the Bonds as provided in the Indenture; provided, however, that the obligation of the Company to make any payment hereunder shall be deemed satisfied and discharged to the extent of the corresponding payment made by the Credit Issuer under the Credit Facility.

It is understood and agreed that the Note and all payments payable by the Company under this subsection are assigned by the Issuer to the Trustee for the benefit of the Holders. The Company assents to such assignment. The Issuer hereby directs the Company and the Company hereby agrees to pay to the Trustee at the principal corporate trust office of the Trustee all payments payable by the Company pursuant to the Note and this subsection.

(b) The Company will also pay the reasonable fees and expenses of the Issuer, the Trustee, the Tender Agent, the Paying Agent, the Placement Agent, the Remarketing Agent and the Registrar under the Indenture and all other amounts which may be payable to the Trustee, Paying Agent, Registrar or the Tender Agent under Section 7.2 of the Indenture, and the reasonable fees and expenses of the Remarketing Agent, such fees and expenses to be paid when due and payable by the Company directly to the Trustee, Tender Agent, Paying Agent, Registrar and Remarketing Agent, respectively, for their own account.

(c) The Company will also pay when due and payable the reasonable fees and expenses of the Issuer related to the issuance of the Bonds, including without limitation, attorneys' fees and expenses.

(d) The Company covenants, for the benefit of the Holders, to pay or cause to be paid, to the Paying Agent, such amounts as shall be necessary to enable the Paying Agent to pay the Purchase Price of Bonds delivered to the Tender Agent or the Remarketing Agent, as the case may be, for purchase, all as more particularly described in Section 2.6 of the Indenture; provided, however, that the obligation of the Company to make any such payment under this subsection shall be reduced by the amount of moneys available for such payment described in Section 2.6(g)(i) and (ii) of the Indenture; and provided, further, that the obligation of the Company to make any payment under this subsection shall be deemed to be satisfied and discharged to the extent of the corresponding payment made by the Credit Issuer under the Credit Facility.

(e) In the event the Company shall fail to make any of the payments required in this Section, the item or installment so in default shall continue as an obligation of the Company until the amount in default shall have been fully paid.

V.3. Unconditional Obligations. The obligation of the Company to make the payments required by Section 5.2 shall be absolute and unconditional. The Company shall pay all such amounts without abatement, diminution or deduction (whether for taxes or otherwise) regardless of any cause or circumstance whatsoever including, without limitation, any defense, set-off, recoupment or counterclaim that the Company may have or assert against the Issuer, the Trustee or any other Person.

V.4. Prepayments. The Company may prepay all or any part of the amounts required to be paid by it under Section-5.2, at the times and in the amounts provided in Article-XI for redemption of the Bonds, and in the case of mandatory redemptions of the Bonds, the Company shall cause to be furnished to the Issuer such amounts on or prior to the applicable redemption dates. Prepayment of amounts due hereunder pursuant to this Section shall be deposited in the Bond Fund.

V.5. Credits Against Payments. To the extent that principal of or premium, if any, or interest on the Bonds shall be paid with moneys available under the Credit Facility, from remarketing proceeds (with respect to Purchase Price) or other sources available under the Indenture, the obligation of the Company to make, payments required by Section 5.2 shall be satisfied and discharged to the extent of an amount equal to the principal of or premium, if any, or interest on the Bonds so paid. If the principal of and premium, if any, and interest on the Bonds shall have been paid sufficiently that payment of the Bonds shall have occurred in accordance with Article V of the Indenture, then the obligations of the Company pursuant to Section 5.2, ipso facto, shall be deemed to have been paid in full, and the Company's obligations under Section-5.2 and this Agreement shall be discharged. Notwithstanding the foregoing to the extent that principal of or premium, if any, or interest on the Bonds is paid from drawings under the Credit Facility, there shall be credited against the unpaid loan payments required by Section 5.2 hereof, an amount equal to the principal of or premium, if any, or interest on the Bonds so paid.

V.6. Credit Facility and Alternate Credit Facility. The Company shall provide for the payment of amounts payable pursuant to Section 5.2(a) and (d)

herein, by the delivery to the Trustee on the Issue Date of the Original Credit Facility. The Company shall be entitled to terminate the Credit Facility as provided therein and in the Indenture and shall be entitled to provide an Alternate Credit Facility under certain circumstances as provided in the Indenture.

V.7. Interest Rate Determination Method. The Company is hereby granted the right to designate from time to time changes in the Interest Rate Determination Method (as defined in the Indenture) in the manner and to the extent set forth in Section-2.4 of the Indenture.

V.8. Company Approval of Indenture. A copy of the Indenture has been submitted to the Company for its examination and review. By its execution of this Agreement, the Company acknowledges that it has approved, has agreed to and is bound by the provisions of the Indenture which by their terms are applicable to the Company. The Company agrees that the Trustee shall be entitled to enforce and to benefit from the terms and conditions of this Agreement that relate to it notwithstanding the fact that it is not a signatory hereto.

V.9. Outstanding Bonds. Promptly after each June 30, the Company shall notify the Commission and the Issuer, by first class mail, of the aggregate principal amount of the Bonds Outstanding at the close of business on such June 30.

ARTICLE VIARTICLE VI

MAINTENANCE AND TAXES

Section VI.1. Company's Obligations to Maintain and Repair. The Company agrees that during the term of this Agreement it will keep and maintain the Project in good condition, repair and working order, ordinary wear and tear excepted, at its own cost, and will make or cause to be made from time to time all necessary repairs thereto (including external and structural repairs) and renewals and replacements thereto.

VI.2. Taxes and Other Charges. (a) The Company will promptly pay and discharge or cause to be promptly paid and discharged, as the same become due, all taxes, assessments, governmental charges or levies and all utility and other charges incurred in the operation, maintenance, use, occupancy and upkeep of the Project imposed upon it or in respect of the Project before the same shall become in default, as well as all lawful claims which, if unpaid, might become a lien or charge upon such property and assets or any part thereof, except such that are contested in good faith by the Company for which the Company has maintained adequate reserves satisfactory to the Credit Issuer, or in the absence of any Credit Issuer, satisfactory to the Issuer and the Trustee.

(b) The Company shall furnish the Issuer and the Trustee, upon request, with proof of payment of any taxes, governmental charges, utility charges, insurance premiums or other charges required to be paid by the Company under this Agreement.

ARTICLE VIIARTICLE VII

INSURANCE, EMINENT DOMAIN AND DAMAGE AND DESTRUCTION

Section VII.1. Insurance. The Company will during the term of this Agreement and at all times while any Bonds are outstanding continuously insure the Project against such risks as are customarily insured against by businesses of like size and type, paying as the same become due all premiums in respect thereof. In addition the Company shall comply, or cause compliance, with applicable worker's compensation laws of the State. While a Credit Facility is in effect, the Company shall only be required to comply with the insurance requirements set forth in the Credit Agreement.

VII.2.SectioProvisions Respecting Eminent Domain. In case of any damage to or destruction of all or any part of the Project exceeding \$50,000, the Company shall give prompt written notice thereof to the Issuer and the Trustee. In case of a taking or proposed taking of all or any part of the Project or any right therein by Eminent Domain, the party upon which notice of such taking is served shall give prompt written notice to the other and to the Trustee. Each such notice shall describe generally the nature and extent of such damage, destruction, taking, loss, proceedings or negotiations.

VII.3.SectioDamage and Destruction. If at any time while any of the Bonds are Outstanding, the Project, or any portion thereof, shall be damaged or destroyed by fire, flood, windstorm or other casualty, or title to, or the temporary use of, the Project, or any portion thereof, shall have been taken by the power of Eminent Domain, the Company (unless it shall have exercised its option to prepay all of the Bonds) shall cause the Net Proceeds from

insurance or condemnation or an amount equal thereto to be used for the repair, reconstruction, restoration or improvement of the Project. Notwithstanding the above, so long as the Credit Facility is outstanding, the Company shall comply with the terms of the Credit Agreement related to the use of insurance proceeds.

VIII

ARTICLE VIII

SPECIAL COVENANTS

Section VIII.1. Access to the Property and Inspection. The Issuer and the Trustee, and their respective agents and employees, shall have the right, at all reasonable times during normal business hours of the Company upon the furnishing of reasonable notice to the Company under the circumstances, to enter upon and examine and inspect the Project and to examine and copy the books and records of the Company insofar as such books and records relate to the Project or the Bond Documents.

VIII.2. Financial Statements. The Company shall, upon request, deliver to the Trustee and the Issuer as soon as practicable and in any event within 120 days after the end of each fiscal year of the Company, the financial reports of the Company for such fiscal year.

VIII.3. Further Assurances and Corrective Instruments.

(a) Subject to the provisions of the Indenture, the Issuer and the Company agree that they will, from time to time, execute, acknowledge and deliver, or cause to be executed, acknowledged and delivered, such supplements and amendments hereto and such further instruments as may reasonably be required for carrying out the intention or facilitating the performance of this Agreement.

(b) The Company shall cause this Agreement to be kept recorded and filed in such manner and in such places as may be required by law to fully preserve and protect the security of the Holders and the rights of the Trustee and to perfect the security interest created by the Indenture.

VIII.4. Recording and Filing; Other Instruments.

(a) The Company covenants that it will cause continuation statements to be filed as required by law in order fully to preserve and to protect the rights of the Trustee or the Issuer in the assignment of certain rights of the Issuer under this Agreement and otherwise under the Indenture. The Company covenants that it will cause Counsel to render an opinion to the Issuer and to the Trustee not earlier than 60 nor later than 30 days prior to each anniversary date occurring at five-year intervals after the issuance of the Bonds to the effect that all Financing Statements, notices and other instruments required by applicable law, including this Agreement, have been recorded or filed or re-recorded or re-filed in such manner and in such places required by law in order to fully preserve and protect the rights of the Trustee in the assignment of certain rights of the Issuer under this Agreement and otherwise under the Indenture.

(b) The Company and the Issuer shall execute and deliver all instruments and shall furnish all information and evidence deemed necessary or advisable in order to enable the Company to fulfill its obligations as provided in subsection (a) of this Section. The Company shall file and re-file and record and re-record or shall cause to be filed and re-filed and recorded and re-recorded all instruments required to be filed and re-filed and recorded or re-recorded and shall continue or cause to be continued the liens of such instruments for so long as any of the Bonds shall be Outstanding.

Section VIII.5. Exclusion from Gross Income for Federal Income Tax Purposes. The Company covenants and agrees that it has not taken and will not take or cause to be taken, and has not omitted and will not omit or cause to be omitted, any action which will result in interest paid on the Bonds being included in gross income of the Holders of the Bonds for the purposes of federal income taxation.

The Company covenants and agrees that it will take or cause to be taken all required actions necessary to preserve the exclusion from gross income for federal income tax purposes of interest on the Bonds; and the Issuer covenants and agrees that it will take or cause to be taken all required actions to preserve the exclusion from gross income for federal income tax purposes of interest on the Bonds.

VIII.6. Indemnity Against Claims. The Company will pay and discharge and will indemnify and hold harmless the Issuer, the Commission and the Trustee, and their respective officers, employees and agents, from any taxes,

assessments, impositions and other charges in respect of the Project. If any such claim is asserted, or any such lien or charge upon payments, or any such taxes, assessments, impositions or other charges, are sought to be imposed, the Issuer or the Commission, as the case may be, will give prompt written notice to the Company and the Trustee; provided, however, that the failure to provide such notice will not relieve the Company of the Company's obligations and liability under this Section and will not give rise to any claim against or liability of the Issuer or the Trustee. The Company shall have the sole right and duty to assume, and shall assume, the defense thereof, with counsel selected by the Company and reasonably acceptable to the person on behalf of which the Company undertakes a defense, with full power to litigate, compromise or settle the same in its sole discretion.

VIII.7. Release and Indemnification. The Company shall at all times protect, indemnify and hold harmless the Trustee, the Issuer, the Governing Body, the Commission and their respective directors, members, officers, attorneys, agents and employees against any and all liability, losses, damages, costs, expenses, taxes, causes of action, suits, claims, demands and judgments of any nature arising from or in connection with the Project or the financing of the Project, including, without limitation, all claims or liability resulting from, arising out of or in connection with the acceptance or administration of the Bond Documents or the trusts thereunder or the performance of duties under the Bond Documents or any loss or damage to property or any injury to or death of any person that may be occasioned by any cause whatsoever pertaining to the Project or the use thereof, including without limitation any lease thereof or assignment of its interest in this Agreement, such indemnification to include the reasonable costs and expenses of defending itself or investigating any claim of liability and other reasonable expenses and attorneys' fees incurred by the Issuer, The Trustee, the Governing Body and their respective directors, members, officers, attorneys, agents and employees in connection therewith, provided that the benefits of this Section shall not inure to any person other than the Issuer, the Governing Body, the Trustee and their respective directors, members, officers, attorneys, agents and employees, and provided further that such loss, damage, death, injury, claims, demands or causes shall not have resulted from the gross negligence or willful misconduct of, the Issuer, the Trustee or such director, member, officer, attorneys, agent or employee. The obligations of the Company under this Section shall survive the termination of this Agreement and the Indenture. Notwithstanding any other provision of this Agreement or the Indenture to the contrary, the Company agrees (i) not to assert any claim or institute any action or suit against the Trustee or its employees arising from or in connection with any investment of funds made by the Trustee in good faith as directed by a Company Representative, and (ii) to indemnify and hold harmless the Trustee and its employees against any liability, losses, damages, costs, expenses, causes of action, suits, claims, demands and judgments of any nature arising from or in connection with any such investment. In addition, the Issuer shall have the right, in the event of a suit against the Issuer, to hire its own counsel, and the Company shall indemnify the Issuer for the costs thereof.

VIII.8. Compliance with Laws. The Company agrees to comply with all applicable zoning, planning, building, environmental and other regulations of the governmental authorities having jurisdiction of the Project during the Company's operation of the Project.

VIII.9. Non-Arbitrage Covenant. Covenant

(a) The Company and the Issuer covenant that they will (i) not take, or fail to take, any action or make any investment or use of the proceeds of the Bonds that would cause the Bonds to be "arbitrage bonds" within the meaning of Section 148 of the Code and (ii) comply with the requirements of Section 148 of the Code; provided that, the Issuer shall not be liable for any loss resulting from the investment of any funds in accordance with any written instructions of the Company.

(b) In the event that all of the proceeds of the Bonds, including the investment proceeds thereof, are not expended by the date which is six (6) months following the Issue Date, or if for any other reason a rebate is payable to the United States pursuant to Section 148 of the Code, the Company shall calculate, or cause to be calculated, the Rebate Amount (as defined in the Indenture). The Company agrees to pay the amount so calculated, together with supporting documentation, to the Trustee so as to permit the Trustee to pay such rebate to the United States at the times required by the Code. The amount paid by the Company to the Trustee shall be deposited into the Rebate Fund. The Company shall maintain or cause to be maintained records of the determinations of the rebate, if any, pursuant to this Section 8.9(b) until six (6) years after the retirement of the Bonds. This Section 8.9(b) shall be construed in accordance with Section 148(f) of the Code, including, without limitation, any applicable tax regulations promulgated under the Code. Nothing contained in this Agreement or in the Indenture shall be interpreted or construed to require the Issuer to pay any applicable rebate,

such obligation being the sole responsibility of the Company. The Company shall pay all fees, costs and expenses associated with calculation of the Rebate Amount (as defined in the Indenture) and, upon request from the Issuer, provide the Issuer with a copy of such calculation.

VIII.10.ctioNotice of Determination of Taxability. Promptly after the Company first becomes aware of any Determination of Taxability or an event that could trigger a Determination of Taxability, the Company shall give written notice thereof to the Issuer, the Remarketing Agent and the Trustee.

VIII.11.ctioNo Purchase of Bonds by Company or Issuer. During the time a Credit Facility is in effect, neither the Company, the Issuer nor any affiliates of any of them shall purchase any of the Bonds from the Remarketing Agent except under the circumstances under which the Remarketing Agent may remarket Bonds to the Company or the Issuer as provided in Section 2.7(d) of the Indenture.

VIII.12.ctioMaintenance of Corporate Existence.e Existence

So long as a Credit Facility is in effect the Company agrees that it will maintain its corporate existence, will not dissolve or otherwise dispose of all or substantially all of its assets and will not consolidate with or merge into another corporation or permit one or more other corporations to consolidate with or merge into it, except either with the consent of the Credit Issuer or as provided in the original Credit Agreement; if a Credit Facility is not in effect, the Company agrees that it will continue to be a corporation either organized under the laws of or duly qualified to do business as a foreign corporation in the State, will maintain its corporate existence, will not dissolve or otherwise dispose of all or substantially all of its assets and will not consolidate with or merge into another corporation or permit one or more corporations to consolidate with or merge into it; provided, that the Company may, without violating the foregoing, consolidate with or merge into another corporation, or permit one or more corporations to consolidate with or merge into it, or transfer all or substantially all of its assets to another such corporation (and thereafter dissolve or not dissolve, as the Company may elect) if the corporation surviving such merger or resulting from such consolidation, or the corporation to which all or substantially all of the assets of the Company are transferred, as the case may be:

(i) is a corporation organized under the laws of the United States of America, or any state, district or territory thereof, and qualified to do business in the State;

(ii) shall expressly in writing assume all of the obligations of the Company contained in this Agreement;

(iii) has a consolidated tangible net worth (after giving effect to such consolidation, merger or transfer) of not less than the consolidated tangible net worth of the Company and its consolidated subsidiaries immediately prior to such consolidation, merger or transfer; and

(iv) provided that no Event of Default has occurred and is continuing hereunder.

The term "consolidated tangible net worth," as used in this Section, shall mean the difference obtained by subtracting total consolidated liabilities (not including as a liability any capital or surplus item) from total consolidated tangible assets of the Company and all of its consolidated subsidiaries, computed in accordance with generally accepted accounting principles. Prior to any such consolidation, merger or transfer the Trustee shall be furnished a certificate from the chief financial officer of the Company or his/her deputy stating that in the opinion of such officer none of the covenants in this Agreement will be violated as a result of said consolidation, merger or transfer.

VIII.13.ctioDuties and Obligations. The Company covenants and agrees that it will fully and faithfully perform all the duties and obligations that the Issuer has covenanted and agreed in the Indenture to cause the Company to perform and any duties and obligations that the Company is required in the Indenture to perform. The foregoing shall not apply to any duty or undertaking of the Issuer that by its nature cannot be delegated or assigned.

IX ARTICLE IX

ASSIGNMENT, LEASE AND SALE

Section IX.1. Restrictions on Transfer of Issuer's Rights. The Issuer agrees that, except for the assignment of its rights under this Agreement to the Trustee pursuant to the Indenture, it will not during the

term of this Agreement sell, assign, transfer or convey its interests in this Agreement except as provided in Section 9.2.

IX.2. Assignment by the Issuer. It is understood, agreed and acknowledged that the Issuer, as security for payment of the principal of and premium, if any, and interest on the Bonds, will assign to the Trustee pursuant to the Indenture, among other things, certain of its rights, title and interests in and to this Agreement (reserving its rights, however, pursuant to sections of this Agreement providing that notices, reports and other statements be given to the Issuer and that consents be obtained from the Issuer and also reserving its rights to reimbursement and payment of costs and expenses under Sections 5.2(b) and (c), its right of access under Section 8.1, and its rights to indemnification and non-liability under Sections 8.6, 8.7, 12.6 and 12.7, all of this Agreement). The Company consents to such assignment and agrees that the Trustee shall be entitled to enforce this Agreement directly against the Company as a third party beneficiary hereof.

Section IX.3. Assignment, Lease or Sale of Project or Assignment of IX.3.mAssignment, Lease or Sale of Project or Assignment of Agreement by Company. (a) With the prior written consent of the Trustee, the Issuer and if a Credit Facility is then in effect, the issuer of such Credit Facility (i) the rights of the Company under this Agreement may be assigned by the Company and (ii) the Project may be leased or sold as a whole or in part by the Company; provided, however, that (1) no such assignment, lease or sale shall relieve the Company from primary liability for any of its obligations hereunder, and in the event of any assignment, lease or sale, the Company shall continue to remain primarily liable for payments to be made pursuant to the Note and hereunder and for the performance and observance of the other agreements on its part herein provided to be performed and observed by it to the same extent as though no assignment, lease or sale had been made, (2) each lessee, purchaser or assignee of the Company's interest in this Agreement shall assume the obligations of the Company hereunder to the extent of the interest assigned, leased or sold, and the Company shall, not more than 60 nor less than 30 days prior to the effective date of any such assignment, lease or sale, furnish or cause to be furnished to the Issuer and the Trustee a true and complete copy of each such assignment, lease or purchase contract and assumption of obligations and (3) prior to any lease or sale, the Company shall have caused to be delivered to the Issuer and the Trustee an opinion of Bond Counsel to the effect that such leasing or sale will not cause interest on the Bonds to be includable in the gross income of the owners thereof for purposes of federal income taxation.

(b) Notwithstanding the provisions of Section 9.3(a) above, the Company may sell or lease the Project and assign its interest in this Agreement in full, and may be released from all liability under this Agreement, so long as the Trustee receives (i) consent of the Issuer, 100% of the Holders of the Bonds, and, if a Credit Facility is in effect, the issuer of such Credit Facility to such transfer or assignment, and (ii) an Opinion of Bond Counsel that such sale, lease, assignment or release, as applicable, will not have an adverse effect on the excludability of interest on the Bonds from gross income for federal income tax purposes.

(c) Notwithstanding the foregoing, if the Company with the consent of the Credit Issuer determines that any fixtures, apparatus, or other movable property constituting a part of the Project have become inadequate, obsolete, worn out, unsuitable, undesirable, inappropriate or unnecessary for its purposes at any time, the Company may remove such items from the Project and sell, trade in, or otherwise dispose of them (as a whole or in part).

ARTICLE XARTICLE X

EVENTS OF DEFAULT AND REMEDIES

Section X.1. Events of Default Defined. The term "Event of Default" shall mean any one or more of the following events:

(a) Failure by the Company to make any payments required to be paid pursuant to Section 5.2(a) or to pay the Purchase Price of Bonds as required pursuant to Section 5.2(d) herein;

(b) The occurrence of an Event of Default under the Indenture;

(c) Any representation by or on behalf of the Company contained in this Agreement or in any instrument furnished in compliance with or in reference to this Agreement or the Indenture proves false or misleading in any material respect as of the date of the making or furnishing thereof;

(d) Failure by the Company to observe or perform any of its other covenants, conditions, payments or agreements under this Agreement for a period of 30 days after written notice, specifying such failure and requesting that it be remedied, is given to the Company by the Issuer or the

Trustee; provided, however, that if such performance, observation or compliance requires work to be done, action to be taken or conditions to be remedied that by their nature cannot reasonably be done, taken or remedied within such 30 day period, no Event of Default shall be deemed to have occurred or to exist if, and so long as, the Company shall commence such performance, observation or compliance within such period and shall diligently and continuously prosecute the same to completion;

(e) The Company shall (i) apply for or consent to the appointment of, or the taking of possession by, a receiver, custodian, assignee, sequestrator, trustee, liquidator or similar official of the Company or of all or a substantial part of its property, (ii) admit in writing its inability, or be generally unable, to pay its debts as such debts become due, (iii) make a general assignment for the benefit of its creditors, (iv) commence a voluntary case under the Federal Bankruptcy Code (as now or hereafter in effect), (v) file a petition seeking to take advantage of any other federal or state law relating to bankruptcy, insolvency, reorganization, arrangement, winding-up or composition or adjustment of debts, (vi) fail to controvert in a timely or appropriate manner, or acquiesce in writing to, any petition filed against the Company in an involuntary case under said Federal Bankruptcy Code, or (vii) take any corporate action for the purpose of effecting any of the foregoing;

(f) A proceeding or case shall be commenced, without the application or consent of the Company, in any court of competent jurisdiction, seeking (i) the liquidation, reorganization, arrangement, dissolution, winding-up or composition or adjustment of debts of the Company, (ii) the appointment of a trustee, receiver, custodian, assignee, sequestrator, liquidator or similar official of the Company or of all or any substantial part of its assets, or (iii) similar relief in respect of the Company under any law relating to bankruptcy, insolvency, reorganization, arrangement, winding-up or composition or adjustment of debts and such proceeding or case shall continue undismissed, or an order, judgment or decree approving or ordering any of the foregoing shall be entered and continue unstayed and in effect, for a period of 90 days from the commencement of such proceeding or case or the date of such order, judgment or decree, or an order for relief against the Company shall be entered in an involuntary case under said Federal Bankruptcy Code;

(g) If a Credit Facility is in effect, the Trustee shall have received a written notice from the Credit Issuer of the occurrence and continuance of an "Event of Default" (as defined in the Credit Agreement); or

(h) If a Credit Facility is in effect, the Trustee shall have received a written notice from the Credit Issuer that amounts which may be drawn upon under the Credit Facility with respect to interest (other than interest corresponding to the principal amount of Bonds which have been redeemed) will not be reinstated following any drawing for such interest.

X.2. Remedies on Default. Upon the occurrence of an Event of Default under this Agreement, the Trustee, as assignee of the Issuer, but only if acceleration of the principal amount of the Bonds has been declared pursuant to Section 6.2 of the Indenture, shall take any one or more of the following remedial steps:

(a) By written notice declare all payments hereunder and under the Note immediately due and payable, whereupon the same shall become immediately due and payable without presentment, demand, protest or any other notice whatsoever, all of which are hereby expressly waived by the Company.

(b) Take whatever other action at law or in equity may appear necessary or desirable to collect the amounts payable pursuant hereto and under the Note then due and thereafter to become due or to enforce the performance and observance of any obligation, agreement or covenant of the Company under this Agreement, including the making of any drawing under the Credit Facility.

In the enforcement of the remedies provided in this Section, the Issuer and the Trustee may treat all reasonable expenses of enforcement, including, without limitation, legal, accounting and advertising fees and expenses, as additional amounts payable by the Company then due and owing.

Section X.3. Application of Amounts Realized in Enforcement of Remedies. Any amounts collected pursuant to action taken under Section 10.2 shall be paid to the Trustee and applied in accordance with Section 6.7 of the Indenture.

X.4. No Remedy Exclusive. No remedy herein conferred upon or reserved to the Issuer is intended to be exclusive of any other available remedy or remedies, but each and every such remedy shall be cumulative and shall be in addition to every other remedy given under this Agreement or now or hereafter existing at law or in equity or by statute. No delay or omission to exercise

any right or power accruing upon an Event of Default under this Agreement shall impair any such right or power or shall be construed to be a waiver thereof, but any such right and power may be exercised from time to time and as often as may be deemed expedient.

X.5. Agreement to Pay Attorneys' Fees and Expenses. Upon the occurrence of an Event of Default under this Agreement, if the Issuer or the Trustee employs attorneys or incurs other expenses for the collection of amounts payable hereunder or for the enforcement of the performance or observance of any covenants or agreements on the part of the Company herein contained, whether or not suit is commenced, the Company agrees that it will on demand therefor pay to the Issuer or the Trustee or any combination thereof, as the case may be, the reasonable fees of such attorneys and such other reasonable expenses so incurred by the Issuer or the Trustee.

X.6. Issuer and Company to Give Notice of Default. The Issuer and the Company severally covenant that they will, at the expense of the Company, promptly give to the Trustee, the Tender Agent, the Remarketing Agent, the Paying Agent and the Credit Issuer, and to each other, written notice of any Event of Default under this Agreement of which they shall have actual knowledge or written notice, but the Issuer shall not be liable for failing to give such notice.

ARTICLE XIARTICLE XI

PREPAYMENTS; PURCHASE OF BONDS

Section XI.1. Optional Prepayments.

(a) The Company shall have, and is hereby granted, the option to prepay the unpaid principal amount hereunder and under the Note in whole, together with interest thereon to the date of redemption of the Bonds, at any time by taking, or causing the Issuer to take, the actions required by the Indenture for the redemption of all Bonds then outstanding, upon the occurrence of any of the events set forth in Section 2.18(b) of the Indenture.

(b) The Company shall have, and is hereby granted, the option to prepay all or any portion of the unpaid balance hereunder and under the Note, together with interest thereon to the date of redemption of the Bonds, at any time by taking, or causing the Issuer to take, the actions required by the Indenture (i) to discharge the lien thereof through the redemption, or provision for payment of redemption of all Bonds then outstanding or (ii) to effect the redemption, or provision for payment or redemption, of less than all Bonds then outstanding, pursuant to Section 2.18(a) of the Indenture.

(c) To make a prepayment pursuant to this Section 11.1, the Company shall give written notice to the Issuer, the Trustee and the Registrar which shall specify therein (i) the date of the intended prepayment, which shall not be less than 45 days from the date any Bonds are to be redeemed from such prepayment, and (ii) the principal amount to be prepaid and the date or dates on which the prepayment is to occur. All such prepayments shall be in the amount of the unpaid amount hereunder and under the Note if made pursuant to Section 11.1(a) or in the amount of an Authorized Denomination if made pursuant to Section 11.1(b) and the Company shall furnish additional funds, if necessary, to make such prepayments in such amounts. In addition, the Company shall make such additional payments as shall be necessary to pay any redemption premium on the Bonds in connection with such redemption.

Section XI.2. Mandatory Prepayment Upon a Determination of Taxability. In the event of a Determination of Taxability, the Company shall forthwith, and in any event within 45 days of any such Determination of Taxability, pay the entire unpaid principal balance hereunder and under the Note plus accrued interest thereon to the date of payment, provided, that, if the Company delivers to the Trustee the opinion of Bond Counsel described in Section 2.18(c) of the Indenture, which opinion states that interest on the Bonds will not be includable in the gross income of the owners thereof if less than all of the Bonds are redeemed, then the Company shall prepay the Loan in the amount necessary to redeem the amount of Bonds stated in such opinion.

The Company hereby agrees to give prompt written notice to the Issuer and the Trustee of (a) the occurrence of an event that gives or may give rise to a Determination of Taxability or (b) its receipt of any oral or written advice from the Internal Revenue Service that an event giving rise to a Determination of Taxability shall have occurred.

Section XI.3. Mandatory Prepayment in Event of Cessation of Operation. In the event of a "Cessation of Operation," the Company shall be required to prepay the unpaid aggregate amount of the Note within 45 days after the date of "Cessation of Operation," such payment to be due on the redemption date,

plus accrued interest to the date of redemption of the Bonds from such prepayment, in accordance with the provisions of the Bonds and without payment of premium.

For the purposes of this Section 11.3, a "Cessation of Operation" of the Project shall not be deemed to have occurred until 60 days shall have elapsed after written notice has been given to the Company by the Issuer or the Trustee that operation of the Project shall have ceased and the Company shall not have demonstrated to the satisfaction of the Issuer and the Trustee that the Company (or an assignee or lessee permitted by Section 9.3 hereof) is operating the Project as a "project" (within the meaning of the Act).

XI.4. Optional Purchase of Bonds. Subject to the terms of the Indenture regarding the use of Eligible Funds, the Company may at any time, and from time to time, furnish moneys to the Tender Agent accompanied by a notice directing such moneys to be applied to the purchase of Bonds delivered for purchase pursuant to the terms thereof, which Bonds shall be delivered to the Trustee for cancellation in accordance with Section 2.8 of the Indenture. The Company shall deliver to the Remarketing Agent and the Credit Issuer a copy of any such notice.

XI.5. Relative Priorities. The obligations of the Company under Section 11.2 shall be and remain superior to the rights, obligations and options of the Company under Section 11.1.

XI.6. Prepayment to Include Fees and Expenses. Any prepayment under this Article shall also include any expenses of prepayment, as well as all expenses and costs provided for herein.

XI.7. Purchase of Bonds. Purchase of Bonds

(a) In consideration of the issuance of the Bonds by the Issuer, but for the benefit of the Holders, the Company has agreed, and does hereby covenant, to cause the necessary arrangements to be made and to be thereafter continued whereby the Holders from time to time may deliver, or may be required to deliver Bonds for purchase and whereby such Bonds shall be so purchased. In furtherance of the foregoing covenant of the Company, the Issuer, at the request of the Company, has set forth in the Bonds the terms and conditions relating to the delivery of Bonds by the Holders thereof for purchase, has set forth in the Indenture the duties and responsibilities of the Tender Agent with respect to the purchase of Bonds, and of the Remarketing Agent with respect to the remarketing of Bonds and has therein provided for the appointment of the Tender Agent and Remarketing Agent. The Company hereby authorizes and directs the Tender Agent and the Remarketing Agent to purchase, offer, sell and deliver Bonds in accordance with the provisions of the Indenture.

Without limiting the generality of the foregoing covenant of the Company, and in consideration of the Issuer's having set forth in the Bonds and the Indenture the aforesaid provisions, the Company covenants, for the benefit of the Holders, to provide for arrangements to pay, or cause to be paid, such amounts as shall be necessary to effect the payment of the Purchase Price of Bonds delivered for purchase, all as more particularly described in the Indenture.

(b) Notwithstanding the provisions of subsection (a) of this Section, the obligations of the Company under subsection (a) of this Section with respect to the purchase of Bonds shall be terminated on the date the Bonds begin to bear interest at the Fixed Rate in accordance with the Indenture.

(c) In furtherance of the obligations of the Company under subsection (a) of this Section, the Company shall provide for the payment of its obligations under said subsection (a) by the delivery of the Original Credit Facility simultaneously with the original delivery of the Bonds. In order to implement such undertaking of the Company, the Issuer, at the direction of the Company, has set forth in the Indenture the terms and conditions relating to drawings under the Credit Facility to provide moneys for the purchase of Bonds. The Company hereby authorizes and directs the Trustee to draw moneys under the Credit Facility in accordance with the provisions of the Indenture to the extent necessary to provide moneys payable under Section 2.7 of the Indenture if and when due.

(d) The Issuer shall have no obligation or responsibility, financial or otherwise, with respect to the purchase of Bonds or the making or continuation of arrangements therefor other than as expressly set forth in subsection (a) of this Section, except that the Issuer shall generally cooperate with the Company, the Tender Agent and the Remarketing Agent as contemplated in Section 2.7 of the Indenture.

Section XII.1. Amounts Remaining in Funds. Subject to the provisions of Article V of the Indenture and as provided in Article IV of the Indenture, it is agreed by the parties hereto that amounts remaining in the Bond Fund, Initial Fund or Bond Purchase Fund upon expiration or earlier termination of this Agreement, as provided in this Agreement, after payment in full of the Bonds (or provision for payment thereof having been made in accordance with the provisions of the Indenture) and all other amounts owing under the Indenture, shall be paid to the Credit Issuer (if a Credit Facility is in effect and there is any amount then owing by the Company to the Credit Issuer) and otherwise shall belong to and be paid to the Company by the Trustee.

XII.2. Section No Implied Waiver. In the event any provision of this Agreement should be breached by either party and thereafter waived by the other party, such waiver shall be limited to the particular breach so waived and shall not be deemed to waive any other breach thereunder or hereunder.

XII.3. Section Issuer Representative. Whenever under the provisions of this Agreement the approval of the Issuer is required or the Issuer is required to take some action at the request of the Company, such approval shall be made or such action shall be taken by the Issuer Representative; and the Company and the Trustee shall be authorized to rely on any such approval or action.

XII.4. Section Company Representative. Whenever under the provisions of this Agreement the approval of the Company is required or the Company is required to take some action at the request of the Issuer, such approval shall be made or such action shall be taken by the Company Representative; and the Issuer, the Tender Agent, the Remarketing Agent, the Paying Agent and the Trustee shall be authorized to rely on any such approval or action.

XII.5. Section Notices. Notice under this Agreement shall be given in accordance with Section 9.4 of the Indenture.

Section XII.6. Issuer, Governing Body, and their Respective Members, XII.6. Issuer, Governing Body, and their Respective Members, Attorneys, Officers, Employees and Agents Not Liable. To the extent permitted by law, no recourse shall be had for the enforcement of any obligation, promise or agreement of the Issuer contained herein or in the other Bond Documents to which the Issuer is a party or for any claim based hereon or thereon or otherwise in respect hereof or thereof against the Commission, any member of the Governing Body, any commissioner, director, officer, agent, attorney or employee, as such, in his/her individual capacity, past, present or future, of the Commission, any member of the Governing Body, the Issuer or of any successor entity, either directly or through the Issuer, the Governing Body or any successor entity, whether by virtue of any constitutional provision, statute or rule of law, or by the enforcement of any assessment or penalty or otherwise. No personal liability whatsoever shall attach to, or be incurred by, the Commission, any member of the Governing Body, any commissioner, officer, agent, attorney or employee, as such, in his/her individual capacity, past, present or future, of the Commission, the Issuer, the Governing Body, or of any successor entity, either directly or through the Commission, the Issuer, the Governing Body, or of any successor entity, under or by reason of any of the obligations, promises or agreements entered into between the Issuer, the Commission or Governing Body and the Company, whether herein contained or to be implied herefrom as being supplemental hereto; and all personal liability of that character against every such member of the Governing Body, commissioner, director, officer, agent, attorney or employee is, by the execution of this Agreement and as a condition of, and as part of the consideration for, the execution of this Agreement, expressly waived and released.

Notwithstanding any other provision of this Agreement, the Issuer shall not be liable to the Company or the Trustee or any other person for any failure of the Issuer to take action under this Agreement unless the Issuer (a) is requested in writing by an appropriate person to take such action, (b) is assured of payment of, or reimbursement for, any reasonable expenses in such action, and (c) is afforded, under the existing circumstances, a reasonable period to take such action. In acting under this Agreement, or in refraining from acting under this Agreement, the Issuer may conclusively rely on the advice of its counsel.

Section XII.7. No Liability of Issuer; No Charge Against Issuer's XII.7. No Liability of Issuer; No Charge Against Issuer's Credit. Any obligation of the Issuer created by, arising out of, or entered into in contemplation of this Agreement, including the Bonds, shall not impose a debt or pecuniary liability upon the Issuer, the State or any political subdivision thereof or constitute a charge upon the general credit or taxing powers of any of the foregoing. Any such obligation shall be payable solely out of the revenues and any other moneys derived hereunder and under the

Indenture and the Credit Facility, except (as provided in the Indenture and in this Agreement) to the extent it shall be paid out of moneys attributable to the proceeds of the Bonds or the income from the temporary investment thereof.

The principal of, premium, if any, and interest on the Bonds shall be payable solely from the funds pledged for their payment in accordance with the Indenture and from payments made pursuant to the Credit Facility.

XII.8. Section If Performance Date Not a Business Day. If the last date for performance of any act or the exercising of any right, as provided in this Agreement, shall not be a Business Day, such payment may be made or act performed or right exercised on the next succeeding Business Day.

XII.9. Section Binding Effect. This Agreement shall inure to the benefit of and shall be binding upon the Issuer, the Company, and their respective successors and assigns. No assignment of this Agreement by the Company shall relieve the Company of its obligations hereunder.

XII.10. Section Severability. In the event any provision of this Agreement shall be held invalid or unenforceable by any court of competent jurisdiction, such holding shall not invalidate or render unenforceable any other provision hereof.

XII.11. Section Amendments, Changes and Modifications. Subsequent to the issuance of the Bonds and prior to payment of the Bonds, this Agreement may not be effectively amended, changed, modified, altered or terminated except in accordance with the Indenture.

XII.12. Execution in Counterparts. This Agreement may be executed in several counterparts, each of which, taken together, shall be an original and all of which shall constitute but one and the same instrument.

XII.13. Applicable Law. This Agreement shall be governed by and construed in accordance with the laws of the State.

[The remainder of this page is left blank intentionally]

IN WITNESS WHEREOF, the Issuer and the Company have caused this Agreement to be executed in their respective legal names and their respective corporate seals to be hereunto affixed, and the signatures of duly authorized persons to be attested, all as of the date first above written.

THE ALAMANCE COUNTY INDUSTRIAL FACILITIES
AND POLLUTION CONTROL FINANCING AUTHORITY

By: /s/ William H. Ritter
Chairman

[SEAL]

ATTEST:

/s/ J. Douglas Avent
Secretary

CULP, INC.

By: /s/ Franklin N. Saxon
Senior Vice President

[SEAL]

ATTEST:

/s/ Kenneth M. Ludwig
Assistant Secretary

A-1

EXHIBIT A

DESCRIPTION OF THE PROJECT

Acquisition and installation of finishing equipment for upholstery fabric in an existing manufacturing facility in Alamance County, North Carolina.

EXHIBIT B

\$ _____

No. _____

REQUISITION AND CERTIFICATE

_____, 19__

First-Citizens Bank & Trust Company
2917 Highwoods Boulevard
Raleigh, North Carolina 27604
Attention: Corporate Trust Department

Ladies and Gentlemen:

On behalf of Culp, Inc. (the "Company"), I hereby requisition from the funds representing the proceeds of the sale of the Tax-Exempt Adjustable Mode Industrial Development Revenue Bonds (Culp, Inc. Company Project) Series 1996, issued by The Alamance County Industrial Facilities and Pollution Control Financing Authority (the "Issuer"), and dated December 1, 1996 (the "Bonds"), which funds are held by you in the Initial Fund in accordance with the Indenture of Trust, dated as of December 1, 1996 (the "Indenture"), from the Issuer to you the sum of \$_____ to be paid to the person or persons indicated below:

(1) \$_____ for

payable to _____, and

(2) \$_____ for _____

payable to _____.

I hereby certify that (a) the obligation to make such payment was incurred by the Issuer or the Company in connection with the Acquisition (as defined in the Agreement, of even date with the Indenture, between the Issuer and the Company, hereinafter referred to as the "Agreement") of the Project (referred to in the Agreement), is a proper charge against the Costs of the Project (as defined in the Agreement), and has not been the basis for any prior requisition which has been paid; (b) neither the Company nor, to the best of the Company's knowledge, the Issuer has received written notice of any lien, right to lien or attachment upon, or claim affecting the right of such payee to receive payment of, any of the money payable under this requisition to any of the persons, firms or corporations named herein, or if any notice of any such lien, attachment or claim has been received such lien, attachment or claim has been released or discharged or will be released or discharged upon payment of this requisition; (c) this requisition contains no items representing payment on account of any retained percentages which the Issuer or the Company is entitled to retain at this date; (d) the payment of this requisition will not result in less than substantially all (95% or more) of the proceeds of the Bonds to be expended under this requisition and under all prior requisitions having been used for the acquisition and installation of real property or property of a character subject to the allowance for depreciation under the Internal Revenue Code of 1986, as amended; and (e) no "Event of Default" (as defined in the Agreement), or event which after notice or lapse of time or both would constitute such an "Event of Default" has occurred and not been waived.

The following paragraph is to be completed when any requisition and certificate includes any item for payment for labor or to contractors, builders or materialmen.

I hereby certify that insofar as the amount covered by the above requisition includes payments to be made for labor or to contractors, builders or materialmen, including materials or supplies, in connection with the Acquisition of the Project, (i) all obligations to make such payment have been properly incurred, (ii) any such labor was actually performed and any such materials or supplies were actually furnished or installed in or about the Project and are a

proper charge against the Costs of the Project, and (iii) such materials or supplies either are not subject to any lien or security interest or, if the same are so subject, such lien or security interest will be released or discharged upon payment of this requisition.

Company Representative

EXHIBIT C

AFTER THE ENDORSEMENT AS HEREON PROVIDED AND PLEDGE OF THIS NOTE, THIS NOTE MAY NOT BE ASSIGNED, PLEDGED, ENDORSED OR OTHERWISE TRANSFERRED EXCEPT TO AN ASSIGNEE OR SUCCESSOR OF THE TRUSTEE IN ACCORDANCE WITH THE INDENTURE, BOTH REFERRED TO HEREIN.

\$6,000,000

December __, 1996

PROMISSORY NOTE

FOR VALUE RECEIVED, Culp, Inc., a corporation duly formed and existing under the laws of the State of North Carolina (the "Company"), by this promissory note hereby promises to pay to the order of The Alamance County Industrial Facilities and Pollution Control Financing Authority (the "Issuer") the principal sum of Six Million Dollars (\$6,000,000), together with interest on the unpaid principal amount hereof, from the Issue Date (as defined in the Indenture referenced below) until paid in full, at a rate per annum equal to the rate of interest borne by the Bonds (as hereinafter defined), premium, if any, on the Bonds and Purchase Price (as defined in the Indenture). All such payments of principal, interest, premium and Purchase Price shall be made in funds which shall be immediately available on the due date of such payments and in lawful money of the United States of America at the principal corporate trust office of First-Citizens Bank & Trust Company, Raleigh, North Carolina, or its successor as trustee under the Indenture.

The principal amount, interest, premium, if any, and Purchase Price shall be payable on the dates and in the amount, that principal of, interest on the Bonds, premium, if any, and Purchase Price are payable, subject to prepayment as hereinafter provided.

The Company shall receive a credit for the amounts due and payable hereunder to the extent that payments are made by the Credit Issuer (as defined in the Indenture) pursuant to drawings under the Credit Facility (as defined in the Indenture).

This promissory note is the "Note" referred to in the Loan Agreement, dated as of December 1, 1996 (the "Agreement") between the Company and the Issuer, the terms, conditions and provisions of which are hereby incorporated by reference.

This Note and the payments required to be made hereunder are irrevocably assigned, without recourse, representation or warranty, and pledged to First-Citizens Bank & Trust Company under the Indenture of Trust, dated as of December 1, 1996 (the "Indenture"), by and between the Issuer and First-Citizens Bank & Trust Company, as Trustee, and such payments will be made directly to the Trustee for the account of the Issuer pursuant to such assignment. Such assignment is made as security for the payment of \$6,000,000 in aggregate principal amount of Tax-Exempt Adjustable Mode Industrial Development Revenue Bonds (Culp, Inc. Project) Series 1996 (the "Bonds"), issued by the Issuer pursuant to the Indenture. All the terms, conditions and provisions of the Indenture and the Bonds are hereby incorporated as a part of this Note.

The Company may at its option, and may under certain circumstances be required to, prepay together with accrued interest, all or any part of the amount due on this Note, as provided in the Agreement.

Presentation, demand, protest and notice of dishonor are hereby expressly waived by the Company.

The Company hereby promises to pay reasonable costs of collection and reasonable attorneys' fees in case of default on this Note.

This Note shall be governed by, and construed in accordance with, the laws of the State of North Carolina.

CULP, INC.

[SEAL]

By: _____
Name: _____
Title: _____

ATTEST:

Secretary

ENDORSEMENT

Pay to the order of First-Citizens Bank & Trust Company, without recourse, as Trustee under the Indenture referred to in the within mentioned Agreement, as security for such Bonds issued under such Indenture. This endorsement is given without any warranty as to the authority or genuineness of the signature of the maker of the Note.

THE ALAMANCE COUNTY INDUSTRIAL FACILITIES AND
POLLUTION CONTROL FINANCING AUTHORITY

By: _____
Name: _____
Title: _____

Dated: _____, 1996

EXHIBIT D

REPRESENTATIONS AND WARRANTIES RELATING TO TAX MATTERS
WITH RESPECT TO THE BONDS AND THE PROJECT

1. Not less than 95% of the net proceeds of the Bonds (consisting of the face amount of the Bonds less any original issue discount plus any original issue premium, but including issuance costs) shall be used to provide facilities to be used in the manufacturing or production of tangible personal property, including facilities that are directly related and ancillary to such manufacturing facilities and located on the same site as the manufacturing facilities; provided, however, that not more than twenty-five percent (25%) of the net proceeds shall be used to provide such ancillary facilities.

2. The aggregate amount of capital expenditures (as defined by Section 1.103-10(b)(2) of the Tax Regulations to include any expenditure which was or could have been treated as a capital expenditure under any rule or election under the Code) with respect to facilities located in the same incorporated municipality as the Project, or which are contiguous or integrated facilities, the principal user of which was or is the Company or any Related Person, paid or incurred during the period beginning three years before the date of issuance of the Bonds, and financed otherwise than out of the Bond proceeds (not including investment earnings thereon) and otherwise than out of the proceeds of other outstanding issues to which Section 144(a)(2) of the Code applies, is \$1,303,000.

3. The aggregate face amount of all prior issues outstanding as of the date of issuance of the Bonds (whether or not the issuer of each issue is the same) to which Section 144(a) of the Code or Section 103(b)(6) of the Internal Revenue Code of 1954, as amended applies, the proceeds of which were or will be used to any extent with respect to facilities located in the same incorporated municipality as the incorporated municipality in which the Project is located and the principal user of which is the Company or a Related Person, is \$2,124,000. The Issuer hereby elects to have the provisions of Section 144(a) of the Code apply to the Bonds. The Company and, at the direction of the Company, the Issuer, shall file any reports or statements and take any other action as may be required from time to time with respect to the qualification of the Bonds as an exempt small issue within the meaning of Section 144(a) of the Code.

4. (a) During the period commencing 15 days before the date of issuance of the Bonds, neither the Company nor any Related Person (or group of Related Persons which includes the Company) has guaranteed, arranged, participated in, assisted with, borrowed the proceeds of, or leased facilities financed by, obligations issued under Section 144(a) of the Code by any state or local governmental unit or any constituted authority empowered to issue obligations by or on behalf of any state or local governmental unit other than the Issuer. Except for the Company or any "related person" (or group of "related persons"), no Person has (1)-guaranteed, arranged, participated in, assisted with or paid any portion of the cost of the issuance of the Bonds, or (2)-provided any property or any franchise, trademark or trade name (within the meaning of Section 1253 of the Code) which is to be used in connection with the Project.

(b) During the period commencing on the date of issuance of the Bonds and ending 15 days thereafter, there will be no obligations issued under Section 144(a) of the Code which are guaranteed by the Company or any Related Person (or group of Related Persons which includes the Company) or which are issued with the assistance or participation of, or by arrangement with, the Company or any Related Person (or group of Related Persons which includes the Company) without the written opinion of Hunton & Williams to the effect that the issuance of such obligations will not adversely affect their opinion as to the exemption from present federal income tax of interest on the Bonds. Other than the Company or any Related Person (or group of Related Persons including the Company), no Person has (i) guaranteed, arranged, participated in, assisted with the issuance of, or paid any portion of the cost of the issuance of, any of the Bonds, and (ii) provided any property or any franchise, trademark or trade name (within the meaning of Section 1253 of the Code) which is to be used in connection with the Project.

(c) The Bonds are not being issued as part of an issue the interest of which is exempt from federal income taxation under any other provision of law other than Section 144(a) of the Code.

5. No portion of the Bond proceeds is being used to provide a facility, a purpose of which is retail food and beverage services, automobile sales or service, or the provision of recreation or entertainment. No portion of the Bond proceeds is being used to provide any private or commercial golf course, country club, health club, massage parlor, tennis club, skating facility (including roller skating, skateboard and ice skating), racquet sports facility (including

any handball or racquetball court), hot tub facility, suntan facility, racetrack, skybox or other luxury box, airplane, store the principal business of which is the sale of alcoholic beverages for consumption off premises, or facility used primarily for gambling. No portion of the Bond proceeds is being used directly or indirectly to provide residential real property for family units.

6. (a) As of the date of issuance of the Bonds, the sum of (i) the aggregate authorized face amount of the Bonds allocated in accordance with Section 144(a)(10)(C) of the Code to the Company or any Related Person to the Company plus (ii) the aggregate authorized face amount of any outstanding tax-exempt facility-related bonds (as defined in Section 144(a)(10)(B) of the Code) of the Company, or any Related Person to the Company, does not exceed \$40 million.

(b) As of the date of issuance of the Bonds, the sum of (i) the aggregate authorized face amount of the Bonds allocated in accordance with Section 144(a)(10)(C) of the Code to any known test-period beneficiary, as defined in Section 144(a)(10)(D) of the Code, or any Related Person to such test-period beneficiary (other than the Company or any Related Person to the Company) plus (ii) the aggregate authorized face amount of any outstanding tax-exempt facility-related bonds (as defined in Section 144(a)(10)(B) of the Code) of such known test-period beneficiary, or any Related Person thereto (other than the Company or any Related Person to the Company), does not exceed \$40 million.

7. There are no other bonds to which Section 144(a) of the Code applies which, together with the Bonds, are to be used with respect to (a) a single building, (b) an enclosed shopping mall, or (c) a strip of offices, stores or warehouses, using substantial common facilities with the Project or a portion thereof.

8. Bond proceeds that will be used to pay the cost of acquisition of any real or personal property other than land (or any interest therein) is or will be used only with respect to either (a) real or personal property the first use of which is pursuant to such acquisition with the Bond proceeds or (b) a building (and/or related equipment therefor) if the rehabilitation expenditures (as defined in Section 147(d)(3) of the Code) with respect to such building equal or exceed fifteen percent (15%) of the portion of the cost of acquiring such building (and the equipment thereof) to be financed with the Bond proceeds; or (c) a structure other than a building (and equipment therefor) if rehabilitation expenditures (as defined in Section 147(d)(3) of the Code) with respect to such property equal or exceed one hundred percent of the portion of the cost of acquiring such property to be financed with the Bond proceeds.

9. (a) No portion of the Bond proceeds will be used directly or indirectly for the acquisition of land or any interest therein to be used for the purpose of farming.

(b) Less than 25% of the Bond proceeds are or will be used directly or indirectly for the acquisition of land to be used for purposes other than farming.

10. The Bonds will not be federally guaranteed within the meaning of Section 149(b) of the Code. For purposes of this representation, no principal user of the financed property has entered into any leases of the financed property to, or sales or service contracts with, any federal government agency.

11. The costs of the issuance of the Bonds including, but not limited to, underwriter's spread, counsel fees, financial advisor fees, rating agency fees, trustee fees incurred in connection with the borrowing, paying agent and certifying and authenticating agent fees related to the issuance of the Bonds, accountant fees, printing costs and costs incurred in obtaining public approval of the Bonds, paid from the proceeds of the Bonds or investment earnings thereon, will not exceed 2% of the aggregate face amount of the Bonds.

12. The Company hereby represents that the information contained in the certificates or letters of representation of the Company with respect to the compliance with the requirements of Section 103 of the Code, including the information in Form 8038 (excluding the issue number and the employer identification number of the Issuer), filed by the Company on behalf of the Issuer with respect to the Bonds, and the Project is true and correct in all material respects.

LOAN AGREEMENT

between

LUZERNE COUNTY INDUSTRIAL DEVELOPMENT AUTHORITY

and

CULP, INC.

Dated as of December 1, 1996

Relating to
Tax-Exempt Adjustable Mode
Industrial Development Revenue Bonds
(Culp, Inc. Project)
Series 1996

in the aggregate principal amount of \$3,500,000

CERTAIN RIGHTS OF THE ISSUER UNDER THIS AGREEMENT HAVE BEEN ASSIGNED TO, AND ARE SUBJECT TO A SECURITY INTEREST IN FAVOR OF FIRST-CITIZENS BANK & TRUST COMPANY, AS TRUSTEE UNDER AN INDENTURE OF TRUST, DATED AS OF THE DATE FIRST ABOVE WRITTEN, AS AMENDED OR SUPPLEMENTED FROM TIME TO TIME. INFORMATION CONCERNING SUCH SECURITY INTEREST MAY BE OBTAINED FROM THE TRUSTEE AT 2917 HIGHWOODS BOULEVARD, RALEIGH, NORTH CAROLINA 27604, ATTENTION: CORPORATE TRUST DEPARTMENT.

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LOAN AGREEMENT

C-392210.02340.01188

-1-

THIS LOAN AGREEMENT, dated as of December 1, 1996, is made and entered into by and between LUZERNE COUNTY INDUSTRIAL DEVELOPMENT AUTHORITY (the "Issuer"), a political subdivision duly organized and existing under the Constitution and laws of the State of Pennsylvania (the "State"), and CULP, INC. (the "Company"), a North Carolina corporation;

W I T N E S S E T H:

WHEREAS, the Issuer is a body corporate and politic and a political subdivision of the State and is authorized pursuant to the Pennsylvania Economic Development Financing Law (Act of August 23, 1967, P.L. 251, Section 1), as amended (the "Act"), to make loans to private persons for the acquisition, construction, and equipping of manufacturing facilities for industry in Luzerne County, Pennsylvania and to issue its bonds from time to time for such purpose; and

WHEREAS, in order to further the purposes of the Act, the Issuer will issue and sell its Tax-Exempt Adjustable Rate Industrial Revenue Bonds (Culp, Inc. Project) Series 1996 in an aggregate principal amount of \$3,500,000 (the "Bonds"); and

WHEREAS, the proceeds from the sale of Bonds will be used to make a loan (the "Loan") to the Company to finance, or to reimburse to the Company, a portion of the cost of the acquisition and installation of equipment in an existing manufacturing facility in Luzerne County leased by the Company (the "Project"); and

WHEREAS, the Issuer intends to issue the Bonds under an Indenture of Trust dated as of even date herewith between First-Citizens Bank & Trust Company (the "Trustee") and the Issuer (the "Indenture") and to assign to the Trustee as security for the Bonds certain of the Issuer's rights under this Agreement and the Company's Note of even date herewith, in the form attached hereto as Exhibit C; and

WHEREAS, the Issuer and the Company desire to set forth certain terms and conditions with respect to the issuance of the Bonds;

NOW, THEREFORE, in consideration of the premises and the mutual covenants hereinafter contained, the parties hereto covenant, agree and bind themselves as follows;

ARTICLE IARTICLE I

DEFINITIONS AND RULES OF CONSTRUCTION

Section I.1. Definitions. In addition to the words and terms elsewhere defined in this Agreement, the following words and terms as used herein shall have the following meanings unless the context or use clearly indicates another or different meaning or intent, and any other words and terms defined in the Indenture shall have the same meanings when used herein as assigned in the Indenture unless the context or use clearly indicates another or different meaning or intent:

"Acquisition", when used with reference to the Project, means acquisition, construction, installation and equipping.

"Agreement" shall mean this Loan Agreement between the Issuer and the Company and any modifications, alterations and supplements hereto made in accordance with the provisions hereof and of the Indenture.

"Bond Documents" means, collectively, the Bonds, this Agreement, the Note, the Indenture, the Credit Facility, the Credit Agreement, the Placement Agreement, the Remarketing Agreement and the Offering Memorandum.

"Bond Proceeds" means the principal of the Bonds and any investment earnings thereon while on deposit in the Initial Fund.

"Company Representative" means any one of the persons at the time designated to act on behalf of the Company by written certificate furnished to the Issuer and the Trustee containing the specimen signatures of such persons and signed on behalf of the Company by the President or any Vice President of the Company.

"Completion Date" means, with respect to the Project, the date on which the Company Representative delivers a completion certificate to the Trustee pursuant to Section 3.3.

"Cost(s) of the Project", "Cost" or "Costs" means all costs and allowances which the Issuer or the Company may properly pay or accrue for the Project and which, under generally accepted accounting principles, are chargeable to the capital account of the Project or could be so charged either with a proper election to capitalize such costs or, but for a proper election, to expense such costs, including (without limitation) the following costs:

(a) fees and expenses incurred in preparing the plans and specifications for the Project (including any preliminary study or planning or any aspect thereof); any labor, services, materials and supplies used or furnished in site improvement and construction; any equipment for the Project; and any acquisition necessary to provide utility services or other services, including trackage to provide the Project with public transportation facilities, roadways, parking lots, water supply, sewage and waste disposal facilities; and all real and tangible personal property deemed necessary by the Company and acquired in connection with the Project;

(b) fees for architectural, engineering, supervisory and consulting services;

(c) any fees and expenses incurred in connection with perfecting and protecting title to the Project and any fees and expenses incurred in connection with preparing, recording or filing such documents, instruments or financing statements as either the Company or the Issuer may deem desirable to perfect or protect the rights of the Issuer or the Trustee under the Bond Documents;

(d) any legal, accounting or financial advisory fees and

expenses, including, without limitation, fees and expenses of Bond Counsel and counsel to the Issuer, the Company, the Credit Issuer, the Placement Agent, the Remarketing Agent or the Trustee, any fees and expenses of the Issuer, Trustee, Remarketing Agent, Placement Agent, Credit Issuer, Tender Agent, Paying Agent or any rating agency, filing fees, and printing and engraving costs, incurred in connection with the authorization, issuance, sale and purchase of the Bonds, and the preparation of the Bond Documents and all other documents in connection with the authorization, issuance and sale of the Bonds;

(e) interest to accrue on the Bonds during construction of the Project;

(f) any administrative or other fees charged by the Issuer or reimbursement thereto of expenses in connection with the Project until the Completion Date; and

(g) any other costs and expenses relating to the Project which could constitute costs or expenses for which the Issuer may expend Bond proceeds under the Act.

"Eminent Domain" means the taking of title to, or the temporary use of, the Project or any part thereof pursuant to eminent domain or condemnation proceedings, or by any settlement or compromise of such proceedings, or any voluntary conveyance of the Project or any part thereof during the pendency of, or as a result of a threat of, such proceedings.

"Event of Default" shall have the meaning set forth in Section 10.1.

"Governing Body" means the board, commission, council or other body in which the general legislative powers of the Issuer are vested.

"Issuer Representative" means any one of the persons at the time designated to act on behalf of the Issuer by written certificate furnished to the Company and the Trustee containing the specimen signatures of such persons and signed on behalf of the Issuer by its Chairman or Vice Chairman.

"Net Proceeds", when used with respect to any proceeds of insurance or proceeds resulting from Eminent Domain, means the gross proceeds therefrom less all expenses (including attorneys' fees) incurred in realization thereof.

"Offering Memorandum" means the Preliminary Offering Memorandum and the final Offering Memorandum prepared and used in connection with the initial placement of the Bonds on the Issue Date.

"Plans and Specifications" shall mean the plans and specifications used in the Acquisition of the Project, as the same may be revised from time to time by the Company in accordance with Section 3.8.

"Project" means the project more fully described in Exhibit-A hereto, as the same may at any time exist.

"Remarketing Agreement" means the Remarketing and Interest Services Agreement, dated as of December 1, 1996, between the Company and the Remarketing Agent.

"Tax Regulations" means the applicable treasury regulations promulgated under the Code or under Section 103 of the Internal Revenue Code of 1954, as amended, whether at the time proposed, temporary, final or otherwise.

Rules of Construction. Unless the context clearly indicates to the contrary, the following rules shall apply to the construction of this Agreement:

(a) Capitalized terms used but not defined in this Agreement shall have the meaning ascribed to them in the Indenture.

(b) Words importing the singular number shall include the plural number and vice versa.

(c) The table of contents, captions and headings herein are solely for convenience of reference only and shall not constitute a part of this Agreement nor shall they affect its meaning, construction or effect.

(d) Words of the masculine gender shall be deemed and construed to include correlative words of the feminine and neuter genders, and words of the neuter gender shall be deemed and construed to include correlative words of the masculine and feminine genders.

(e) All references in this Agreement to particular Articles or Sections are references to Articles and Sections of this Agreement, unless otherwise indicated.

ARTICLE IIARTICLE II

REPRESENTATIONS

Section II.1. Representations by the Issuer. The Issuer represents and warrants as follows:

(a) The Issuer is a duly constituted public body corporate and politic of the State within the meaning of the Act and is authorized by the Act to execute and to enter into this Agreement and to undertake the transactions contemplated herein and to carry out its obligations hereunder.

(b) The Issuer has all requisite power, authority and legal right to execute and deliver the Bond Documents to which it is a party and all other instruments and documents to be executed and delivered by the Issuer pursuant thereto, to perform and observe the provisions thereof and to carry out the transactions contemplated by the Bond Documents. All corporate action on the part of the Issuer which is required for the execution, delivery, performance and observance by the Issuer of the Bond Documents has been duly authorized and effectively taken, and such execution, delivery, performance and observation by the Issuer do not contravene applicable law or any contractual restriction binding on or affecting the Issuer.

(c) The Issuer has duly approved the issuance of the Bonds and the loan of the proceeds thereof to the Company for the Acquisition of the Project; no other authorization or approval or other action by, and no notice to or filing with, any governmental authority or regulatory body is required as a condition to the performance by the Issuer of its obligations under any Bond Documents.

(d) This Agreement is, and each other Bond Document to which the Issuer is a party when delivered will be, legal valid and binding special obligations of the Issuer enforceable against the Issuer in accordance with its terms.

(e) There is no default of the Issuer in the payment of the principal of or interest on any of its indebtedness for borrowed money or under any instrument or instruments or agreements under and subject to which any indebtedness for borrowed money has been incurred which does or could affect the validity and enforceability of the Bond Documents or the ability of the Issuer to perform its obligations thereunder, and no event has occurred and is continuing under the provisions of any such instrument or agreement which constitutes or, with the lapse of time or the giving of notice, or both, would constitute such a default.

(f) With respect to the Bonds, there are no other obligations of the Issuer that have been, are being or will be sold (i) at substantially the same time, (ii) under a common plan of marketing, and (iii) at substantially the same rate of interest.

(g) There is pending or, to the knowledge of the undersigned officers of the Issuer, threatened no action or proceeding before any court, governmental agency or arbitrator (i) to restrain or enjoin the issuance or delivery of the Bonds or the collection of any revenues pledged under the Indenture, (ii) in any way contesting or affecting the authority for the issuance of the Bonds or the validity of any of the Bond Documents, or (iii) in any way contesting the existence or powers of the Issuer.

(h) In connection with the authorization, issuance and sale of the Bonds, the Issuer has complied with all provisions of the Constitution and laws of the State, including the Act.

(i) The Issuer has not assigned or pledged and will not assign or pledge its interest in this Agreement for any purpose other than to secure the Bonds under the Indenture. The Bonds constitute the only bonds or other obligations of the Issuer in any manner payable from the revenues to be derived from this Agreement, and except for the Bonds, no bonds or other obligations have been or will be issued on the basis of this Agreement.

(j) The Issuer is not in default under any of the provisions of the laws of the State, where any such default would affect the issuance, validity or enforceability of the Bonds or the transactions contemplated by this Agreement or the Indenture.

Representations by the Company. The Company represents and warrants as follows:

(a) The Company is a corporation duly incorporated, validly existing and in good standing under the laws of the state of North Carolina, is in good standing under the laws of the State, and has corporate and other legal power and authority to enter into and to perform the agreements and covenants on its part contained in the Bond Documents to which it is a party, and has duly authorized the execution, delivery and performance of the Bond Documents to which it is a party and has duly approved the Bond Documents.

(b) The execution and delivery of the Bond Documents to which it is a party, consummation of the transactions contemplated hereby and thereby and by the Bond Documents to which it is not a party, and the fulfillment of or compliance with the terms and conditions hereof and thereof will not conflict with or constitute a breach of or a default under the Company's articles of incorporation or bylaws or any agreement or instrument to which the Company is a party or any existing law, administrative regulation, court order or consent decree to which the Company is subject, or by which it or any of its property is bound.

(c) There is no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, public board or body, pending or threatened against or affecting the Company or any of its officers, nor to the best knowledge of the Company is there any basis therefor, wherein an unfavorable decision, ruling or finding would materially adversely affect the transactions contemplated by this Agreement or that would adversely affect, in any way, the validity or enforceability of any of the Bond Documents or any other agreement or instrument to which the Company is a party and that is to be used or contemplated for use in the consummation of the transactions contemplated hereby.

(d) No further authorizations, consents or approvals of governmental bodies or agencies are required in connection with the execution and delivery by the Company of this Agreement or the other Bond Documents to which the Company is a party or in connection with the carrying out by the Company of its obligations under this Agreement or the other Bond Documents to which the Company is a party.

(e) The financing of the Project as provided under this Agreement, and commitments therefor made by the Issuer have induced the Company to expand or locate its operations in the jurisdiction of the Issuer.

(f) The Company anticipates that upon completion of the Acquisition of the Project, the Company will operate the Project as a "project" within the meaning of the Act until the Bonds have been paid in full.

(g) The Project is of the type authorized and permitted by the Act, and the Project is substantially the same in all material respects to that described in the notice of public hearing published on September 1, 1996.

(h) The Project will be acquired, constructed and installed and will be operated by the Company in such manner as to conform with all applicable zoning, planning, building, environmental and other regulations of the governmental authorities having jurisdiction over the Project.

(i) The Company will cause all of the proceeds of the Bonds to be applied solely to the payment of Costs of the Project.

(j) The Company has taken no action, and has not omitted to take any action, which action or omission to take action would in any way affect or impair the excludability of interest on the Bonds from gross income of the Holders thereof for federal income tax purposes.

(k) The Company presently in good faith estimates the Cost of the Project to equal or exceed the original principal amount of the Bonds.

(l) The Project will be located wholly within Luzerne County, Pennsylvania.

ARTICLE IIIARTICLE III

ACQUISITION OF THE PROJECT

Section III.1. Agreement to Undertake and Complete the Project. The Company covenants and agrees to undertake and complete the Acquisition of the Project. Upon written request of the Issuer or the Trustee, the Company agrees to make available to the Issuer and the Trustee (for review and copying) all the then current Plans and Specifications for the Project.

The Company agrees to cause the Project to be completed as soon as may be practicable and to cause all proceeds of the Bonds, including

investment earnings, to be expended no later than three years from the Issue Date. For Costs of the Project incurred prior to receipt by the Issuer of the proceeds of the Bonds, the Company agrees to advance all funds necessary for such purpose. Such advances may be reimbursed from the Initial Fund to the extent permitted by Section 3.2.

The Company shall obtain or cause to be obtained all necessary permits and approvals for the Acquisition, operation and maintenance of the Project.

Disbursements from the Initial Fund. In the Indenture, the Issuer has authorized and directed the Trustee to use the moneys in the Initial Fund for payment or reimbursement to the Company of the Costs of the Project.

Each payment for a Cost of the Project shall be made only upon the receipt by the Trustee and, upon written request therefor, the Issuer of a requisition and certificate, substantially in the form attached hereto as Exhibit B and signed by the Company Representative.

The Company agrees that it will not request any disbursement which, if paid, would result in (i) less than substantially all (at least ninety-five percent (95%)) of the proceeds of the Bonds being used to provide land or property subject to the allowance for depreciation under Section 167 of the Code, constituting the Project, (ii) less than all of the proceeds of the Bonds being used to provide the Project under the Act, or (iii) the inclusion of the interest on any of the Bonds in the gross income of any Holder for purposes of federal income taxation (as long as such Holder is not a "related person" or a "substantial user" of the Project as such terms are used in Section 144 of the Code).

Interest on the Bonds and all legal, consulting and issuance expenses shall be set forth separately in any requisition and certificate requesting payment therefor. Such requisitions and certificates shall be consecutively numbered. Upon request, the Company shall furnish the Issuer or the Trustee with copies of invoices or other appropriate documentation supporting payments or reimbursements requested pursuant to this Section 3.2. The Issuer and the Trustee may rely conclusively upon any statement made in any such requisition and certificate.

Section III.3. Establishment of Completion Date and Certificate as to Completion. The Completion Date shall be the date on which the Company Representative signs and delivers to the Trustee a certificate stating that, except for amounts retained by the Trustee for Costs of the Project not then due and payable, or the liability for which the Company is, in good faith, contesting or disputing, (a) the Project has been completed to the satisfaction of the Company, and all labor, services, materials and supplies used in such Acquisition have been paid for, and (b) the Project is suitable and sufficient for the efficient operation as a "project" (as defined in the Act).

Notwithstanding the foregoing, such certificate may state that it is given without prejudice to any rights against third parties which exist at the date of such certificate or which may subsequently come into being.

Section III.4. Closeout of Initial Fund; Disposition of Balance in Initial Fund. All moneys and any unliquidated investments remaining in the Initial Fund on the Completion Date and after payment in full of the Costs of the Project (except for costs not then due and payable for the payment of which the Trustee shall have retained amounts as hereinafter provided) shall, as soon as practicable after the Completion Date, and no later than ninety days thereafter, at the direction of the Company, be delivered to the Trustee for deposit in the Surplus Fund. The Trustee shall, at the direction of the Company Representative, retain moneys in the Initial Fund for payment of Costs of the Project not then due and payable. Any balance of such retained funds remaining after full payment of such Costs of the Project shall at the direction of the Company be delivered to the Trustee for deposit in the Surplus Fund to be applied to the redemption of Bonds in accordance with the terms of the Indenture.

Section III.5. Company Required to Pay Costs in Event Initial Fund Insufficient. If the moneys in the Initial Fund available for payment of the Costs of the Project should not be sufficient to make such payments in full, the Company agrees to pay directly (or to deposit moneys in the Initial Fund for the payment of) such costs of completing the Project as may be in excess of the moneys available therefor in the Initial Fund. THE ISSUER DOES NOT MAKE ANY WARRANTY OR REPRESENTATION (EITHER EXPRESS OR IMPLIED) THAT THE MONEYS DEPOSITED INTO THE INITIAL FUND AND AVAILABLE FOR PAYMENT OF THE COSTS OF THE PROJECT, UNDER THE PROVISIONS OF THIS AGREEMENT, WILL BE SUFFICIENT TO PAY ALL OF THE COSTS OF THE PROJECT. If, after exhausting the moneys in the

Initial Fund for any reason (including, without limitation, losses on investments made by the Trustee under the Indenture), the Company pays, or deposits moneys in the Initial Fund for the payment of, any portion of the Costs of the Project pursuant to the provisions of this Section 3.5, the Company shall not be entitled to any reimbursement therefor from the Issuer or from the Trustee, nor shall it be entitled to any diminution of the amounts payable under Section-5.2.

Section III.6. Company and Issuer Representatives and Company and Issuer Representatives and Successors. At or prior to the initial sale of the Bonds, the Company and the Issuer shall appoint a Company Representative and an Issuer Representative, respectively, for the purpose of taking all actions and delivering all certificates required to be taken and delivered by the Company Representative and the Issuer Representative under the provisions of this Agreement. The Company and the Issuer, respectively, may appoint alternate Company Representatives and alternate Issuer Representatives to take any such action or make any such certificate if the same is not taken or made by the Company Representative or the Issuer Representative. In the event any of such persons, or any successor appointed pursuant to the provisions of this Section 3.6, should resign or become unavailable or unable to take any action or deliver any certificate provided for in this Agreement, another Company Representative or alternate Company Representative, or another Issuer Representative or alternate Issuer Representative, shall thereupon be appointed by the Company or the Issuer, respectively. If the Company or the Issuer fails to make such designation within ten (10) days following the date when the then incumbent Company Representative or Issuer Representative resigns or becomes unavailable or unable to take any such actions, the President or any Vice President of the Company, or the Chairman or the Vice Chairman of the Issuer, shall serve as the Company Representative or the Issuer Representative, respectively.

Whenever the provisions of this Agreement require the Company's approval or require the Issuer or the Trustee to take some action at the request or direction of the Company, the Company Representative shall make such approval or such request or direction in writing unless otherwise specified in this Agreement. Any action so taken with the written approval of or at the written direction of the Company Representative shall be binding upon the Company.

Investment of Moneys in Funds. The Trustee may invest or reinvest any moneys held pursuant to the Indenture to the extent permitted by Section 4.7 of the Indenture and by law (but subject to the provisions of Section 8.9(a) hereof), in Permitted Investments, as defined in the Indenture, as directed by a Company Representative.

Any such securities may be purchased at the offering or market price thereof at the time of such purchase.

The Trustee may make any and all such investments through its own bond department or trust investments department. Any interest accruing on or profit realized from the investment of any moneys held as part of the Initial Fund shall be credited to the Initial Fund, and any loss resulting from such investment shall be charged to the Initial Fund. Any interest accruing on or profit realized from the investment of any moneys held as a part of the Bond Fund shall be credited to the Bond Fund, and any loss resulting from such investment shall be charged to the Bond Fund. Neither the Issuer nor the Trustee shall be liable for any loss resulting from any such investments, provided the Trustee has performed its respective obligations under Section 4.7 of the Indenture in accordance with Section 7.1(b) of the Indenture. For the purposes of this Section 3.7, any interest-bearing deposits, including certificates of deposit, issued by or on deposit with the Trustee shall be deemed to be investments and not deposits.

Plans and Specifications. The Company shall maintain a set of Plans and Specifications at the Project which shall be available to the Issuer and the Trustee for inspection and examination during the Company's regular business hours. The Issuer, the Trustee and the Company agree that the Company may supplement, amend and add to the Plans and Specifications, and that the Company shall be authorized to omit or make substitutions for components of the Project, without the approval of the Issuer and the Trustee, provided that no such change shall be made which, after giving effect to such change, would cause any of the representations and warranties set forth in Section 2.2 hereof to be false or misleading in any material respect, or would result in a violation of the covenant set forth in Section 8.5. If any such change would render materially incorrect or inaccurate the description of the initial components of the Project as set forth in Exhibit A to this Agreement, the Company shall deliver to the Issuer and the Trustee an opinion of Bond Counsel to the effect that such change will not cause the interest on the Bonds to be includable in the gross income of the owners thereof for federal income tax purposes, and thereafter, the Company and the Issuer shall amend such Exhibit A to reflect such change. No approvals of the Issuer and

the Trustee shall be required for the Acquisition of the Project or for the solicitation, negotiation, award or execution of contracts relating thereto.

ARTICLE IVARTICLE IV

ISSUANCE OF THE BONDS

Section IV.1. Agreement to Issue the Bonds. To provide funds for the Acquisition of the Project, the Issuer agrees that it will sell, issue and deliver the Bonds in the aggregate principal amount of \$3,500,000 to the initial purchasers thereof and will cause the proceeds of the Bonds to be applied as provided in Section 4.5 of the Indenture.

No Third-Party Beneficiary. It is specifically agreed between the parties executing this Agreement that it is not intended by any of the provisions of any part of this Agreement to establish in favor of the public or any member thereof, other than as expressly provided herein or as contemplated in the Indenture, the rights of a third-party beneficiary hereunder, or to authorize anyone not a party to this Agreement to maintain a suit for personal injuries or property damage pursuant to the terms or provisions of this Agreement. The duties, obligations and responsibilities of the parties to this Agreement with respect to third parties shall remain as imposed by law.

ARTICLE VARTICLE V

LOAN; PAYMENT PROVISIONS

Section V.1. Loan of Proceeds. The Issuer agrees, upon the terms and conditions contained in this Agreement and the Indenture, to lend to the Company the proceeds received by the Issuer from the sale of the Bonds. The loan shall be made by depositing the accrued interest, if any, from the initial sale of the Bonds into the Bond Fund and the remainder of said proceeds in the Initial Fund in accordance with Section 4.5 of the Indenture. Such proceeds shall be disbursed to or on behalf of the Company as provided in Section-3.2. The Company's obligation to repay the loan shall be evidenced by a Promissory Note, the form of which is attached hereto as Exhibit C, dated the Issue Date.

Amounts Payable. The Company hereby agrees to pay the Note and repay the loan made pursuant to this Agreement by making the following payments:

(a) The Company shall pay or cause to be paid to the Trustee in immediately available funds for the account of the Issuer for deposit into the Bond Fund on or before any Interest Payment Date for the Bonds or any other date that any payment of interest, premium, if any, or principal is required to be made in respect of the Bonds pursuant to the Indenture, until the principal of, premium, if any, and interest on the Bonds shall have been fully paid or provision for the payment thereof shall have been made in accordance with the Indenture, a sum which, together with any Eligible Funds available for such payment in the Bond Fund, will enable the Trustee to pay the amount payable on such date as principal of (whether at maturity or upon redemption or acceleration or otherwise), premium, if any, and interest on the Bonds as provided in the Indenture; provided, however, that the obligation of the Company to make any payment hereunder shall be deemed satisfied and discharged to the extent of the corresponding payment made by the Credit Issuer under the Credit Facility.

It is understood and agreed that the Note and all payments payable by the Company under this subsection are assigned by the Issuer to the Trustee for the benefit of the Holders. The Company assents to such assignment. The Issuer hereby directs the Company and the Company hereby agrees to pay to the Trustee at the principal corporate trust office of the Trustee all payments payable by the Company pursuant to the Note and this subsection.

(b) The Company will also pay the reasonable fees and expenses of the Issuer, the Trustee, the Tender Agent, the Paying Agent, the Placement Agent, the Remarketing Agent and the Registrar under the Indenture and all other amounts which may be payable to the Trustee, Paying Agent, Registrar or the Tender Agent under Section 7.2 of the Indenture, and the reasonable fees and expenses of the Remarketing Agent, such fees and expenses to be paid when due and payable by the Company directly to the Trustee, Tender Agent, Paying Agent, Registrar and Remarketing Agent, respectively, for their own account.

(c) The Company will also pay when due and payable the reasonable fees and expenses of the Issuer related to the issuance of the Bonds, including without limitation, attorneys' fees and expenses.

(d) The Company covenants, for the benefit of the Holders, to pay or cause to be paid, to the Paying Agent, such amounts as shall be necessary to enable the Paying Agent to pay the Purchase Price of Bonds

delivered to the Tender Agent or the Remarketing Agent, as the case may be, for purchase, all as more particularly described in Section 2.6 of the Indenture; provided, however, that the obligation of the Company to make any such payment under this Section 5.2(d) shall be reduced by the amount of moneys available for such payment described in Section 2.6(g)(i) and (ii) of the Indenture; and provided, further, that the obligation of the Company to make any payment under this Section 5.2(d) shall be deemed to be satisfied and discharged to the extent of the corresponding payment made by the Credit Issuer under the Credit Facility.

(e) In the event the Company shall fail to make any of the payments required in this Section 5.2, the item or installment so in default shall continue as an obligation of the Company until the amount in default shall have been fully paid.

Unconditional Obligations. The obligation of the Company to make the payments required by Section 5.2 shall be absolute and unconditional. The Company shall pay all such amounts without abatement, diminution or deduction (whether for taxes or otherwise) regardless of any cause or circumstance whatsoever including, without limitation, any defense, set-off, recoupment or counterclaim that the Company may have or assert against the Issuer, the Trustee or any other Person.

Prepayments. The Company may prepay all or any part of the amounts required to be paid by it under Section 5.2, at the times and in the amounts provided in Article XI for redemption of the Bonds, and in the case of mandatory redemptions of the Bonds, the Company shall cause to be furnished to the Issuer such amounts on or prior to the applicable redemption dates. Prepayment of amounts due hereunder pursuant to this Section 5.4 shall be deposited in the Bond Fund.

Credits Against Payments. To the extent that principal of, Purchase Price, premium, if any, or interest on the Bonds shall be paid with moneys available under the Credit Facility, from remarketing proceeds (with respect to Purchase Price) or other sources available under the Indenture, the obligation of the Company to make payments required by Section 5.2 shall be satisfied and discharged to the extent of the principal of, Purchase Price, premium, if any, or interest on the Bonds so paid. If the principal of and premium, if any, and interest on the Bonds shall have been paid sufficiently that payment of the Bonds shall have occurred in accordance with Article V of the Indenture, then the obligations of the Company pursuant to Section 5.2, ipso facto, shall be deemed to have been paid in full, and the Company's obligations under Section 5.2 and this Agreement shall be discharged.

Credit Facility and Alternate Credit Facility. The Company shall provide for the payment of amounts payable pursuant to Section 5.2(a) and (d) herein, by the delivery to the Trustee on the Issue Date of the Original Credit Facility. The Company shall be entitled to terminate the Credit Facility as provided therein and in the Indenture and shall be entitled to provide an Alternate Credit Facility under certain circumstances as provided in the Indenture.

Interest Rate Determination Method. The Company is hereby granted the right to designate from time to time changes in the Interest Rate Determination Method (as defined in the Indenture) in the manner and to the extent set forth in Section 2.4 of the Indenture.

ARTICLE VIARTICLE VI

MAINTENANCE AND TAXES

Section VI.1. Company's Obligations to Maintain and Repair. The Company agrees that during the term of this Agreement it will keep and maintain the Project in good condition, repair and working order, ordinary wear and tear excepted, at its own cost, and will make or cause to be made from time to time all necessary repairs thereto (including external and structural repairs) and renewals and replacements thereto.

Taxes and Other Charges. The Company will promptly pay and discharge or cause to be promptly paid and discharged, as the same become due, all taxes, assessments, governmental charges or levies and all utility and other charges incurred in the operation, maintenance, use, occupancy and upkeep of the Project imposed upon it or in respect of the Project before the same shall become in default, as well as all lawful claims which, if unpaid, might become a lien or charge upon such property and assets or any part thereof, except such that are contested in good faith by the Company for which the Company has maintained adequate reserves satisfactory to the Credit Issuer, or in the absence of any Credit Issuer, satisfactory to the Issuer and the Trustee.

ARTICLE VIIARTICLE VII

INSURANCE, EMINENT DOMAIN AND DAMAGE AND DESTRUCTION

Section VII.1. Insurance. The Company will during the term of this Agreement and at all times while any Bonds are outstanding continuously insure the Project against such risks as are customarily insured against by businesses of like size and type, paying as the same become due all premiums in respect thereof. In addition the Company shall comply, or cause compliance, with applicable worker's compensation laws of the State.

Provisions Respecting Eminent Domain. In case of any damage to or destruction of all or any part of the Project exceeding \$50,000, the Company shall give prompt written notice thereof to the Issuer and the Trustee. In case of a taking or proposed taking of all or any part of the Project or any right therein by Eminent Domain, the party upon which notice of such taking is served shall give prompt written notice to the other and to the Trustee. Each such notice shall describe generally the nature and extent of such damage, destruction, taking, loss, proceedings or negotiations.

Damage and Destruction. If at any time while any of the Bonds are Outstanding, the Project, or any portion thereof, shall be damaged or destroyed by fire, flood, windstorm or other casualty, or title to, or the temporary use of, the Project, or any portion thereof, shall have been taken by the power of Eminent Domain, the Company (unless it shall have exercised its option to prepay all of the Bonds) shall cause the Net Proceeds from insurance or condemnation or an amount equal thereto to be used for the repair, reconstruction, restoration or improvement of the Project. Notwithstanding the above, so long as the Credit Facility is outstanding, the Company shall comply with the terms of the Credit Agreement related to the use of insurance proceeds.

ARTICLE VIII

SPECIAL COVENANTS

Section VIII.1. Access to the Property and Inspection. The Issuer and the Trustee, and their respective agents and employees, shall have the right, at all reasonable times during normal business hours of the Company upon the furnishing of reasonable notice to the Company under the circumstances, to enter upon and examine and inspect the Project and to examine and copy the books and records of the Company insofar as such books and records relate to the Project or the Bond Documents.

Financial Statements. The Company shall, upon request, deliver to the Trustee and the Issuer as soon as practicable and in any event within 120 days after the end of each fiscal year of the Company, the financial reports of the Company for such fiscal year.

Further Assurances and Corrective Instruments.es and Corrective Instruments

(a) Subject to the provisions of the Indenture, the Issuer and the Company agree that they will, from time to time, execute, acknowledge and deliver, or cause to be executed, acknowledged and delivered, such supplements and amendments hereto and such further instruments as may reasonably be required for carrying out the intention or facilitating the performance of this Agreement.

(b) The Company shall cause this Agreement to be kept recorded and filed in such manner and in such places as may be required by law to fully preserve and protect the security of the Holders and the rights of the Trustee and to perfect the security interest created by the Indenture.

Recording and Filing; Other Instruments.and Filing; Other Instruments

(a) The Company covenants that it will cause continuation statements to be filed as required by law in order fully to preserve and to protect the rights of the Trustee or the Issuer in the assignment of certain rights of the Issuer under this Agreement and otherwise under the Indenture. The Company covenants that it will cause Counsel to render an opinion to the Issuer and to the Trustee not earlier than 60 nor later than 30 days prior to each anniversary date occurring at five-year intervals after the issuance of the Bonds to the effect that all Financing Statements, notices and other instruments required by applicable law, including this Agreement, have been recorded or filed or re-recorded or re-filed in such manner and in such places required by law in order to fully preserve and protect the rights of the Trustee in the assignment of certain rights of the Issuer under this Agreement and otherwise under the Indenture.

(b) The Company and the Issuer shall execute and deliver all instruments and shall furnish all information and evidence deemed necessary or advisable in order to enable the Company to fulfill its obligations as

provided in Section 8.4(a). The Company shall file and re-file and record and re-record or shall cause to be filed and re-filed and recorded and re-recorded all instruments required to be filed and re-filed and recorded or re-recorded and shall continue or cause to be continued the liens of such instruments for so long as any of the Bonds shall be Outstanding.

Section VIII.5. Exclusion from Gross Income for Federal Income Tax Purposes of Interest on the Bonds. The Company covenants and agrees that it has not taken and will not take or cause to be taken, and has not omitted and will not omit or cause to be omitted, any action which will result in interest paid on the Bonds being included in gross income of the Holders of the Bonds for the purposes of federal income taxation.

The Company covenants and agrees that it will take or cause to be taken all required actions necessary to preserve the exclusion from gross income for federal income tax purposes of interest on the Bonds; and the Issuer covenants and agrees that it will take or cause to be taken all required actions to preserve the exclusion from gross income for federal income tax purposes of interest on the Bonds.

Indemnity Against Claims. The Company will pay and discharge and will indemnify and hold harmless the Issuer and the Trustee, and their respective officers, employees and agents, from any taxes, assessments, impositions and other charges in respect of the Project. If any such claim is asserted, or any such lien or charge upon payments, or any such taxes, assessments, impositions or other charges, are sought to be imposed, the Issuer or the Trustee, as the case may be, will give prompt written notice to the Company; provided, however, that the failure to provide such notice will not relieve the Company of the Company's obligations and liability under this Section 8.6 and will not give rise to any claim against or liability of the Issuer or the Trustee. The Company shall have the sole right and duty to assume, and shall assume, the defense thereof, with counsel acceptable to the person on behalf of which the Company undertakes a defense, with full power to litigate, compromise or settle the same in its sole discretion.

Release and Indemnification. The Company shall at all times protect, indemnify and hold the Issuer, the Governing Body and the Trustee, and their respective members, directors, officers, employees, attorneys and agents, harmless against any and all liability, losses, damages, costs, expenses, taxes, causes of action, suits, claims, demands and judgments of any nature arising from or in connection with the Project or the financing of the Project, including, without limitation, all claims or liability resulting from, arising out of or in connection with the acceptance or administration of the Bond Documents or the trusts thereunder or the performance of duties under the Bond Documents or any loss or damage to property or any injury to or death of any person that may be occasioned by any cause whatsoever pertaining to the Project or the use thereof, including without limitation any lease thereof or assignment of its interest in this Agreement, such indemnification to include the reasonable costs and expenses of defending itself or investigating any claim of liability and other reasonable expenses and attorneys' fees incurred by the Issuer, the Governing Body and the Trustee, and their respective members, directors, officers, employees, attorneys and agents, in connection therewith, provided that the benefits of this Section 8.7 shall not inure to any person other than the Issuer, the Trustee, the Governing Body, their respective members, directors, officers, employees, attorneys and agents, and provided further that such loss, damage, death, injury, claims, demands or causes shall not have resulted from the gross negligence or willful misconduct of, the Issuer or such members, directors, officers, employees, attorneys and agents. The obligations of the Company under this Section 8.7 shall survive the termination of this Agreement and the Indenture. Notwithstanding any other provision of this Agreement or the Indenture to the contrary, the Company agrees (i) not to assert any claim or institute any action or suit against the Trustee or its employees arising from or in connection with any investment of funds made by the Trustee in good faith as directed by a Company Representative, and (ii) to indemnify and hold the Trustee and its employees harmless against any liability, losses, damages, costs, expenses, causes of action, suits, claims, demands and judgments of any nature arising from or in connection with any such investment.

Compliance with Laws. The Company agrees to comply with all applicable zoning, planning, building, environmental and other regulations of the governmental authorities having jurisdiction of the Project during the Company's operation of the Project.

Non-Arbitrage Covenant. 9. Non-Arbitrage Covenant

(a) The Company and the Issuer covenant that they will (i) not take, or fail to take, any action or make any investment or use of the proceeds of the Bonds that would cause the Bonds to be "arbitrage bonds"

within the meaning of Section 148 of the Code and (ii) comply with the requirements of Section 148 of the Code.

(b) In the event that all of the proceeds of the Bonds, including the investment proceeds thereof, are not expended by the date which is six (6) months following the Issue Date, or if for any other reason a rebate is payable to the United States pursuant to Section 148 of the Code, the Company shall calculate, or cause to be calculated, the Rebate Amount (as defined in the Indenture). The Company agrees to pay the amount so calculated, together with supporting documentation, to the Trustee so as to permit the Trustee to pay such rebate to the United States at the times required by the Code. The amount paid by the Company to the Trustee shall be deposited into the Rebate Fund. The Company shall maintain or cause to be maintained records of the determinations of the rebate, if any, pursuant to this Section 8.9(b) until six (6) years after the retirement of the Bonds. This Section 8.9(b) shall be construed in accordance with Section 148(f) of the Code, including, without limitation, any applicable tax regulations promulgated under the Code. Nothing contained in this Agreement or in the Indenture shall be interpreted or construed to require the Issuer to pay any applicable rebate, such obligation being the sole responsibility of the Company. The Company shall pay all fees, costs and expenses associated with calculation of the Rebate Amount (as defined in the Indenture) and upon request from the Issuer provide the Issuer with a copy of such calculation.

Notice of Determination of Taxability. Promptly after the Company first becomes aware of any Determination of Taxability or an event that could trigger a Determination of Taxability, the Company shall give written notice thereof to the Issuer, the Remarketing Agent and the Trustee.

No Purchase of Bonds by Company or Issuer. During the time a Credit Facility is in effect neither the Company, the Issuer nor any affiliates of any of them shall purchase any of the Bonds from the Remarketing Agent except under the circumstances under which the Remarketing Agent may remarket Bonds to the Company or the Issuer as provided in Section 2.7(d) of the Indenture.

Maintenance of Corporate Existence. enance of Corporate Existence

So long as a Credit Facility is in effect the Company agrees that it will maintain its corporate existence, will not dissolve or otherwise dispose of all or substantially all of its assets and will not consolidate with or merge into another corporation or permit one or more other corporations to consolidate with or merge into it, except either with the consent of the Credit Issuer or as provided in the original Credit Agreement; if a Credit Facility is not in effect, the Company agrees that it will continue to be a corporation either organized under the laws of or duly qualified to do business as a foreign corporation in the State, will maintain its corporate existence, will not dissolve or otherwise dispose of all or substantially all of its assets and will not consolidate with or merge into another corporation or permit one or more corporations to consolidate with or merge into it; provided, that the Company may, without violating the foregoing, consolidate with or merge into another corporation, or permit one or more corporations to consolidate with or merge into it, or transfer all or substantially all of its assets to another such corporation (and thereafter dissolve or not dissolve, as the Company may elect) if the corporation surviving such merger or resulting from such consolidation, or the corporation to which all or substantially all of the assets of the Company are transferred, as the case may be:

(i) is a corporation organized under the laws of the United States of America, or any state, district or territory thereof, and qualified to do business in the State;

(ii) shall expressly in writing assume all of the obligations of the Company contained in this Agreement;

(iii) has a consolidated tangible net worth (after giving effect to such consolidation, merger or transfer) of not less than the consolidated tangible net worth of the Company and its consolidated subsidiaries immediately prior to such consolidation, merger or transfer; and

(iv) provided that no Event of Default has occurred and is continuing hereunder.

The term "consolidated tangible net worth," as used in this Section, shall mean the difference obtained by subtracting total consolidated liabilities (not including as a liability any capital or surplus item) from total consolidated tangible assets of the Company and all of its consolidated subsidiaries, computed in accordance with generally accepted accounting principles. Prior to any such consolidation, merger or transfer the Trustee shall be furnished a certificate from the chief financial officer of the Company or his/her deputy stating that in the opinion of such officer none of

the covenants in this Agreement will be violated as a result of said consolidation, merger or transfer.

Company Approval of Indenture. The Company understands that the Issuer will, pursuant to the Indenture and as security for the payment of the principal of, premium, if any, and the interest on the Bonds, assign and pledge to the Trustee, and create a security interest in favor of the Trustee in certain of its rights, title and interest in and to this Agreement (including all payments hereunder) reserving, however, the Reserved Rights; and the Company hereby agrees and consents to such assignment and pledge. The Company acknowledges that it has received a copy of the Indenture for its examination and review. By its execution of this Agreement, the Company acknowledges that it has approved, has agreed to and is bound by the provisions of the Indenture. The Company agrees that the Trustee shall be entitled to enforce and to benefit from the terms and conditions of this Agreement that relate to it notwithstanding the fact that it is not a signatory hereto.

Duties and Obligations. The Company covenants and agrees that it will fully and faithfully perform all the duties and obligations that the Issuer has covenanted and agreed in the Indenture to cause the Company to perform and any duties and obligations that the Company is required in the Indenture to perform. The foregoing shall not apply to any duty or undertaking of the Issuer that by its nature cannot be delegated or assigned.

Non-Discrimination Covenant. Non-DiThe Company agrees that during the term of this Agreement, as to itself and as to each occupant of the Project controlling, controlled by or under common control with the Company (each, a "Contractor") as follows:

(a) Contractor shall not discriminate against any employee, applicant for employment, independent contractor or any other person because of race, color, religious creed, handicap, ancestry, national origin, age or sex. Contractor shall take affirmative action to insure that applicants are employed, and that employees or agents are treated during employment, without regard to their race, color, religious creed, handicap, ancestry, national origin, age or sex. Such affirmative action shall include, but is not limited to: employment, upgrading, demotion or transfer, recruiting or recruitment advertising; layoff or termination; rates of pay or other forms of compensation; and selection for training. Contractor shall post in conspicuous places, available to employees, agents, applicants for employment and other persons, a notice to be provided by the contracting agency setting forth the provisions of this Section 8.15.

(b) Contractor shall in advertisements or requests for employment placed by it or on its behalf, state that all qualified applicants will receive consideration for employment without regard to race, color, religious creed, handicap, ancestry, national origin, age or sex.

(c) Contractor shall send each labor union or workers' representative with which it has a collective bargaining agreement or other contract or understanding, a notice advising said labor union or workers' representative of its commitment to this Section 8.15. Similar notice shall be sent to every other source of recruitment regularly utilized by Contractor.

(d) It shall be no defense to a finding of noncompliance with this Section 8.15 that Contractor had delegated some of its employment practices to any union, training program or other source of recruitment which prevents it from meeting its obligations. However, if the evidence indicates that Contractor was not on notice of the third-party discrimination or made a good faith effort to correct it, such factor shall be considered in mitigation in determining appropriate sanctions.

(e) Where the practices of a union or of any training program or other source of recruitment will result in the exclusion of minority group persons, so that Contractor will be unable to meet its obligations under this Section 8.15, Contractor shall then employ and fill vacancies through other nondiscriminatory employment procedures.

(f) Contractor shall comply with all state and federal laws prohibiting discrimination in hiring or employment opportunities. In event of Contractor's noncompliance with this Section 8.15 or with any such laws, the maturity of the indebtedness to the Issuer pursuant to this Agreement may be accelerated pursuant to Section 10.2 of this Agreement, and Contractor may be declared temporarily ineligible for further contracts from the State, and other sanctions may be imposed and remedies invoked.

(g) Contractor shall furnish all necessary employment documents and records to, and permit access to its books, records and accounts by, the contracting agency for purposes of investigation to ascertain compliance with the provisions of this clause. If Contractor does not possess documents or records reflecting the necessary information requested, it shall furnish such

information on reporting forms supplied by the contracting agency.

(h) Contractor shall actively recruit minority subcontractors and women subcontractors or subcontractors with substantial minority or women representation among their employees.

(i) Contractor shall include the provisions of this Section 8.15 in every subcontract, so that such provisions will be binding upon each subcontractor.

(j) Contractor obligations under this clause are limited to Contractor's facilities within the State or, where the contract is for purchase of goods manufactured outside of the State, the facilities at which such goods are actually produced.

ARTICLE IX

ASSIGNMENT, LEASE AND SALE

Section IX.1. Restrictions on Transfer of Issuer's Rights. The Issuer agrees that, except for the assignment of its rights under this Agreement to the Trustee pursuant to the Indenture, it will not during the term of this Agreement sell, assign, transfer or convey its interests in this Agreement except as provided in Section 9.2.

Assignment by the Issuer. It is understood, agreed and acknowledged that the Issuer, as security for payment of the principal of and premium, if any, and interest on the Bonds, will assign to the Trustee pursuant to the Indenture, among other things, certain of its rights, title and interests in and to this Agreement (reserving its rights, however, pursuant to sections of this Agreement providing that notices, reports and other statements be given to the Issuer and that consents be obtained from the Issuer and also reserving its rights to reimbursement and payment of costs and expenses under Sections 5.2(b) and (c), its right of access under Section 8.1, and its rights to indemnification and non-liability under Sections 8.6, 8.7, 12.6 and 12.7, all of this Agreement). The Company consents to such assignment and agrees that the Trustee shall be entitled to enforce this Agreement directly against the Company as a third party beneficiary hereof.

Section IX.3. Assignment, Lease or Sale of Project or Assignment, Lease or Sale of Project or Assignment of Agreement by Company. With the prior written consent of the Trustee, the Issuer and if a Credit Facility is then in effect, the issuer of such Credit Facility (a) the rights of the Company under this Agreement may be assigned by the Company and (b) the Project may be leased or sold as a whole or in part by the Company; provided, however, that (i) no such assignment, lease or sale shall relieve the Company from primary liability for any of its obligations hereunder, and in the event of any assignment, lease or sale, the Company shall continue to remain primarily liable for payments to be made pursuant to the Note and hereunder and for the performance and observance of the other agreements on its part herein provided to be performed and observed by it to the same extent as though no assignment, lease or sale had been made, (ii) each lessee, purchaser or assignee of the Company's interest in this Agreement shall assume the obligations of the Company hereunder to the extent of the interest assigned, leased or sold, and the Company shall, not more than 60 nor less than 30 days prior to the effective date of any such assignment, lease or sale, furnish or cause to be furnished to the Issuer and the Trustee a true and complete copy of each such assignment, lease or purchase contract and assumption of obligations and (iii) prior to any lease or sale, the Company shall have caused to be delivered to the Issuer and the Trustee an opinion of Bond Counsel to the effect that such leasing or sale will not cause interest on the Bonds to be includable in the gross income of the owners thereof for purposes of federal income taxation.

ARTICLE XARTICLE X

EVENTS OF DEFAULT AND REMEDIES

Section X.1. Events of Default Defined. The term "Event of Default" shall mean any one or more of the following events:

(a) Failure by the Company to make any payments required to be paid pursuant to Section 5.2(a) or to pay the Purchase Price of Bonds as required pursuant to Section 5.2(d) herein;

(b) The occurrence of an Event of Default under the Indenture;

(c) Any representation by or on behalf of the Company contained in this Agreement or in any instrument furnished in compliance with or in reference to this Agreement or the Indenture proves false or misleading in

any material respect as of the date of the making or furnishing thereof;

(d) Failure by the Company to observe or perform any of its other covenants, conditions, payments or agreements under this Agreement for a period of 30 days after written notice, specifying such failure and requesting that it be remedied, is given to the Company by the Issuer or the Trustee;

(e) The Company shall (i) apply for or consent to the appointment of, or the taking of possession by, a receiver, custodian, assignee, sequestrator, trustee, liquidator or similar official of the Company or of all or a substantial part of its property, (ii) admit in writing its inability, or be generally unable, to pay its debts as such debts become due, (iii) make a general assignment for the benefit of its creditors, (iv) commence a voluntary case under the Federal Bankruptcy Code (as now or hereafter in effect), (v) file a petition seeking to take advantage of any other federal or state law relating to bankruptcy, insolvency, reorganization, arrangement, winding-up or composition or adjustment of debts, (vi) fail to controvert in a timely or appropriate manner, or acquiesce in writing to, any petition filed against the Company in an involuntary case under said Federal Bankruptcy Code, or (vii) take any corporate action for the purpose of effecting any of the foregoing;

(f) A proceeding or case shall be commenced, without the application or consent of the Company, in any court of competent jurisdiction, seeking (i) the liquidation, reorganization, arrangement, dissolution, winding-up or composition or adjustment of debts of the Company, (ii) the appointment of a trustee, receiver, custodian, assignee, sequestrator, liquidator or similar official of the Company or of all or any substantial part of its assets, or (iii) similar relief in respect of the Company under any law relating to bankruptcy, insolvency, reorganization, arrangement, winding-up or composition or adjustment of debts and such proceeding or case shall continue undismissed, or an order, judgment or decree approving or ordering any of the foregoing shall be entered and continue unstayed and in effect, for a period of 90 days from the commencement of such proceeding or case or the date of such order, judgment or decree, or an order for relief against the Company shall be entered in an involuntary case under said Federal Bankruptcy Code;

(g) If a Credit Facility is in effect, the Trustee shall have received a written notice from the Credit Issuer of the occurrence and continuance of an "Event of Default" (as defined in the Credit Agreement); or

(h) If a Credit Facility is in effect, the Trustee shall have received a written notice from the Credit Issuer that amounts which may be drawn upon under the Credit Facility with respect to interest (other than interest corresponding to the principal amount of Bonds which have been redeemed) will not be reinstated following any drawing for such interest.

Remedies on Default. Upon the occurrence of an Event of Default under this Agreement, the Trustee, as assignee of the Issuer, but only if acceleration of the principal amount of the Bonds has been declared pursuant to Section 6.2 of the Indenture, shall take any one or more of the following remedial steps:

(a) By written notice declare all payments hereunder and under the Note immediately due and payable, whereupon the same shall become immediately due and payable without presentment, demand, protest or any other notice whatsoever, all of which are hereby expressly waived by the Company.

(b) Take whatever other action at law or in equity may appear necessary or desirable to collect the amounts payable pursuant hereto and under the Note then due and thereafter to become due or to enforce the performance and observance of any obligation, agreement or covenant of the Company under this Agreement, including the making of any drawing under the Credit Facility.

In the enforcement of the remedies provided in this Section 10.2, the Issuer and the Trustee may treat all reasonable expenses of enforcement, including, without limitation, legal, accounting and advertising fees and expenses, as additional amounts payable by the Company then due and owing.

Section X.3. Application of Amounts Realized in Enforcement of Remedies. Any amounts collected pursuant to action taken under Section 10.2 shall be paid to the Trustee and applied in accordance with Section 6.7 of the Indenture.

No Remedy Exclusive. No remedy herein conferred upon or reserved to the Issuer is intended to be exclusive of any other available remedy or remedies, but each and every such remedy shall be cumulative and shall be in addition to every other remedy given under this Agreement or now or hereafter existing

at law or in equity or by statute. No delay or omission to exercise any right or power accruing upon an Event of Default under this Agreement shall impair any such right or power or shall be construed to be a waiver thereof, but any such right and power may be exercised from time to time and as often as may be deemed expedient.

Agreement to Pay Attorneys' Fees and Expenses. Upon the occurrence of an Event of Default under this Agreement, if the Issuer or the Trustee employs attorneys or incurs other expenses for the collection of amounts payable hereunder or for the enforcement of the performance or observance of any covenants or agreements on the part of the Company herein contained, whether or not suit is commenced, the Company agrees that it will on demand therefor pay to the Issuer or the Trustee or any combination thereof, as the case may be, the reasonable fees of such attorneys and such other reasonable expenses so incurred by the Issuer or the Trustee.

Issuer and Company to Give Notice of Default. The Issuer and the Company severally covenant that they will, at the expense of the Company, promptly give to the Trustee, the Tender Agent, the Remarketing Agent, the Paying Agent and the Credit Issuer, and to each other, written notice of any Event of Default under this Agreement of which they shall have actual knowledge or written notice, but the Issuer shall not be liable for failing to give such notice.

ARTICLE XIARTICLE XI

PREPAYMENTS; PURCHASE OF BONDS

Section XI.1. Optional Prepayments.

(a) The Company shall have, and is hereby granted, the option to prepay the unpaid principal amount hereunder and under the Note in whole, together with interest thereon to the date of redemption of the Bonds, at any time by taking, or causing the Issuer to take, the actions required by the Indenture for the redemption of all Bonds then outstanding, upon the occurrence of any of the events set forth in Section 2.18(b) of the Indenture.

(b) The Company shall have, and is hereby granted, the option to prepay all or any portion of the unpaid balance hereunder and under the Note, together with interest thereon to the date of redemption of the Bonds, at any time by taking, or causing the Issuer to take, the actions required by the Indenture (i) to discharge the lien thereof through the redemption, or provision for payment of redemption of all Bonds then outstanding or (ii) to effect the redemption, or provision for payment or redemption, of less than all Bonds then outstanding, pursuant to Section 2.18(a) of the Indenture.

(c) To make a prepayment pursuant to this Section 11.1, the Company shall give written notice to the Issuer, the Trustee and the Registrar which shall specify therein (i) the date of the intended prepayment, which shall not be less than 45 days from the date any Bonds are to be redeemed from such prepayment, and (ii) the principal amount to be prepaid and the date or dates on which the prepayment is to occur. All such prepayments shall be in the amount of the unpaid amount hereunder and under the Note if made pursuant to Section 11.1(a) or in the amount of an Authorized Denomination if made pursuant to Section 11.1(b) and the Company shall furnish additional funds, if necessary, to make such prepayments in such amounts. In addition, the Company shall make such additional payments as shall be necessary to pay any redemption premium on the Bonds in connection with such redemption.

Section XI.2. Mandatory Prepayment Upon a Determination of Mandatory Prepayment Upon a Determination of Taxability. In the event of a Determination of Taxability, the Company shall forthwith, and in any event within 45 days of any such Determination of Taxability, pay the entire unpaid principal balance hereunder and under the Note plus accrued interest thereon to the date of payment, provided, that, if the Company delivers to the Trustee the opinion of Bond Counsel described in Section 2.18(c) of the Indenture, which opinion states that interest on the Bonds will not be includable in the gross income of the owners thereof if less than all of the Bonds are redeemed, then the Company shall prepay the Loan in the amount necessary to redeem the amount of Bonds stated in such opinion.

The Company hereby agrees to give prompt written notice to the Issuer and the Trustee of (a) the occurrence of an event that gives or may give rise to a Determination of Taxability or (b) its receipt of any oral or written advice from the Internal Revenue Service that an event giving rise to a Determination of Taxability shall have occurred.

Optional Purchase of Bonds. Subject to the terms of the Indenture regarding the use of Eligible Funds, the Company may at any time, and from time to time, furnish moneys to the Tender Agent accompanied by a notice directing

such moneys to be applied to the purchase of Bonds delivered for purchase pursuant to the terms thereof, which Bonds shall be delivered to the Trustee for cancellation in accordance with Section 2.8 of the Indenture. The Company shall deliver to the Remarketing Agent and the Credit Issuer a copy of any such notice.

Relative Priorities. The obligations of the Company under Section 11.2 shall be and remain superior to the rights, obligations and options of the Company under Section 11.1.

Prepayment to Include Fees and Expenses. Any prepayment under this Article shall also include any expenses of prepayment, as well as all expenses and costs provided for herein.

Purchase of Bonds.n XI.6. Purchase of Bonds

(a) In consideration of the issuance of the Bonds by the Issuer, but for the benefit of the Holders, the Company has agreed, and does hereby covenant, to cause the necessary arrangements to be made and to be thereafter continued whereby the Holders from time to time may deliver, or may be required to deliver Bonds for purchase and whereby such Bonds shall be so purchased. In furtherance of the foregoing covenant of the Company, the Issuer, at the request of the Company, has set forth in the Bonds the terms and conditions relating to the delivery of Bonds by the Holders thereof for purchase, has set forth in the Indenture the duties and responsibilities of the Tender Agent with respect to the purchase of Bonds, and of the Remarketing Agent with respect to the remarketing of Bonds and has therein provided for the appointment of the Tender Agent and Remarketing Agent. The Company hereby authorizes and directs the Tender Agent and the Remarketing Agent to purchase, offer, sell and deliver Bonds in accordance with the provisions of the Indenture.

Without limiting the generality of the foregoing covenant of the Company, and in consideration of the Issuer's having set forth in the Bonds and the Indenture the aforesaid provisions, the Company covenants, for the benefit of the Holders, to provide for arrangements to pay, or cause to be paid, such amounts as shall be necessary to effect the payment of the Purchase Price of Bonds delivered for purchase, all as more particularly described in the Indenture.

(b) Notwithstanding the provisions of Section 11.6(a), the obligations of the Company under Section 11.6(a) with respect to the purchase of Bonds shall be terminated on the date the Bonds begin to bear interest at the Fixed Rate in accordance with the Indenture.

(c) In furtherance of the obligations of the Company under Section 11.6(a), the Company shall provide for the payment of its obligations under such Section 11.6(a) by the delivery of the Original Credit Facility simultaneously with the original delivery of the Bonds. In order to implement such undertaking of the Company, the Issuer, at the direction of the Company, has set forth in the Indenture the terms and conditions relating to drawings under the Credit Facility to provide moneys for the purchase of Bonds. The Company hereby authorizes and directs the Trustee to draw moneys under the Credit Facility in accordance with the provisions of the Indenture to the extent necessary to provide moneys payable under Section 2.7 of the Indenture if and when due.

(d) The Issuer shall have no obligation or responsibility, financial or otherwise, with respect to the purchase of Bonds or the making or continuation of arrangements therefor other than as expressly set forth in Section 11.6(a), except that the Issuer shall generally cooperate with the Company, the Tender Agent and the Remarketing Agent as contemplated in Section 2.7 of the Indenture.

ARTICLE XIIARTICLE XII

MISCELLANEOUS

Section XII.1. Amounts Remaining in Funds. Subject to the provisions of Article V of the Indenture and as provided in Article IV of the Indenture, it is agreed by the parties hereto that amounts remaining in the Bond Fund, Initial Fund or Bond Purchase Fund upon expiration or earlier termination of this Agreement, as provided in this Agreement, after payment in full of the Bonds (or provision for payment thereof having been made in accordance with the provisions of the Indenture) and all other amounts owing under the Indenture, shall be paid to the Credit Issuer (if a Credit Facility is in effect and there is any amount then owing by the Company to the Credit Issuer) and otherwise shall belong to and be paid to the Company by the Trustee.

No Implied Waiver. In the event any provision of this Agreement should be

breached by either party and thereafter waived by the other party, such waiver shall be limited to the particular breach so waived and shall not be deemed to waive any other breach thereunder or hereunder.

Issuer Representative. Whenever under the provisions of this Agreement the approval of the Issuer is required or the Issuer is required to take some action at the request of the Company, such approval shall be made or such action shall be taken by the Issuer Representative; and the Company and the Trustee shall be authorized to rely on any such approval or action.

Company Representative. Whenever under the provisions of this Agreement the approval of the Company is required or the Company is required to take some action at the request of the Issuer, such approval shall be made or such action shall be taken by the Company Representative; and the Issuer, the Tender Agent, the Remarketing Agent, the Paying Agent and the Trustee shall be authorized to rely on any such approval or action.

Notices. Notice under this Agreement shall be given in accordance with Section 9.4 of the Indenture.

Section XII.6. Issuer, Governing Body, Members, Commissioners, Directors, Officers, Agents, Attorneys and Employees of Issuer and Governing Body Not Liable. To the extent permitted by law, no recourse shall be had for the enforcement of any obligation, promise or agreement of the Issuer contained herein or in the other Bond Documents to which the Issuer is a party or for any claim based hereon or thereon or otherwise in respect hereof or thereof against the Issuer, the Governing Body, any member, commissioner, director, officer, agent, attorney or employee, as such, in his/her individual capacity, past, present or future, of the Issuer, the Governing Body, or of any successor entity, either directly or through the Issuer, the Governing Body or any successor entity, whether by virtue of any constitutional provision, statute or rule of law, or by the enforcement of any assessment or penalty or otherwise. No personal liability whatsoever shall attach to, or be incurred by, any member, commissioner, director, officer, agent, attorney or employee, as such, in his/her individual capacity, past, present or future, of the Issuer, the Governing Body, or of any successor entity, either directly or through the Issuer, the Governing Body or any successor entity, under or by reason of any of the obligations, promises or agreements entered into between the Issuer and the Company, whether herein contained or to be implied herefrom as being supplemental hereto; and all personal liability of that character against every such member, commissioner, director, officer, agent, attorney or employee is, by the execution of this Agreement and as a condition of, and as part of the consideration for, the execution of this Agreement, expressly waived and released.

Notwithstanding any other provision of this Agreement, the Issuer shall not be liable to the Company or the Trustee or any other person for any failure of the Issuer to take action under this Agreement unless the Issuer (a) is requested in writing by an appropriate person to take such action, (b) is assured of payment of, or reimbursement for, any reasonable expenses in such action, and (c) is afforded, under the existing circumstances, a reasonable period to take such action. In acting under this Agreement, or in refraining from acting under this Agreement, the Issuer may conclusively rely on the advice of its counsel.

Section XII.7. No Liability of Issuer; No Charge Against No Liability of Issuer; No Charge Against Issuer's Credit. Any obligation of the Issuer created by, arising out of, or entered into in contemplation of this Agreement, including the Bonds, shall not impose a debt or pecuniary liability upon the Issuer, the State or any political subdivision thereof or constitute a charge upon the general credit or taxing powers of any of the foregoing. Any such obligation shall be payable solely out of the revenues and any other moneys derived hereunder and under the Indenture and the Credit Facility, except (as provided in the Indenture and in this Agreement) to the extent it shall be paid out of moneys attributable to the proceeds of the Bonds or the income from the temporary investment thereof.

The principal of, premium, if any, and interest on the Bonds shall be payable solely from the funds pledged for their payment in accordance with the Indenture and from payments made pursuant to the Credit Facility.

If Performance Date Not a Business Day. If the last date for performance of any act or the exercising of any right, as provided in this Agreement, shall not be a Business Day, such payment may be made or act performed or right exercised on the next succeeding Business Day.

Binding Effect. This Agreement shall inure to the benefit of and shall be binding upon the Issuer, the Company, and their respective successors and

assigns. No assignment of this Agreement by the Company shall relieve the Company of its obligations hereunder.

Severability. In the event any provision of this Agreement shall be held invalid or unenforceable by any court of competent jurisdiction, such holding shall not invalidate or render unenforceable any other provision hereof.

Amendments, Changes and Modifications. Subsequent to the issuance of the Bonds and prior to payment of the Bonds, this Agreement may not be effectively amended, changed, modified, altered or terminated except in accordance with the Indenture.

Execution in Counterparts. This Agreement may be executed in several counterparts, each of which, taken together, shall be an original and all of which shall constitute but one and the same instrument.

Applicable Law. This Agreement shall be governed by and construed in accordance with the laws of the State.

IN WITNESS WHEREOF, the Issuer and the Company have caused this Agreement to be executed in their respective legal names and their respective corporate seals to be hereunto affixed, and the signatures of duly authorized persons to be attested, all as of the date first above written.

LUZERNE COUNTY INDUSTRIAL
DEVELOPMENT AUTHORITY

By: /s/ Charles B. Johnson
Charles B. Johnson
Chairman

[SEAL]

ATTEST:

/s/ George J. Ellis
Secretary/Treasurer

CULP, INC.

By: /s/ Franklin N. Saxon
Franklin N. Saxon
Vice President

[SEAL]

ATTEST:

/s/ Henry H. Ralston
Henry H. Ralston
Assistant Secretary

A-1

EXHIBIT A

C-392210.02340.01188

A-1

DESCRIPTION OF THE PROJECT

Culp, Inc. (the "Company") will use the bond proceeds to (a) acquire and install 15 weaving machines with electronic jacquard heads, gantries and required accessories and (b) a new warping machine to support the increased weaving capacity for the Company's Chromatex plant located in West Hazleton, Pennsylvania. This plant produces jacquard upholstery fabrics, and it contains all of the yarn preparation equipment, looms, finishing equipment and distribution facilities used by the Rossville/Chromatex business unit of Culp for woven jacquard fabrics.

C-392210.02340.01188

B-1

EXHIBIT B

\$ _____

No. _____

REQUISITION AND CERTIFICATE

_____, 19__

First-Citizens Bank & Trust Company
2917 Highwoods Boulevard
Raleigh, North Carolina 27604
Attention: Corporate Trust Department

Ladies and Gentlemen:

On behalf of Culp, Inc. (the "Company"), I hereby requisition from the funds representing the proceeds of the sale of the Tax-Exempt Adjustable Mode Industrial Development Revenue Bonds (Culp, Inc. Project) Series 1996, issued by the Luzerne County Industrial Development Authority (the "Issuer"), and dated December 1, 1996 (the "Bonds"), which funds are held by you in the Luzerne County Industrial Development Authority (Culp, Inc. Project) Initial Fund in accordance with the Indenture of Trust, dated as of December 1, 1996 (the "Indenture"), from the Issuer to you the sum of \$_____ to be paid to the person or persons indicated below:

(1) \$_____ for _____

payable to _____, and

(2) \$_____ for _____

payable to _____.

I hereby certify that (a) the obligation to make such payment was incurred by the Issuer or the Company in connection with the Acquisition (as defined in the Agreement, of even date with the Indenture, between the Issuer and the Company, hereinafter referred to as the "Agreement") of the Project (referred to in the Agreement), is a proper charge against the Costs of the Project (as defined in the Agreement), and has not been the basis for any prior requisition which has been paid; (b) neither the Company nor, to the best of the Company's knowledge, the Issuer has received written notice of any lien, right to lien or attachment upon, or claim affecting the right of such payee to receive payment of, any of the money payable under this requisition to any of the persons, firms or corporations named herein, or if any notice of any such lien, attachment or claim has been received such lien, attachment or claim has been released or discharged or will be released or discharged upon payment of this requisition; (c) this requisition contains no items representing payment on account of any retained percentages which the Issuer or the Company is entitled to retain at this date; (d) the payment of this requisition will not result in less than substantially all (95%) or more) of the proceeds of the Bonds to be expended under this requisition and under all prior requisitions having been used for the acquisition and installation of real property or property of a character subject to the allowance for depreciation under the Internal Revenue Code of 1986, as amended; and (e) no "Event of Default" (as defined in the Agreement), or event which after notice or lapse of time or both would constitute such an "Event of Default" has occurred and not been waived.

The following paragraph is to be completed when any requisition and certificate includes any item for payment for labor or to contractors, builders or materialmen.

I hereby certify that insofar as the amount covered by the above requisition includes payments to be made for labor or to contractors, builders or materialmen, including materials or supplies, in connection with the Acquisition of the Project, (i) all obligations to make such payment have been properly incurred, (ii) any such labor was actually performed and any such materials or supplies were actually furnished or installed in or about the Project and are a proper charge against the Costs of the Project, and (iii) such materials or

supplies either are not subject to any lien or security interest or, if the same are so subject, such lien or security interest will be released or discharged upon payment of this requisition.

Company Representative

C-392210.02340.01188

C-1

EXHIBIT C

AFTER THE ENDORSEMENT AS HEREON PROVIDED AND PLEDGE OF THIS NOTE, THIS NOTE MAY NOT BE ASSIGNED, PLEDGED, ENDORSED OR OTHERWISE TRANSFERRED EXCEPT TO AN ASSIGNEE OR SUCCESSOR OF THE TRUSTEE IN ACCORDANCE WITH THE INDENTURE, BOTH REFERRED TO HEREIN.

\$3,500,000

December 4, 1996

PROMISSORY NOTE

FOR VALUE RECEIVED, Culp, Inc., a corporation duly formed and existing under the laws of the State of North Carolina (the "Company"), by this promissory note hereby promises to pay to the order of Luzerne County Industrial Development Authority (the "Issuer") the principal sum of Three Million Five Hundred Thousand Dollars (\$3,500,000), together with interest on the unpaid principal amount hereof, from the Issue Date (as defined in the Indenture referenced below) until paid in full, at a rate per annum equal to the rate of interest borne by the Bonds (as hereinafter defined), premium, if any, on the Bonds and Purchase Price (as defined in the Indenture). All such payments of principal, interest, premium and Purchase Price shall be made in funds which shall be immediately available on the due date of such payments and in lawful money of the United States of America at the principal corporate trust office of First-Citizens Bank & Trust Company, Raleigh, North Carolina, or its successor as trustee under the Indenture.

The principal amount, interest, premium, if any, and Purchase Price shall be payable on the dates and in the amount, that principal of, interest on the Bonds, premium, if any, and Purchase Price are payable, subject to prepayment as hereinafter provided.

The Company shall receive a credit for the amounts due and payable hereunder to the extent that payments are made by the Credit Issuer (as defined in the Indenture) pursuant to drawings under the Credit Facility (as defined in the Indenture).

This promissory note is the "Note" referred to in the Loan Agreement, dated as of December 1, 1996 (the "Agreement") between the Company and the Issuer, the terms, conditions and provisions of which are hereby incorporated by reference.

This Note and the payments required to be made hereunder are irrevocably assigned, without recourse, representation or warranty, and pledged to First-Citizens Bank & Trust Company under the Indenture of Trust, dated as of December 1, 1996 (the "Indenture"), by and between the Issuer and First-Citizens Bank & Trust Company, as Trustee, and such payments will be made directly to the Trustee for the account of the Issuer pursuant to such assignment. Such assignment is made as security for the payment of \$3,500,000 in aggregate principal amount of Tax-Exempt Adjustable Rate Industrial Development Revenue Bonds (Culp, Inc. Project) Series 1996 (the "Bonds"), issued by the Issuer pursuant to the Indenture. All the terms conditions and provisions of the Indenture and the Bonds are hereby incorporated as a part of this Note.

The Company may at its option, and may under certain circumstances be required to, prepay together with accrued interest, all or any part of the amount due on this Note, as provided in the Agreement.

Presentation, demand, protest and notice of dishonor are hereby expressly waived by the Company.

The Company hereby promises to pay reasonable costs of collection and reasonable attorneys' fees in case of default on this Note.

This Note shall be governed by, and construed in accordance with, the laws of the State of Pennsylvania.

[SEAL]

By: _____
Franklin N. Saxon
Vice President

ATTEST:

Secretary

FIRST AMENDMENT TO 1996 AMENDED
AND RESTATED CREDIT AGREEMENT

THIS FIRST AMENDMENT TO 1996 AMENDED AND RESTATED CREDIT AGREEMENT, dated as of December 1, 1996, is made among CULP, INC., a North Carolina corporation (the "Borrower"), FIRST UNION NATIONAL BANK OF NORTH CAROLINA, N.A., a national banking association ("First Union"), WACHOVIA BANK OF NORTH CAROLINA, N.A., a national banking association ("Wachovia") ("First Union and Wachovia being referred to collectively herein as the "Banks") and FIRST UNION, acting in the manner and to the extent described in Section 12 of the Credit Agreement (as defined herein) (in such capacity, the "Agent"). Capitalized terms not defined herein shall have the meanings ascribed to them in the Credit Agreement.

BACKGROUND STATEMENT

A. The Borrower and the Banks are parties to the 1996 Amended and Restated Credit Agreement, dated as of April 1, 1996 (the "Credit Agreement"), pursuant to which, among other things, the Banks have made available to the Borrower certain irrevocable letters of credit issued by Wachovia as credit enhancement for various industrial development revenue bonds issued for the benefit of the Borrower.

B. The Borrower is currently negotiating the issuance of two new industrial development revenue bond issues, the \$3,500,000 Luzerne County Industrial Development Authority Tax-Exempt Adjustable Mode Industrial Development Revenue Bonds (Culp, Inc. Project) Series 1996 (the "Luzerne Bonds") and the \$6,000,000 The Alamance County Industrial Facilities and Pollution Control Financing Authority Tax-Exempt Adjustable Mode Industrial Development Revenue Bonds (Culp, Inc. Project) Series 1996 (the "Alamance Bonds" and together with the Luzerne Bonds, the "Bonds").

C. The Borrower has requested that Wachovia issue an irrevocable letter of credit in the amount of \$3,675,000 as a credit enhancement for the Luzerne Bonds. The Banks are willing for authorize the issuance of such letter of credit (the "Luzerne Letter of Credit") upon the terms and conditions hereof.

D. In addition, the Borrower has requested that Wachovia issue an irrevocable letter of credit in the amount of \$6,300,000 as a credit enhancement for the Alamance Bonds. The Banks are willing for authorize the issuance of such letter of credit (the "Alamance Letter of Credit" and together with the Luzerne Letter of Credit, the "New Letters of Credit") upon the terms and conditions hereof.

E. To effectuate the issuance of the New Letters of Credit, the Borrower and the Banks desire to amend the Credit Agreement to increase the LOC Committed Amount under the Credit Agreement.

STATEMENT OF AGREEMENT

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Borrower, each of the Banks and the Agent, for themselves and their successors and assigns, agree as follows:

ARTICLE I

AMENDMENTS TO CREDIT AGREEMENT

I.1. Amendment to Section 1.1. Section 1.1 of the Credit Agreement is hereby amended by deleting such the definition of "Letter of Credit" in its entirety and substituting therefor the following:

"Letter of Credit" shall mean the Existing Letters of Credit, the Irrevocable Letter of Credit No. LC 968-080881, issued in the amount of \$3,675,000 as credit support for the \$3,500,000 Luzerne County Industrial Development Authority Tax-Exempt Adjustable Mode Industrial Development Revenue Bonds (Culp, Inc. Project) Series 1996, the Irrevocable Letter of Credit No. LC 968-080882, issued in the amount of \$6,300,000 as credit support for the \$6,000,000 The Alamance County Industrial Facilities and Pollution Control Financing Authority Tax-Exempt Adjustable Mode Industrial Development Revenue Bonds (Culp, Inc. Project) Series 1996, and any letter of credit issued by the Issuing Bank pursuant to the terms hereof, as such Letters of Credit may be amended, modified, extended, renewed or replaced from time to time.

I.2. Amendment to Section 4.5(a). Section 4.5(a) of the Credit Agreement is hereby amended by deleting such subsection in its entirety and substituting therefor the following:

4.5 Letters of Credit.

(a) Issuance. Subject to the terms and conditions hereof and of the LOC Documents, if any, and any other terms and conditions which the Issuing Bank may reasonably require, the Issuing Bank shall issue, and the Banks shall participate in, Letters of Credit for the account of the Borrower from time to time upon request from the Restatement Date until the Revolving Loan Maturity Date in a form acceptable to the Issuing Bank; provided, however, that (i) the aggregate amount of LOC Obligations shall not at any time exceed THIRTY-TWO MILLION FOUR HUNDRED NINETEEN THOUSAND FOUR HUNDRED THIRTEEN AND 54/100 DOLLARS (\$32,419,413.54) (the "LOC Committed Amount"). Letters of Credit will be issued solely for the purpose of supporting industrial development revenue bonds or similar tax-advantaged programs for the benefit of the Borrower. Except as otherwise expressly agreed upon by all the Banks, Letters of Credit shall not have an original expiry date later than the Revolving Loan Maturity Date. Each Letter of Credit shall comply with the related LOC Documents. The Issuance and expiry date of each Letter of Credit shall be a Business Day.

ARTICLE II

ISSUANCE OF LETTERS OF CREDIT

II.1. Luzerne Letter of Credit. Subject to the terms and conditions hereinafter set forth, on December 4, 1996, or such other later date as requested by the Borrower, Wachovia shall issue the Luzerne Letter of Credit. The Luzerne Letter of Credit shall be issued in an amount equal to the sum of (i) the aggregate principal amount of the Luzerne Bonds plus (ii) an amount equal to the 120 days interest on the Luzerne Bonds, computed as though the Luzerne Bonds bore interest at a rate of 15% per annum, notwithstanding the actual rate bore by the Luzerne Bonds from time to time, based on a 360-day year for the actual number of days elapsed.

II.2. Alamance Letter of Credit. Subject to the terms and conditions hereinafter set forth, on December 20, 1996, or such other later date as requested by the Borrower, Wachovia shall issue the Alamance Letter of Credit. The Alamance Letter of Credit shall be issued in an amount equal to the sum of (i) the aggregate principal amount of the Alamance Bonds plus (ii) an amount equal to the 120 days interest on the Alamance Bonds, computed as though the Alamance Bonds bore interest at a rate of 15% per annum, notwithstanding the actual rate bore by the Alamance Bonds from time to time, based on a 360-day year for the actual number of days elapsed.

II.3. Letter of Credit Fees. On the date of issuance of the each New Letter of Credit (each, a "Date of Issuance"), the Borrower shall pay to the Agent a fee equal to (i) the product of the Applicable Percentage times the amount of such New Letter of Credit, times (ii) the quotient of the number of days between such Date of Issuance and April 1, 1997 divided by 365. The Agent shall pay to the Banks (including the Issuing Bank) their respective ratable share of the Letter of Credit Fee promptly upon receipt.

ARTICLE III

CONDITIONS TO BANK'S OBLIGATIONS

III.1. Conditions to Issuance of the Letters of Credit. The obligations of Wachovia to issue each of the New Letters of Credit are subject to the satisfaction of all of the following conditions precedent:

(a) Credit Document. This Amendment shall have been duly authorized, executed and delivered by the Borrower, shall be in form and substance satisfactory to the Banks;

(b) Letter of Credit Fee. The Agent shall have received the letter of credit fee (paid pursuant to Section 2.3 of this Amendment) applicable to such New Letter of Credit; and

(c) Other Documents. The Banks shall have received such other documents and certificates as the Banks may reasonably request in connection with this Amendment, each in form and substance satisfactory to the Banks.

ARTICLE IV

REPRESENTATIONS AND WARRANTIES

The Borrower hereby represents and warrants that:

IV.1. Compliance with Credit Agreement. The Borrower is in compliance in all material respects with all terms and provisions set forth in the Credit Agreement to be observed or performed by it.

IV.2. Representations in Credit Agreement. The representations and warranties of the Borrower set forth in the Credit Agreement are true and correct in all material respects as of the date hereof, except insofar as any such representation or warranty relates solely to a prior date.

IV.3. No Event of Default. No Event of Default, nor any event that upon notice, lapse of time or both would become an Event of Default, has occurred and is continuing.

ARTICLE V

GENERAL

V.1. Full Force and Effect. Except as expressly amended hereby, the Credit Agreement shall continue in full force and effect in accordance with the provisions thereof on the date hereof. As used in the Credit Agreement, "hereinafter," "hereto," "hereof," and words of similar import shall, unless the context otherwise requires, mean the Credit Agreement after amendment by this Amendment. Any reference to the Credit Agreement or any of the other Loan Documents herein or in any such documents shall refer to the Credit Agreement and Loan Documents as amended hereby.

V.2. Applicable Law. This Amendment shall be governed by and construed in accordance with the internal laws and judicial decisions of the State of North Carolina.

V.3. Counterparts. This Amendment may be executed in two or more counterparts, each of which shall constitute an original, but all of which when taken together shall constitute but one instrument.

V.4. Headings. The headings of this Amendment are for the purposes of reference only and shall not affect the construction of this Amendment.

V.5. Effectiveness. This Amendment shall be deemed fully executed and effective when executed by the Borrower, the Agent and each of the Banks.

IN WITNESS WHEREOF, the Borrower, each of the Banks and the Agent have caused this Amendment to be executed by their duly authorized officers all as of the day and year first above written.

CULP, INC.

By: /s/ Franklin N. Saxon
Franklin N. Saxon
Vice President

FIRST UNION NATIONAL BANK
OF NORTH CAROLINA, for itself
and as Agent

By: /s/ David Silander
David Silander
Vice President

WACHOVIA BANK OF NORTH CAROLINA,

N.A.

By: /s/ Peter T. Callahan
Peter T. Callahan

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