

**UNITED STATES
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 quarterly period ended July 29, 2018
Commission File No. 1-12597**

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.)

1823 Eastchester Drive

High Point, North Carolina

(Address of principal executive offices)

27265-1402

(zip code)

(336) 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 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to the filing requirements for at least the past 90 days. ☒ YES ☐ NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period after the registrant was required to submit and post such files). ☒ YES ☐ NO

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "accelerated filer, large accelerated filer, smaller reporting company, and emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐ Accelerated filer ☒ Non-accelerated filer ☐

Smaller Reporting Company ☐ Emerging Growth Company ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
☐ YES ☒ NO

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date:

**Common shares outstanding at July 29, 2018: 12,522,246
Par Value: \$0.05 per share**

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Item 1: Financial Statements

CULP, INC.
CONSOLIDATED STATEMENTS OF NET INCOME
FOR THE THREE MONTHS ENDED JULY 29, 2018 AND JULY 30, 2017
UNAUDITED
(Amounts in Thousands, Except for Per Share Data)

	THREE MONTHS ENDED	
	July 29, 2018	July 30, 2017
Net sales	\$ 71,473	79,533
Cost of sales	60,914	63,068
Gross profit	10,559	16,465
Selling, general and administrative expenses	8,033	9,501
Restructuring expense	451	-
Income from operations	2,075	6,964
Interest expense	20	-
Interest income	(150)	(131)
Other expense	257	353
Income before income taxes	1,948	6,742
Income taxes	906	1,640
Loss from investment in unconsolidated joint venture	77	118
Net income	\$ 965	4,984
Less: Net income attributable to non-controlling interest	(8)	-
Net income attributable to Culp, Inc. common shareholders	\$ 957	4,984
Net income attributable to Culp Inc. common shareholders per share - basic	\$ 0.08	0.40
Net income attributable to Culp Inc. common shareholders per share - diluted	\$ 0.08	0.40
Average shares outstanding, basic	12,510	12,399
Average shares outstanding, diluted	12,600	12,590

See accompanying notes to consolidated financial statements.

CULP, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE THREE MONTHS ENDED JULY 29, 2018 AND JULY 30, 2017
(UNAUDITED)
(AMOUNTS IN THOUSANDS)

	THREE MONTHS ENDED	
	July 29, 2018	July 30, 2017
Net income	\$ 965	\$ 4,984
Other comprehensive income		
Unrealized gain on investments, net of tax		
Unrealized holding gains on investments	40	44
Reclassification adjustment for realized loss on investments	94	-
Total unrealized gain on investments	134	44
Unrealized gain on foreign currency cash flow hedge, net of tax		
Unrealized holding loss on foreign currency cash flow hedge	(25)	-
Reclassification adjustment for realized loss on foreign currency cash flow hedge	40	-
Total unrealized gain on foreign currency cash flow hedge	15	-
Total other comprehensive income	149	44
Comprehensive income	\$ 1,114	\$ 5,028
Less: Comprehensive income attributable to non-controlling interest	-	-
Comprehensive income attributable to Culp, Inc. common shareholders	\$ 1,114	\$ 5,028

See accompanying notes to consolidated financial statements.

CULP, INC.
CONSOLIDATED BALANCE SHEETS
JULY 29, 2018, JULY 30, 2017 AND APRIL 29, 2018
UNAUDITED
(Amounts in Thousands)

	July 29, 2018	July 30, 2017	* April 29, 2018
Current assets:			
Cash and cash equivalents	\$ 8,593	18,322	21,228
Short-term investments - Available for Sale	-	2,469	2,451
Short-term investments - Held-To-Maturity	30,756	-	25,759
Accounts receivable, net	23,225	22,140	26,307
Inventories	54,989	55,227	53,454
Other current assets	3,852	3,441	2,870
Total current assets	121,415	101,599	132,069
Property, plant and equipment, net	53,178	52,912	51,794
Goodwill	27,222	11,462	13,569
Deferred income taxes	3,721	436	1,458
Long-term investments - Held-To-Maturity	-	30,907	5,035
Long-term investments - Rabbi Trust	7,671	6,714	7,326
Investment in unconsolidated joint venture	1,525	1,477	1,501
Other assets	11,640	2,397	5,232
Total assets	\$ 226,372	207,904	217,984
Current liabilities:			
Accounts payable-trade	\$ 25,070	29,112	27,237
Accounts payable - capital expenditures	862	5,647	1,776
Deferred revenue	634	-	809
Accrued expenses	8,176	6,075	9,325
Accrued restructuring costs	445	-	-
Income taxes payable - current	1,244	884	1,437
Total current liabilities	36,431	41,718	40,584
Line of credit	4,000	5,000	-
Accrued expenses - long-term	749	-	763
Contingent consideration - earn-out obligation	5,600	-	-
Income taxes payable - long-term	3,733	487	3,758
Deferred income taxes	2,150	4,253	2,150
Deferred compensation	7,679	6,769	7,353
Total liabilities	60,342	58,227	54,608
Commitments and Contingencies (Notes 11 and 20)			
Shareholders' equity			
Preferred stock, \$0.05 par value, authorized 10,000,000	-	-	-
Common stock, \$0.05 par value, authorized 40,000,000 shares, issued and outstanding 12,522,246 at July 29, 2018; 12,441,161 at July 30, 2017; and 12,450,276 at April 29, 2018	627	622	623
Capital contributed in excess of par value	46,334	47,038	48,203
Accumulated earnings	114,465	101,977	114,635
Accumulated other comprehensive income (loss)	64	40	(85)
Total shareholders' equity attributable to Culp Inc.	161,490	149,677	163,376
Non-controlling interest	4,540	-	-
Total equity	166,030	149,677	163,376
Total liabilities and shareholders' equity	\$ 226,372	207,904	217,984

* Derived from audited financial statements.

See accompanying notes to consolidated financial statements.

CULP, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE THREE MONTHS ENDED JULY 29, 2018 AND JULY 30, 2017
UNAUDITED
(Amounts in Thousands)

	THREE MONTHS ENDED	
	July 29, 2018	July 30, 2017
Cash flows from operating activities:		
Net income	\$ 965	4,984
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation	2,015	1,807
Amortization of assets	145	82
Stock-based compensation	(501)	757
Deferred income taxes	(2,263)	643
Realized loss on sale of short-term investments (Available for Sale)	94	-
Loss on disposal of equipment	35	-
Loss from investment in unconsolidated joint venture	77	118
Foreign currency exchange (gain) loss	(91)	35
Changes in assets and liabilities:		
Accounts receivable	2,837	2,524
Inventories	(429)	(3,539)
Other current assets	(989)	(467)
Other assets	34	(47)
Accounts payable - trade	(2,494)	(397)
Deferred revenue	(175)	-
Accrued expenses and deferred compensation	(1,566)	(4,704)
Accrued restructuring costs	445	-
Income taxes	(75)	608
Net cash (used in) provided by operating activities	(1,936)	2,404
Cash flows from investing activities:		
Capital expenditures	(757)	(2,260)
Net cash paid for acquisition of businesses	(11,971)	-
Investment in unconsolidated joint venture	(100)	(489)
Proceeds from the sale of short-term investments (Available for Sale)	2,458	-
Purchase of short-term investments (Available for Sale)	(10)	(12)
Proceeds from the sale of long-term investments (Rabbi Trust)	-	49
Purchase of long-term investments (Rabbi Trust)	(302)	(1,267)
Net cash used in investing activities	(10,682)	(3,979)
Cash flows from financing activities:		
Proceeds from line of credit	11,000	5,000
Payments on line of credit	(7,000)	-
Payments on vendor-financed capital expenditures	(1,412)	(1,250)
Dividends paid	(1,127)	(3,608)
Common stock surrendered for withholding taxes payable	(1,292)	(1,135)
Common stock repurchased	(72)	-
Proceeds from common stock issued	-	5
Net cash provided by (used in) financing activities	97	(988)
Effect of exchange rate changes on cash and cash equivalents	(114)	90
Decrease in cash and cash equivalents	(12,635)	(2,473)
Cash and cash equivalents at beginning of period	21,228	20,795
Cash and cash equivalents at end of period	\$ 8,593	18,322

See accompanying notes to consolidated financial statements.

CULP, INC.
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
UNAUDITED
(Dollars in thousands, except share data)

Shareholders' equity attributable to Culp Inc.

	Common Stock		Capital Contributed in Excess of Par Value	Accumulated Earnings	Accumulated Other Comprehensive (Loss) Income	Total	Non-Controlling Interest	Total Equity
	Shares	Amount						
Balance, April 30, 2017 *	12,356,631	\$ 618	47,415	100,601	(4)	\$ 148,630	\$ -	\$ 148,630
Net income	-	-	-	20,877	-	20,877	-	20,877
Stock-based compensation	-	-	2,212	-	-	2,212	-	2,212
Unrealized loss on foreign currency cash flow hedge	-	-	-	-	(55)	(55)	-	(55)
Unrealized loss on investments	-	-	-	-	(26)	(26)	-	(26)
Common stock issued in connection with vesting of performance based restricted stock units	118,845	6	(6)	-	-	-	-	-
Fully vested common stock award	4,800	-	-	-	-	-	-	-
Common stock issued in connection with vesting of time- based restricted stock unit	1,200	-	-	-	-	-	-	-
Common stock issued in connection with exercise of stock options	15,600	1	110	-	-	111	-	111
Common stock surrendered for the cost of stock option exercises and withholding taxes payable	(46,800)	(2)	(1,528)	-	-	(1,530)	-	(1,530)
Dividends paid	-	-	-	(6,843)	-	(6,843)	-	(6,843)
Balance, April 29, 2018 *	12,450,276	623	48,203	114,635	(85)	163,376	-	163,376
Net income	-	-	-	957	-	957	8	965
Acquisition of subsidiary with non-controlling interest	-	-	-	-	-	-	4,532	4,532
Stock-based compensation	-	-	(501)	-	-	(501)	-	(501)
Unrealized gain on foreign currency cash flow hedge	-	-	-	-	15	15	-	15
Unrealized gain on investments	-	-	-	-	134	134	-	134
Common stock issued in connection with vesting of performance based restricted stock units	115,917	6	(6)	-	-	-	-	-
Common stock issued in connection with vesting of time- based restricted stock units	1,200	-	-	-	-	-	-	-
Common stock surrendered for withholding taxes payable	(42,157)	(2)	(1,290)	-	-	(1,292)	-	(1,292)
Common stock repurchased	(2,990)	-	(72)	-	-	(72)	-	(72)
Dividends paid	-	-	-	(1,127)	-	(1,127)	-	(1,127)
Balance, July 29, 2018	12,522,246	\$ 627	46,334	114,465	64	\$ 161,490	\$ 4,540	\$ 166,030

* Derived from audited financial statements.

See accompanying notes to consolidated financial statements.

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

1. Basis of Presentation

The accompanying unaudited consolidated financial statements of Culp, Inc. and its majority-owned subsidiaries (the “company”) include all adjustments, which are, in the opinion of management, necessary for fair presentation of the results of operations and financial position. All of these adjustments are of a normal recurring nature. Results of operations for interim periods may not be indicative of future results. The unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements, which are included in the company’s annual report on Form 10-K filed with the Securities and Exchange Commission on July 13, 2018, for the fiscal year ended April 29, 2018.

The company’s three-months ended July 29, 2018, and January 30, 2017, represent 13 week periods, respectively.

2. Significant Accounting Policies

As of July 29, 2018, there were no changes in the nature of our significant accounting policies or the application of those policies from those reported in our annual report on Form 10-K for the year then ended April 29, 2018.

Recently Adopted Accounting Pronouncements

In May 2014, the FASB issued ASU No. 2014-09, which subsequently amended ASC Topic 606, *Revenue from Contracts with Customers*. The amendments in this ASU are intended to enhance the comparability of revenue recognition practices and will be applied to all contracts with customers. Improved disclosures related to the nature, amount, timing, and uncertainty of revenue that is recognized are requirements under the amended guidance. The new revenue standard became effective at the beginning of our fiscal 2019, and therefore, we applied the new revenue guidance in our first quarter of fiscal 2019 interim financial statements. This guidance did not have a material impact on our results of operations and financial position but did have a material impact on the disclosures required in our notes to the consolidated financial statements, which are disclosed in Note 4.

In August 2016, the FASB issued ASU No. 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*, to address the diversity in how certain cash receipts and cash payments are presented in the statement of cash flows. This new guidance provides clarity around the cash flow classification for eight specific issues in an effort to reduce the current and potential future diversity in practice. This new standard, which is to be applied retrospectively, became effective at the beginning of our fiscal 2019, and therefore, we applied this new guidance in our first quarter of fiscal 2019 interim financial statements. During the first quarter of fiscal 2019, this new guidance did not impact our results of operations, balance sheet, or statement of cash flows. Currently, we do expect that this guidance will be applicable in determining how we classify our contingent consideration payments associated with our business combinations (see note 2) as either investing or financing activities. This guidance requires cash payments not made soon after the acquisition date of a business combination by an acquirer to settle a contingent consideration liability should be separated and classified as cash outflows from financing activities. In comparison, cash payments made soon after the acquisition date should be separated and classified as cash outflows from investing activities.

In October 2016, the FASB issued ASU No. 2016-16, *Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory*, to reduce the diversity in practice and complexity associated with accounting for the income tax consequences of intra-entity transfers of assets other than inventory. Current GAAP prohibits recognition of deferred income taxes for an intra-entity transfer until the asset has been sold to an

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

outside party. The new pronouncement stipulates that an entity should recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. This new standard, which is required to be applied on a modified retrospective basis through a cumulative-effect adjustment directly to retained earnings, became effective at the beginning of our fiscal 2019. Therefore, we were required to apply this new guidance in our first quarter fiscal 2019 interim financial statements. This guidance did not impact our results of operations and financial position.

Recently Issued Accounting Pronouncements

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*, which increases transparency and comparability among companies accounting for lease transactions. The most significant change of this update will require the recognition of lease assets and liabilities on the balance sheet for operating lease arrangements with lease terms greater than twelve months for lessees. This update will require a modified retrospective application which includes a number of optional practical expedients related to the identification and classification of leases commenced before the effective date. This ASU is effective for fiscal years and interim periods within those fiscal years, beginning after December 15, 2018. We are therefore required to apply this guidance in our fiscal 2020 interim and annual financial statements. We are currently assessing the impact that this guidance will have on our consolidated financial statements, but we expect this guidance to have a material impact on our financial position due to the requirement to recognize right-of-use assets and lease liabilities on our Consolidated Balance Sheets.

There are no other new accounting pronouncements that are expected to have a significant impact on our consolidated financial statements.

2. Business Combinations

Read Window Products, LLC (Read)

Overview

Effective April 1, 2018, we entered into an Asset Purchase Agreement (Asset Agreement) to acquire certain assets and assume certain liabilities of Read, a source of custom window treatments for the hospitality and commercial industries. Based in Knoxville, Tennessee, Read is a turn-key provider of window treatments offering measuring, sourcing, fabrication and installation services. Read's custom product line includes motorization, shades, drapery, upholstered headboards and shower curtains. In addition, Read supplies soft goods such as decorative top sheets, coverlets, duvet covers, bed skirts, bolsters and pillows, for leading hospitality brands worldwide. The addition of window treatments and other soft goods to our product line will allow us to be a more complete source of fabrics for the hospitality market, in which we believe there are significant growth opportunities.

The purchase price for the net assets acquired was \$5.7 million, of which \$4.5 million was paid at closing on April 1, 2018, \$375,000 was paid in May 2018, and \$763,000 is to be paid in June in 2019, subject to certain conditions as defined in the Asset Agreement.

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

Assets Acquired and Liabilities Assumed

The following table presents the final allocation of the acquisition cost to the assets acquired and liabilities assumed based on their fair values.

(dollars in thousands)	Fair Value
Customer relationships	\$ 2,247
Goodwill	2,107
Inventory	1,128
Accounts receivable	897
Tradename	683
Property, plant & equipment	379
Other assets	35
Deferred revenue	(903)
Accounts payable	(719)
Accrued expenses	(174)
	\$ 5,680

We recorded customer relationships at fair market value based on a multi-period excess earnings valuation model. These customer relationships will be amortized on a straight-line basis over their nine-year useful life. We recorded the tradename at fair market based on the relief from royalty method. This tradename was determined to have an indefinite useful life and, therefore, is not being amortized. Equipment will be depreciated on a straight-line basis over useful lives ranging from three to ten years.

The goodwill related to this acquisition is attributable to Read's reputation with the products and services they provide and the collective experience of management with regards to its operations, customers, and industry. Goodwill was assigned to the upholstery fabrics segment and is deductible for income tax purposes over the statutory period of fifteen years.

The Asset Agreement contains a contingent consideration arrangement that requires us to pay a former shareholder of Read an earn-out payment based on adjusted EBITDA as defined in the agreement for calendar year 2018 in excess of fifty percent of a pre-established adjusted EBITDA target as defined in the agreement. As of July 29, 2018, based on historical and projected financial results in relation to the pre-established adjusted EBITDA target, we currently believe a contingent payment will not be made, and therefore, no contingent liability has been recorded.

Other

Acquisition costs totaling \$339,000 were included in selling, general, and administrative expenses in our fiscal 2018 Consolidated Statement of Net Income.

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

eLuxury, LLC (ELUX)

Overview

Effective June 22, 2018, we entered Equity Purchase Agreement (Equity Agreement) in which Culp Inc. (CULP) acquired an initial 80% ownership interest in (ELUX), an internet company offering bedding accessories and home goods directly to consumers. ELUX's primary products include a line of mattress pads manufactured at ELUX's facility located in Evansville, Indiana. ELUX also offers handmade platform beds, cotton bed sheets, and other bedding items. Their products are available on ELUX's own branded we website, eLuxury.com, Amazon and other leading online retailers for specialty home goods.

We believe this acquisition will provide a new sales channel for the bedding accessory category and will expand our opportunity to participate in the rapidly growing e-commerce direct-to-consumer space. This business combination brings together ELUX's experience in e-commerce, online brand building, and direct-to-consumer shopping and fulfillment expertise with our global production, sourcing, and distribution capabilities. We also have an opportunity to market our new line of bedding accessories, marketed under the brand name, "Comfort Supply Company by Culp", as well as other finished products that we may develop, through this e-commerce platform.

The estimated consideration given for the initial 80% ownership interest in ELUX totaled \$18.1 million, of which \$12.5 million represents the estimated purchase price and \$5.6 million represents the fair value for contingent consideration associated with an earn-out obligation (see below for further details). Of the \$12.5 million estimated purchase price, \$11.6 million was paid at closing on June 22, 2018, \$185,000 was paid in August 2018, and \$749,000 is to be paid in September 2019, subject to certain conditions as defined in the Equity Agreement.

Assets Acquired and Liabilities Assumed

The following table presents the preliminary allocation of the acquisition cost to the assets acquired and liabilities assumed based on their fair values.

(dollars in thousands)	Fair Value
Goodwill	\$ 13,653
Tradename	6,549
Equipment	2,179
Inventory	1,804
Accounts receivable and other current assets	108
Accounts payable	(1,336)
Accrued expenses	(295)
Non-controlling interest in ELUX	(4,532)
	<u>\$ 18,130</u>

The estimated fair values of the assets acquired and liabilities assumed are provisional and are based on the information that was currently available to estimate the fair value of assets acquired and liabilities assumed. We believe that information provides a reasonable basis for estimating the fair values of assets acquired and liabilities assumed, but we are waiting for additional information necessary to finalize those fair values. Therefore, the provisional measurements of fair value reflected are subject to change and such changes could be significant. The Company expects to finalize the

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

valuation and complete the purchase price allocation as soon as practicable but no later than one year from the acquisition date.

We recorded the tradename at fair market based on the relief from royalty method. This tradename was determined to have an indefinite useful life and, therefore, is not being amortized. Equipment will be depreciated on a straight-line basis over useful lives ranging from five to ten years.

The goodwill related to this acquisition is attributable to ELUX's reputation with the products they offer and management's experience in e-commerce, online brand building, and direct-to-consumer shopping and fulfillment expertise. Goodwill was assigned to the mattress fabrics segment and is deductible for income tax purposes over the statutory period of fifteen years.

As mentioned above, the Equity Agreement contains a contingent consideration arrangement that requires us to pay the seller who is also the shareholder of the noncontrolling interest an earn-out payment based on adjusted EBITDA to be determined over a three-year period in relation to a pre-established adjusted EBITDA target. We recorded a contingent liability for this earn-out obligation at its fair value totaling \$5.6 million based on the Black Scholes pricing model.

Consolidation and Non-Controlling Interest

The Equity Agreement contains substantive profit-sharing arrangement provisions in which it explicitly states the ownership interests at the effective date of this business combination and the allocation of net income or loss between the controlling interest (Culp) and the noncontrolling interest. The Equity Agreement states that at the effective date of this acquisition (June 22, 2018), Culp acquired an 80% ownership interest in ELUX with the seller retaining a 20% noncontrolling interest. Additionally, the Equity Agreement states that ELUX's net income or loss will be allocated a percentage of 70% and 30% to Culp and the noncontrolling interest, respectively.

As result of the acquisition of our 80% controlling interest, we included all the accounts of ELUX in our consolidated financial statements and have eliminated all significant intercompany balances and transactions.

Based on the terms of the Equity Agreement, we believe the related risks associated with the ownership interests are aligned and therefore, the total consideration of \$18.1 million for the 80% controlling interest provides information for the equity value of ELUX as a whole, and therefore, is useful in estimating the fair value of the 20% noncontrolling interest. In order to determine the carrying value of our noncontrolling interest in ELUX, we applied the Hypothetical-Liquidation-At-Book-Value method (HLBV). HLBV is an approach that is used in practice to determine the carrying value of a noncontrolling interest if it is consistent with an existing profit-sharing arrangement such as the Equity Agreement. Therefore, the carrying amount of the noncontrolling interest of \$4.5 million represents the \$4.5 million fair value determined at the acquisition date plus its allocation of net income totaling \$8,000 subsequent to the acquisition date and until the end of our first quarter of fiscal 2019.

Other

Acquisitions costs totaling \$270,000 were included in selling, general, and administrative expenses in our Consolidated Statement of Net Income for the three-month period ending July 29, 2018.

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

Actual revenue and net income for the period June 22, 2018 through July 29, 2018 were included in our Consolidated Statement of Net Income for the three-months ended July 29, 2018, and totaled \$2.6 million and \$27,000, respectively.

Pro Forma Financial Information

The following unaudited pro forma consolidated results of operations for the three-month periods ending July 29, 2018, and July 30, 2017, have been prepared as if the acquisitions of Read had occurred on May 2, 2016 and ELUX had occurred on May 1, 2017.

(dollars in thousands, except per share data)	Three Months Ended	
	July 29, 2018	July 30, 2017
Net Sales	\$ 74,598	\$ 88,739
Income from operations	2,073	6,867
Net income	939	4,875
Net income (loss) - noncontrolling interest	-	(85)
Net income – Culp Inc. common shareholders	939	4,959
Net income per share (basic) –		
Culp Inc. common shareholders	0.08	0.40
Net income per share (diluted) –		
Culp Inc. common shareholders	0.07	0.39

The unaudited pro forma information is presented for informational purposes only and is not necessarily indicative of the results of operations that actually would have been achieved had the acquisition been consummated as of that time, nor is it intended to be a projection of future results.

3. Accounts Receivable

A summary of accounts receivable follows:

(dollars in thousands)	July 29, 2018	July 30, 2017	April 29, 2018
Customers	\$ 23,793	\$ 23,548	\$ 28,097
Allowance - doubtful accounts	(366)	(325)	(357)
Allowance - cash discounts	(150)	(238)	(245)
Allowance - sales returns & allowances (1)	(52)	(845)	(1,188)
	\$ 23,225	\$ 22,140	\$ 26,307

(1) Due to the adoption of ASC Topic 606, *Revenue from Contracts with Customers*, certain balance sheet reclassifications were required regarding our allowance for sales returns and allowances for the current year's presentation only. See Note 4 to the consolidated financial statements for required balance sheet disclosures associated with the adoption of ASC Topic 606.

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

<i>(dollars in thousands)</i>	Three months ended	
	July 29, 2018	July 30, 2017
Beginning balance	\$ (357)	\$ (414)
Provision for bad debts	(9)	89
Net write-offs, net of recoveries	-	-
Ending balance	\$ (366)	\$ (325)

A summary of the activity in the allowances for sales returns and allowances and cash discounts follows:

<i>(dollars in thousands)</i>	Three months ended	
	July 29, 2018	July 30, 2017
Beginning balance	\$ (1,433)	\$ (1,220)
Adoption of ASC Topic 606 (1)	1,145	-
		-
Provision for returns, allowances and discounts	(487)	(628)
Credits issued	573	765
Ending balance	\$ (202)	\$ (1,083)

4. Revenue

Revenue from Contracts with Customers

On April 30, 2018, we adopted ASU 2014-09 “Revenue from Contracts with Customers” (ASC Topic 606 or the “new standard”) using the retrospective modified method. The retrospective modified method requires an adjustment to the opening balance of retained earnings for the cumulative effect of initially applying the new revenue standard. As permitted by the transition guidance, we elected to apply the new standard only to contracts that were not completed at the date of initial application, and therefore, we only evaluated those contracts that were in-process and not completed before April 30, 2018.

The application of the new standard did not result in a material impact to the opening balance of retained earnings, and therefore no adjustment to retained earnings was recorded. The largest impact of applying the new standard are the required qualitative and quantitative disclosures and the presentation and classification related to estimates of allowances for sales returns. The cumulative effect of the classification changes related to our allowances for sales returns on our April 30, 2018, balance sheet are as follows:

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<i>(dollars in thousands)</i>	Balance at April 29, 2018	Adjustments Due to ASC 606 Adoption (1)	Balance at April 30, 2018
Balance Sheet			
Assets:			
Accounts Receivable	\$ 26,307	\$ 1,145	\$ 27,452
Other Current Assets	2,870	27	2,897
Liabilities:			
Accrued Expenses	9,325	1,171	10,496

- (1) The adjustments associated with the adoption of the new standard are related to classifying allowances for estimated sales returns as a liability rather than as a contra account to accounts receivable on the consolidated balance sheet for the current year's presentation only. As required under the new standard, we also recorded the estimated allowance for sales returns on a gross basis rather than a net basis by separately reflecting a return goods asset within other current assets rather than netting it with the estimated sales returns liability.

Currently, we expect the adoption of this new standard to be immaterial to our net income on an ongoing basis. The effect of adopting ASC 606 on our Consolidated Statements of Net Income and Consolidated Balance Sheets for the three months ended July 29, 2018, are as follows:

<i>(dollars in thousands)</i>	Balance at July 29, 2018	Adjustments Due to ASC 606 Adoption (1)	Balances Without ASC 606 Adoption
Statements of Net Income			
Net Sales	\$ 71,473	\$ (40)	\$ 71,433
Cost of Sales	60,914	(40)	60,874
Balance Sheet			
Assets:			
Accounts Receivable	\$ 23,225	\$ 1,123	\$ 24,348
Other Current Assets	3,852	(40)	3,812
Liabilities:			
Accrued Expenses	\$ 8,176	1,163	\$ 9,339

- (1) The adjustments associated with the adoption of the new standard are related to classifying allowances for estimated sales returns as a liability rather than as a contra account to accounts receivable on the consolidated balance sheet for the current year's presentation only. As required under the new standard, we also recorded the estimated allowance for sales returns on a gross basis rather than a net basis by separately reflecting a return goods asset within other current assets rather than netting it with the estimated sales returns liability.

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Nature of Performance Obligations

Our operations are classified into two business segments: mattress fabrics and upholstery fabrics. The mattress fabrics segment manufactures, sources, and primarily sells fabrics and mattress covers to bedding manufacturers. The upholstery fabrics segment manufactures, sources, develops, and sells fabrics primarily to residential and commercial furniture manufacturers. Effective April 1, 2018, we acquired Read (see Note 2 for further details), a turn key provider of window treatments offering measuring, sourcing, fabrication, and installation services for the hospitality and commercial industries. In addition, Read supplies soft goods such as decorative top sheets, coverlets, duvet covers, bed skirts, bolsters and pillows. Effective June 22, 2018, we acquired a majority interest in ELUX (see Note 2 for further details), an e-commerce company offering bedding accessories and home products directly to consumers.

Our primary performance obligations primarily include the sale of mattress and upholstery fabric products and the performance of customized fabrication and installation services associated window treatments.

Significant Judgments

Revenue is recognized upon the transfer of control of promised products or services to customers in an amount that reflects the consideration we expect to receive in exchange for those products or services. We determined that our customer purchase orders represent contracts as defined in the new standard. In addition to purchase orders, we also have supply contracts with certain customers that define standard terms and conditions. Our contracts generally include promises to sell either upholstery fabric or mattress fabric products or promises to provide fabrication and installation services associated with customized window treatments. The transaction price is typically allocated to performance obligations based upon stand-alone selling prices. We do not disclose the value of unsatisfied performance obligations as substantially all of any unsatisfied performance obligations as of July 29, 2018, will be satisfied within one year or less. Revenue associated with sales of our products are recognized at the point-in-time when control of the promised goods has been transferred to the customer. The point-in-time when control transfers to the customer depends on the contractually agreed upon shipping terms, but typically occurs once the product has been shipped or once it has been delivered to a location specified by the customer. For certain warehousing arrangements, transfer of control to the customer is deemed to have occurred when the customer pulls the inventory for use in their production. Revenue associated with our customized fabrication services, which are performed on various types of window treatments, are recognized over time and determined when the products on which those services are performed have no alternative use but for which we have an enforceable right to payment for the services expended. Revenue for our customized fabrication services are recognized over time using the output method based on units produced. Revenue associated with our installation services of window treatments are also recognized over time as it is determined when the customer receives and consumes the benefits as we perform the promised installation services. Revenue associated with our installation services are recognized over time using the output method based on units installed.

We evaluated the nature of any guarantees or warranties related to our contracts with customers and determined that any such warranties are assurance-type warranties that cover only compliance with agreed upon specifications, and therefore are not considered separate performance obligations. We have elected to treat both shipping costs and handling costs as fulfillment costs which are classified in the Consolidated Statements of Net Income as cost of sales and selling, general and administrative expenses, respectively.

Revenue is measured as the amount of consideration we expect to receive in exchange for the transfer of the promised products and services. The amount of consideration we expect to receive changes due variable consideration associated with allowances for sales returns, early payment discounts, and volume rebates that we offer to customers. The amount of variable consideration which is included in the transaction price

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is only included in net sales to the extent that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur in a future period. We only allow product returns to the extent that the products or services did not meet the contractually agreed upon specifications at the time of the sale. Customers must receive authorization prior to returning products. Estimates of allowances for sales returns are based on historical data, current potential product return issues, and known sales returns for which customers have been granted return authorization. Known sales returns for which customers have been granted permission to return products for a refund or credit, continue to be recorded as a contra account receivable. Estimates for potential future sales returns and related customer accommodations are now recorded within accrued expenses as required by the new standard. Under the new standard we record estimates for sales returns on a gross basis rather than a net basis and an estimate of a right of return asset is recorded in other current assets and cost of goods sold. Variable consideration associated with early payment cash discounts are estimated using current payment trends and historical data on a customer-by-customer basis. The variable consideration associated with volume rebates are based on the portion of the rebate earned relative to the total amount of rebates the customer is expected to earn over the rebate period as determined using historical data and projections.

Revenue is recognized net of any taxes collected from customers which are subsequently remitted to governmental authorities. We generally recognize sales commission as expense when incurred because the amortization period is one year or less. Sales commissions are recorded within selling, general, and administrative expenses in the Consolidated Statements of Net Income.

Contract Assets & Liabilities

Certain contracts, primarily those for customized fabrication and installation services, require upfront customer deposits that result in a contract liability which is recorded on the Consolidated Balance Sheet as deferred revenue. If upfront deposits or prepayment are not required, customers may be granted credit terms which generally range from 15 – 45 days. Such terms are common within the industries we are associated and are not considered financing arrangements. There were no contract assets recognized as of July 29, 2018.

A summary of the activity for deferred revenue follows:

<i>(dollars in thousands)</i>	Three Months Ended July 29, 2018
Balance as of April 29, 2018	\$ 809
Revenue recognized on contract liabilities during the period	(742)
Payments received for services not yet rendered during the period	567
Balance as of July 29, 2018	\$ 634

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Disaggregation of Revenue

The following table presents our disaggregated revenue by segment, timing of revenue recognition, and product sales versus services rendered for the three-month period ending July 29, 2018.

Net Sales

<i>(dollars in thousands)</i>	Mattress Fabrics	Upholstery Fabrics	Total
Products transferred at a point in time	\$ 36,983	\$ 31,821	\$ 68,804
Services transferred over time	-	2,669	2,669
Total Net Sales	\$ 36,983	\$ 34,490	\$ 71,473

5. Inventories

Inventories are carried at the lower of cost or market. Cost is determined using the FIFO (first-in, first-out) method.

A summary of inventories follows:

<i>(dollars in thousands)</i>	July 29, 2018	July 30, 2017	April 29, 2018
Raw materials	\$ 5,291	\$ 6,956	\$ 6,024
Work-in-process	2,413	2,782	3,264
Finished goods	47,285	45,489	44,166
	\$ 54,989	\$ 55,227	\$ 53,454

6. Other Noncurrent Assets

A summary of other noncurrent assets follows:

<i>(dollars in thousands)</i>	July 29, 2018	July 30, 2017	April 29, 2018
Tradenames	\$ 7,232	\$ -	\$ 683
Customer relationships, net	2,764	651	2,839
Non-compete agreement, net	734	809	753
Cash surrender value – life insurance	393	376	393
Other	517	561	564
	\$ 11,640	\$ 2,397	\$ 5,232

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Tradenames

A summary of the carrying amount of our tradenames from our recent acquisitions (see Note 2) follow:

<i>(dollars in thousands)</i>	July 29, 2018	July 30, 2017	April 29, 2018
Read	\$ 683	\$ -	\$ 683
ELUX	6,549	-	-
	\$ 7,232	\$ -	\$ 683

Our tradenames were recorded at their fair market values at the effective date of their acquisitions (see Note 2) and were based on the relief from royalty method. These tradenames were determined to have an indefinite useful life and therefore, are not being amortized.

Customer Relationships

A summary of the change in the carrying amount of our customer relationships follows:

<i>(dollars in thousands)</i>	Three months ended	
	July 29, 2018	July 30, 2017
Beginning balance	\$ 2,839	\$ 664
Acquisition of assets	-	-
Amortization expense	(75)	(13)
Loss on impairment	-	-
Ending balance	\$ 2,764	\$ 651

In connection with our asset purchase agreement with Read (see note 2) on April 1, 2018, we purchased certain customer relationships. We recorded these customer relationships at fair market value totaling \$2.2 million based on a multi-period excess earnings valuation model. These customer relationships will be amortized on a straight-line basis over their nine-year useful life.

Additionally, we have customer relationships from a prior acquisition with a carrying amount of \$600,000 at July 29, 2018. These customer relationships are being amortized on a straight-line basis over their seventeen-year useful life.

The gross carrying amount of our customer relationships were \$3.1 million, \$868,000 and \$3.1 million at July 29, 2018, July 30, 2017, and April 29, 2018, respectively. Accumulated amortization for these customer relationships were \$351,000, \$217,000 and \$276,000 at July 29, 2018, July 30, 2017, and April 29, 2018, respectively.

The remaining amortization expense for the next five fiscal years and thereafter follows: FY 2019 - \$226,000; FY 2020 - \$301,000; FY 2021 - \$301,000; FY 2022 - \$301,000; FY 2023 - \$301,000; and Thereafter - \$1,334,000.

The weighted average amortization period for our customer relationships is 9.4 years as of July 29, 2018.

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Non-Compete Agreement

A summary of the change in the carrying amount of our non-compete agreement follows:

<i>(dollars in thousands)</i>	Three months ended	
	July 29, 2018	July 30, 2017
Beginning balance	\$ 753	\$ 828
Amortization expense	(19)	(19)
Loss on impairment	-	-
Ending balance	\$ 734	\$ 809

We have a non-compete agreement from a prior acquisition that is being amortized on a straight-line basis over the fifteen-year life of the agreement.

The gross carrying amount of this non-compete agreement was \$2.0 million at July 29, 2018, July 30, 2017, and April 29, 2018, respectively. Accumulated amortization for this non-compete agreement was \$1.3 million at July 29, 2018 and April 29, 2018, and \$1.2 million at July 30, 2017.

The remaining amortization expense for the next five years and thereafter follows: FY 2019 - \$56,000; FY 2020 - \$75,000; FY 2021 - \$75,000; FY 2022 - \$75,000; FY 2023 - \$75,000, and Thereafter - \$378,000.

The weighted average amortization period for the non-compete agreement is 9.8 years as of July 29, 2018.

Cash Surrender Value – Life Insurance

We had one life insurance contract with a death benefit of \$1.4 million at July 29, 2018, July 30, 2017, and April 29, 2018, respectively. Our cash surrender value – life insurance balances totaling \$393,000, \$376,000 and \$393,000 at July 29, 2018, July 30, 2017, and April 29, 2018, respectively, are collectible upon death of the respective insured.

7. Goodwill

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

<i>(dollars in thousands)</i>	Three months ended	
	July 29, 2018	July 30, 2017
Beginning balance	\$ 13,569	\$ 11,462
Acquisition of business (see note 2)	13,653	-
Loss on impairment	-	-
Ending balance	\$ 27,222	\$ 11,462

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8. Investment in Unconsolidated Joint Venture

Culp International Holdings, Ltd. (Culp), a wholly-owned subsidiary of Culp, Inc. (collectively known as CULP), entered into a joint venture agreement, pursuant to which CULP owns fifty percent of CLASS International Holdings, Ltd. (CLIH). CLIH produces cut and sewn mattress covers, and its operations are located in a modern industrial park in northeastern Haiti, which borders the Dominican Republic. CLIH commenced production during the second quarter of fiscal 2018 (October 2017) and complements our mattress fabric operations with a mirrored platform that enhances our ability to meet customer demand while adding a lower cost operation to our platform.

CLIH incurred a net loss totaling \$154,000 and \$236,000 for the three-month periods ending July 29, 2018 and July 30, 2017, respectively. CLIH's net loss in the first quarter of fiscal 2018 pertained to initial start-up operating expenses incurred. Our equity interests in these net losses were \$77,000 and \$118,000 for the three-month periods ending July 29, 2018 and July 30, 2017, respectively.

The following table summarizes information on assets, liabilities and members' equity of our equity method investment in CLIH:

(dollars in thousands)	July 29, 2018	July 30, 2017	April 29, 2018
Total assets	\$ 3,153	\$ 3,003	\$ 3,130
Total liabilities	\$ 103	\$ 48	\$ 128
Total members' equity	\$ 3,050	\$ 2,955	\$ 3,002

At July 29, 2018, July 30, 2017, and April 29, 2018, our investment in CLIH totaled \$1.5 million, which represents the company's fifty percent ownership interest in CLIH.

9. Accrued Expenses

A summary of accrued expenses follows:

(dollars in thousands)	July 29, 2018	July 30, 2017	April 29, 2018
Compensation, commissions and related benefits	\$ 3,719	\$ 4,535	\$ 6,918
Interest	12	19	20
Other accrued expenses	5,194	1,521	3,150
	\$ 8,925	\$ 6,075	\$ 10,088

At July 29, 2018, we had accrued expenses totaling \$8.9 million, of which \$8.2 million and \$749,000 were classified as current accrued expenses and long-term accrued expenses, respectively, in the accompanying Consolidated Balance Sheets. At July 30, 2017, we accrued expenses totaling \$6.1 million, all of which were classified as current accrued expenses, in the accompanying Consolidated Balance Sheets. At April 29, 2018, we had accrued expenses totaling \$10.1 million, of which \$9.3 million and \$763,000 were classified as current accrued expenses and long-term accrued expenses, respectively, in the accompanying Consolidated Balance Sheets.

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10. Exit and Disposal Activity

On June 12, 2018, our board of directors decided to close our upholstery fabrics manufacturing facility in Anderson, South Carolina. This closure is due to a continued decline in demand for the products manufactured at this facility, reflecting a change in consumer style preferences. We expect to close this facility during the second quarter of fiscal 2018. Restructuring expense and related charges totaled \$2.0 million of which \$1.6 million represented inventory markdowns and \$451,000 represented employee termination benefits. Of this total charge, \$1.6 million and \$451,000 were recorded in cost of sales and restructuring expense in the Consolidated Statement of Net Income for the three-month period July 29, 2018.

As of July 29, 2018, accrued restructuring costs represented \$445,000 for employee termination benefits, of which a \$451,000 accrual was established as noted above, less \$6,000 in severance payments during the three-month period ending July 29, 2018.

Currently, management expects to offset most of the \$2.0 million charge over the 2nd and 3rd quarters from sale of associated property, plant, and equipment.

11. Lines of Credit

Revolving Credit Agreement – United States

At July 29, 2018, our Credit Agreement with Wells Fargo Bank, N.A. (“Wells Fargo”) provided for a revolving loan commitment of \$30 million. Interest was charged at a rate (applicable interest rate of 3.53%, 2.68%, and 3.36% at July 29, 2018, July 30, 2017, and April 29, 2018) as a variable spread over LIBOR based on our ratio of debt to EBITDA. The Credit Agreement contains certain financial and other covenants as defined in the agreement and was set to expire on August 15, 2018.

The purposes of our revolving credit line is to support potential short term cash needs in different jurisdictions within our global operations, mitigate our risk associated with foreign currency exchange rate fluctuations, and ultimately repatriate earnings and profits from our foreign subsidiaries to the U.S. for various strategic purposes.

Outstanding borrowings are secured by a pledge of 65% of the common stock of Culp International Holdings Ltd. (our subsidiary located in the Cayman Islands), as required by the Credit Agreement. At July 29, 2018 and July 30, 2017, we had outstanding borrowings associated with our Credit Agreement totaling \$4.0 million and \$5.0 million, respectively. There were no borrowings outstanding under the Credit Agreement at April 29, 2018.

At July 29, 2018, July 30, 2017, and April 29, 2018, there were \$250,000 in outstanding letters of credit (all of which related to workers compensation) provided by the Credit Agreement.

Effective August 1, 2016, we entered into a Third Amendment to our Credit Agreement which allowed us to issue letters of credit not to exceed \$7.5 million. On August 3, 2016, we issued a \$5.0 million letter of credit, in addition to the \$250,000 letter of credit noted above, for the construction of a new building associated with our mattress fabrics segment (see Note 20 for further details). The terms of this \$5.0 million letter credit expired on May 15, 2018.

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Effective August 13, 2018, we entered into a Fifth Amendment to our Credit Agreement which reduced the amount of our line of credit from \$30 million to \$25 million, reduced the amount of the Unencumbered Liquid Assets maintenance covenant from \$20 million to \$15 million, and set an expiration date of August 15, 2020. Additionally, this amendment reduced the limit of outstanding letters to \$1.0 million, which includes the \$250,000 workers compensation letter of credit noted above.

Revolving Credit Agreement – China

We have an unsecured credit agreement associated with our operations in China that provides for a line of credit up to 40 million RMB (\$5.9 million USD at July 29, 2018) and is set to expire on March 2, 2019. This agreement has an interest rate determined by the Chinese government and there were no outstanding borrowings as of July 29, 2018, July 30, 2017, and April 29, 2018.

Overalls

Our loan agreements require, among other things, that we maintain compliance with certain financial covenants. At July 29, 2018, the company was in compliance with these financial covenants.

12. Fair Value of Financial Instruments

ASC Topic 820 establishes a fair value hierarchy that distinguishes between assumptions based on market data (observable inputs) and the company's assumptions (unobservable inputs). Determining where an asset or liability falls within that hierarchy depends on the lowest level input that is significant to the fair value measurement as a whole. An adjustment to the pricing method used within either level 1 or level 2 inputs could generate a fair value measurement that effectively falls in a lower level in the hierarchy. The hierarchy consists of three broad levels as follows:

Level 1 – Quoted market prices in active markets for identical assets or liabilities;

Level 2 – Inputs other than level 1 inputs that are either directly or indirectly observable, and

Level 3 – Unobservable inputs developed using the company's estimates and assumptions, which reflect those that market participants would use.

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Recurring Basis

The following table presents information about assets measured at fair value on a recurring basis:

Fair value measurements at July 29, 2018 using:

	Quoted prices in active markets for identical assets	Significant other observable inputs	Significant unobservable inputs	
<i>(amounts in thousands)</i>	Level 1	Level 2	Level 3	Total
Assets:				
Premier Money Market Fund	\$ 6,749	N/A	N/A	\$ 6,749
Large Blend Fund	438	N/A	N/A	438
Growth Allocation Fund	180	N/A	N/A	180
Moderate Allocation Fund	117	N/A	N/A	117
Other	187	N/A	N/A	187

Fair value measurements at July 30, 2017 using:

	Quoted prices in active markets for identical assets	Significant other observable inputs	Significant unobservable inputs	
<i>(amounts in thousands)</i>	Level 1	Level 2	Level 3	Total
Assets:				
Premier Money Market Fund	\$ 5,991	N/A	N/A	\$ 5,991
Low Duration Bond Fund	1,085	N/A	N/A	1,085
Intermediate Term Bond Fund	762	N/A	N/A	762
Strategic Income Fund	622	N/A	N/A	622
Large Blend Fund	381	N/A	N/A	381
Growth Allocation Fund	140	N/A	N/A	140
Moderate Allocation Fund	102	N/A	N/A	102
Other	100	N/A	N/A	100

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Fair value measurements at April 29, 2018 using:

	Quoted prices in active markets for identical assets	Significant other observable inputs	Significant unobservable inputs	
<i>(amounts in thousands)</i>	Level 1	Level 2	Level 3	Total
Assets:				
Premier Money Market Fund	\$ 6,492	N/A	N/A	\$ 6,492
Low Duration Bond Fund	1,085	N/A	N/A	1,085
Intermediate Term Bond Fund	747	N/A	N/A	747
Strategic Income Fund	619	N/A	N/A	619
Large Blend Fund	402	N/A	N/A	402
Growth Allocation Fund	169	N/A	N/A	169
Moderate Allocation Fund	113	N/A	N/A	113
Other	150	N/A	N/A	150
Liabilities:				
EURO Foreign Currency				
Cash Flow Hedge	N/A	\$ 55	N/A	\$ 55

Our EURO foreign exchange contract was recorded at a fair value provided by our bank and is classified within level 2 of the fair value hierarchy. Most derivative contracts are not listed on an exchange and require the use of valuation models. In accordance with ASC Topic 820, we attempted to maximize the use of observable inputs used in the valuation models used to determine the fair value of this contract. Derivative contracts valued based on valuation models with significant unobservable inputs and that are not actively traded, are classified within level 3 of the fair value hierarchy.

The determination of where an asset or liability falls in the hierarchy requires significant judgment. We evaluate our hierarchy disclosures each quarter based on various factors and it is possible that an asset or liability may be classified differently from quarter to quarter. However, we expect that changes in classifications between different levels will be rare.

Short-Term Investments – Available for Sale

There were no short-term investments classified as available for sale held at July 29, 2018. At July 30, 2017 and April 29, 2018, our short-term investments classified as available for sale totaled \$2.5 million and consisted of short-term bond funds. Since these short-term bond funds were classified as available for sale, these investments were recorded at their fair market value and their unrealized gains or losses are included in other comprehensive income (loss). Our short-term bond investments had an accumulated unrealized loss totaling \$33,000 and \$91,000 at July 30, 2017, and April 29, 2018, respectively. At July 30, 2017, and April 29, 2018, the fair value of our short-term bond funds approximated its cost basis.

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Short-Term and Long-Term Investments - Held-To-Maturity

Our investments classified as held-to-maturity consist of investment grade U.S. Corporate bonds with maturities that ranged from 2 to 2.5 years. The purpose of these investments was to earn a higher rate of return on our excess cash located in the Cayman Islands. These investments are classified as held-to-maturity as we have the positive intent and ability to hold these investments until maturity. Our held-to-maturity investments will be recorded as either current or noncurrent on our Consolidated Balance Sheets, based on contractual maturity date as of a respective reporting period and recorded at amortized cost.

At July 29, 2018, July 30, 2017 and April 29, 2018, our held-to-maturity investments recorded at amortized cost totaled \$30.8 million, \$30.9 million, and \$30.8 million, respectively. The fair value of our held-to-maturity investments at July 29, 2018, July 30, 2017, and April 29, 2018 totaled \$30.6 million, \$30.8 million, and \$30.6 million, respectively.

Our U.S. corporate bonds were classified as level 2 as they are traded over the counter within a broker network and not on an active market. The fair value of our U.S. corporate bonds is determined based on a published source that provides an average bid price. The average bid price is based on various broker prices that are determined based on market conditions, interest rates, and the rating of the respective U.S. corporate bond.

Long-Term Investments - Rabbi Trust

We have a Rabbi Trust to set aside funds for participants of our deferred compensation plan (the “Plan”) and enable the participants to credit their contributions to various investment options of the Plan. The investments associated with the Rabbi Trust consist of a money market fund and various mutual funds that are classified as available for sale.

These long-term investments are recorded at their fair values of \$7.7 million, \$6.7 million, and \$7.3 million at July 29, 2018, July 30, 2017 and April 29, 2018, respectively. Our long-term investments had an accumulated unrealized gain of \$104,000, \$73,000, and \$61,000 at July 29, 2018, July 30, 2017, and April 29, 2018, respectively. The fair value of our long-term investments associated with our Rabbi Trust approximates its cost basis.

Other

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

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Nonrecurring Basis

At July 29, 2018, we had no assets that were required to be measured at fair value on a nonrecurring basis other than the assets acquired from ELUX (see note 2) that were acquired at fair value:

Fair value measurements at July 29, 2018 using:				
	Quoted prices in active markets for identical assets	Significant other observable inputs	Significant unobservable inputs	
(amounts in thousands)	Level 1	Level 2	Level 3	Total
Assets:				
Goodwill	N/A	N/A	\$13,653	\$ 13,653
Tradenname	N/A	N/A	6,549	6,549
Equipment	N/A	N/A	2,179	2,179
Inventory	N/A	N/A	1,804	1,804
Liabilities:				
Contingent Consideration – Earn-Out Obligation	N/A	N/A	\$ 5,600	\$ 5,600

The tradenname was recorded at fair market value using the royalty from relief method that used significant unobservable inputs and were classified as level 3. The contingent consideration – earn-out obligation was recorded at fair market value using Black Sholes pricing model.

Additionally, we acquired certain current assets such as accounts receivable and prepaid expenses and assumed certain liabilities such as accounts payable and accrued expenses. Based on the nature of these items and their short maturity, the carrying amount of these items approximated their fair values. See note 2 for the preliminary allocation of the acquisition cost to the assets acquired and liabilities assumed based on their fair values.

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At April 29, 2018, we had no assets that were required to be measured at fair value on a nonrecurring basis other than the assets acquired from Read (see note 2) that were acquired at fair value:

Fair value measurements at April 29, 2018 using:

	Quoted prices in active markets for identical assets	Significant other observable inputs	Significant unobservable inputs	
(amounts in thousands)	Level 1	Level 2	Level 3	Total
Assets:				
Customer Relationships	N/A	N/A	\$2,247	\$ 2,247
Goodwill	N/A	N/A	2,107	2,107
Inventory	N/A	N/A	1,128	1,128
Tradenname	N/A	N/A	683	683
Equipment	N/A	N/A	379	379
Liabilities:				
None	N/A	N/A	N/A	N/A

These customer relationships were recorded at fair market value using a multi-period excess earnings valuation model that used significant unobservable inputs and were classified as level 3. The tradenname was recorded at fair market value using the royalty from relief method that used significant unobservable inputs and were classified as level 3.

Additionally, we acquired certain current assets such as accounts receivable and other assets and assumed certain liabilities such as deferred revenue, accounts payable and accrued expenses. Based on the nature of these items and their short maturity, the carrying amount of these items approximated their fair values. See note 2 for the allocation of the acquisition cost to the assets acquired and liabilities assumed based on their fair values.

13. Derivatives

During the fourth quarter of fiscal 2018, we entered into a EURO foreign exchange contract to mitigate the risk of foreign exchange rate fluctuations associated with certain capital expenditures. The contract effectively converts our EURO capital expenditures at a fixed EURO foreign exchange rate compared with the United States dollar of 1.263 and is due to expire in August 2018.

In accordance with the provisions of ASC Topic 815, Derivatives and Hedging, our EURO foreign exchange contract was designated as a cash flow hedge, with the fair value of these financial instruments recorded in accrued expenses and changes in fair value recorded in accumulated other comprehensive income (loss). ASC Topic 815 requires disclosure of gains and losses on derivative instruments in the following tabular format.

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(Amounts in Thousands)

	Fair Values of Derivative Instruments			
	July 29, 2018		April 29, 2018	
Derivatives designated as hedging instruments under ASC Topic 815	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Euro Foreign Exchange Contract	Accrued Expenses	\$40	Accrued Expenses	\$55

At July 30, 2017, we did not have any derivatives designated as hedging instruments under ASC Topic 815.

Derivatives in ASC Topic 815 Net Investment Hedging Relationships	Amt of Gain (Loss) (net of tax) Recognized in OCI on Derivative (Effective Portion) and recorded in Accrued Expenses at Fair Value		Location of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Amount of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)		Location of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Amount of Gain (loss) (net of tax) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	
	Three Months Ended July 29, 2018	Three Months Ended July 30, 2017		Three Months Ended July 29, 2018	Three Months Ended July 30, 2017		Three Months Ended July 29, 2018	Three Months Ended July 30, 2017
EURO Foreign Exchange Contract	\$15	\$-	Other Exp	\$(40)	\$-	Other Exp	\$-	\$-

14. Cash Flow Information

Interest and income taxes paid are as follows:

<i>(dollars in thousands)</i>	Three months ended	
	July 29, 2018	July 30, 2017
Interest	\$ 24	\$ 83
Income taxes	3,223	536

Interest costs charged to operations were \$20,000 and \$64,000 for the three months ended July 29, 2018 and July 30, 2017, respectively.

No interest costs for the construction of qualifying fixed assets were capitalized for the three months ended July 29, 2018. Interest costs totaling \$64,000 for the construction of qualifying fixed assets were capitalized for the three-months ended July 30, 2017. As a result, these interest costs will be amortized over the related assets' useful lives.

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15. Net Income Per Share

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

<i>(amounts in thousands)</i>	Three months ended	
	July 29, 2018	July 30, 2017
Weighted average common shares outstanding, basic	12,510	12,399
Dilutive effect of stock-based compensation	90	191
Weighted average common shares outstanding, diluted	12,600	12,590

At July 29, 2018 and April 29, 2018, there were no options to purchase shares of our common stock outstanding. Therefore, options to purchase shares of our common stock were not included in the computation of diluted net income for the three-months ending July 29, 2018. All options to purchase shares of common stock were included in the computation of diluted net income for the three-months ending July 30, 2017, as the exercise price of the options was less than the average market price of the common shares.

16. Segment Information

Our operations are classified into two business segments: mattress fabrics and upholstery fabrics. The mattress fabrics segment manufactures, sources, and primarily sells fabrics and mattress covers to bedding manufacturers. The upholstery fabrics segment manufactures, sources, develops, and sells fabrics primarily to residential and commercial furniture manufacturers.

Effective April 1, 2018, we acquired Read (see Note 2 for further details), a turn key provider of window treatments offering measuring, sourcing, fabrication, and installation services for the hospitality and commercial furniture industries. Currently, our Chief Executive Officer (CODM) evaluates Read's performance within our upholstery fabrics segment as they provide products and services in similar industries in which our upholstery fabrics segment operates and uses upholstery fabric products to service their customers.

Effective June 22, 2018, we acquired ELUX (see Note 2 for further details), an internet company offering bedding accessories and home goods directly to consumers. ELUX's primary products include a line of mattress pads, and also offer handmade platform beds, cotton bed sheets, and other bedding items. Currently, ELUX is included in our mattress fabrics segment as they primarily provide bedding products and service the same industry. Due to the newness of this acquisition, we will evaluate ELUX each reporting period in accordance with *ASC Topic 280 – Segment Reporting* to determine if this entity will require separate segment reporting as their own operations continue to evolve and become more integrated with our existing operations.

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We evaluate the operating performance of our segments based upon income from operations before certain unallocated corporate expenses and other non-recurring items. Cost of sales in both segments include costs to manufacture, develop, or source our products, including costs such as raw material and finished goods purchases, direct and indirect labor, overhead and incoming freight charges. Unallocated corporate expenses primarily represent compensation and benefits for certain executive officers, all costs associated with being a public company, and other miscellaneous expenses. Segment assets include assets used in the operations of each segment and primarily consist of accounts receivable, inventories, and property, plant and equipment. The mattress fabrics segment also includes in segment assets, goodwill and other intangible assets associated with prior acquisitions and the recent acquisition of ELUX and our investment in an unconsolidated joint venture. The upholstery fabrics segment also includes in segment assets goodwill and other intangible assets associated with the acquisition of Read.

Financial information for the company's operating segments follows:

	Three months ended	
	July 29, 2018	July 30, 2017
Net sales:		
Mattress Fabrics	\$ 36,983	\$ 48,429
Upholstery Fabrics	34,490	31,104
	\$ 71,473	\$ 79,533
Gross profit:		
Mattress Fabrics	\$ 5,971	\$ 9,760
Upholstery Fabrics	6,153	6,705
	\$ 12,124	\$ 16,465
Restructuring related charges (1)	(1,565)	-
	\$ 10,559	\$ 16,465
Selling, general, and administrative expenses		
Mattress Fabrics	\$ 3,148	\$ 3,391
Upholstery Fabrics	3,626	3,811
Total segment selling, general, and administrative expenses	6,774	7,202
Unallocated corporate expenses	1,259	2,299
	\$ 8,033	\$ 9,501
Income from operations:		
Mattress Fabrics	\$ 2,823	\$ 6,368
Upholstery Fabrics	2,527	2,895
Total segment income from operations	5,350	9,263
Unallocated corporate expenses	(1,259)	(2,299)
Restructuring expense and related charges (2)	(2,016)	-
Total income from operations	2,075	6,964
Interest expense	(20)	-
Interest income	150	131
Other expense	(257)	(353)
Income before income taxes	\$ 1,948	\$ 6,742

(1) The \$1.6 million represents a restructuring related charge for inventory markdowns associated with the closing of our upholstery fabrics operation located in Anderson, SC.

(2) The \$2.0 million represents the \$1.6 million restructuring related charge noted above and a restructuring charge of \$451 for employee termination benefits associated with the closing of our upholstery fabrics operation located in Anderson, SC.

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

<i>(dollars in thousands)</i>	July 29, 2018	July 30, 2017	April 29, 2018
Segment assets:			
Mattress Fabrics			
Current assets (1)	\$ 45,085	\$ 46,750	\$ 43,935
Tradename	6,549	-	-
Non-compete agreement	734	809	753
Customer relationships	600	651	613
Investment in unconsolidated joint venture	1,525	1,477	1,501
Goodwill	25,115	11,462	11,462
Property, plant and equipment (2)	50,297	50,270	48,797
Total mattress fabrics assets	129,905	111,419	107,061
Upholstery Fabrics			
Current assets (1)	33,129	30,617	35,826
Goodwill	2,107	-	2,107
Customer relationships	2,164	-	2,226
Tradename	683	-	683
Property, plant and equipment (3)	2,370	1,857	2,445
Total upholstery fabrics assets	40,453	32,474	43,287
Total segment assets	170,358	143,893	150,348
Non-segment assets:			
Cash and cash equivalents	8,593	18,322	21,228
Short-term investments (Available for Sale)	-	2,469	2,451
Short-term investments (Held-to-Maturity)	30,756	-	25,759
Deferred income taxes	3,721	436	1,458
Other current assets	3,852	3,441	2,870
Property, plant and equipment (4)	511	785	552
Long-term investments (Held-to-Maturity)	-	30,907	5,035
Long-term investments (Rabbi Trust)	7,671	6,714	7,326
Other assets	910	937	957
Total assets	\$ 226,372	\$ 207,904	\$ 217,984
<hr/>			
	Three months ended		
<i>(dollars in thousands)</i>	July 29, 2018	July 30, 2017	
Capital expenditures (5):			
Mattress Fabrics	\$ 1,198	\$ 2,967	
Upholstery Fabrics	57	85	
Unallocated Corporate	-	16	
Total capital expenditures	\$ 1,255	\$ 3,068	
Depreciation expense:			
Mattress Fabrics	\$ 1,800	\$ 1,612	
Upholstery Fabrics	215	195	
Total depreciation expense	\$ 2,015	\$ 1,807	

(1) Current assets represent accounts receivable and inventory for the respective segment.

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- (2) The \$50.3 million at July 29, 2018, represents property, plant, and equipment of \$37.2 million and \$13.1 million located in the U.S. and Canada, respectively. The \$50.3 million at July 30, 2017, represents property, plant, and equipment of \$35.8 million and \$14.5 million located in the U.S. and Canada, respectively. The \$48.8 million at April 29, 2018, represents property, plant, and equipment of \$35.4 million and \$13.4 million located in the U.S. and Canada, respectively.
- (3) The \$2.4 million at July 29, 2018, represents property, plant, and equipment of \$1.8 million and \$616 located in the U.S. and China, respectively. The \$1.9 million at July 30, 2017, represents property, plant, and equipment of \$1.2 million and \$684 located in the U.S. and China, respectively. The \$2.4 million at April 29, 2018, represents property, plant, and equipment of \$1.8 million and \$661 located in the U.S. and China, respectively.
- (4) The \$511, \$785, and \$552 at July 29, 2018, July 30, 2017 and April 29, 2018, respectively, represent property, plant, and equipment associated with unallocated corporate departments and corporate departments shared by both the mattress and upholstery fabric segments. Property, plant, and equipment associated with corporate are located in the U.S.
- (5) Capital expenditure amounts are stated on the accrual basis. See Consolidated Statements of Cash Flows for capital expenditure amounts on a cash basis.

17. Income Taxes

Effective Income Tax Rate

We recorded income tax expense of \$906,000, or 46.5% of income before income taxes, for the three-month period ended July 29, 2018, compared to income tax expense of \$1.6 million or 24.3% of income before income taxes, for the three-month period ended July 30, 2017. Our effective income tax rates for the three-month periods ended July 29, 2018, and July 30, 2017, were based upon the estimated effective income tax rate applicable for the full year after giving effect to any significant items related specifically to interim periods. The effective income tax rate can be affected over the fiscal year by the mix and timing of actual earnings from our U.S. operations and foreign subsidiaries located in China and Canada versus annual projections and changes in foreign currency exchange rates in relation to the U.S. dollar.

The following schedule summarizes the factors that contribute to the difference between income tax expense at the federal income tax rate and the effective income tax rate reflected in the consolidated financial statements:

	2019	2018
Federal income tax rate	21.0%	34.0%
Change in estimate of U.S. valuation allowance	8.6	1.4
Foreign income tax rate differential	8.3	(1.3)
Global Intangible Low Taxed Income Tax (GILTI)	2.5	-
Tax effects of Chinese foreign exchange (losses) gains	2.1	(0.9)
Excess income tax deficiency (benefits)		
related to stock-based compensation	1.7	(8.2)
Other	2.3	(0.7)
	46.5%	24.3%

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2017 Tax Cuts and Jobs Act

On December 22, 2017, the Tax Cuts and Jobs Act (H.R.1) (the “Tax Act”) was signed into law. The key impacts of the Tax Act on our financial statements during fiscal 2019 will be the reduction of our U.S. federal statutory income tax rate to 21% compared with the blended statutory income tax rate of 30.4% during fiscal 2018 and the creation of the Global Intangible Low Taxed Income Tax (“GILTI”).

In order to calculate GILTI, provisional estimates were required based on (i) projection and estimates associated with U.S. and foreign pre-tax earnings and income tax expense for fiscal 2019, (ii) projections and estimates regarding certain assets that will be held in our domestic operations or foreign subsidiaries, and (iii) projections and estimates associated with our net sales with foreign jurisdictions. Our estimates may change based on actual versus projected results.

Deferred Income Taxes

Valuation Allowance

In accordance with ASC Topic 740, we evaluate our deferred income taxes to determine if a valuation allowance is required. ASC Topic 740 requires that companies assess whether a valuation allowance should be established based on the consideration of all available evidence using a “more-likely-than-not” standard, with significant weight being given to evidence that can be objectively verified. Since the company operates in multiple jurisdictions, we assess the need for a valuation allowance on a jurisdiction-by-jurisdiction basis, taking into account the effects of local tax law.

Based on our assessments at July 29, 2018, July 30, 2017, and April 29, 2018, valuation allowances against our deferred income taxes pertain to the following jurisdictions:

<i>(dollars in thousands)</i>	<i>July 29, 2018</i>	<i>July 30, 2017</i>	<i>April 29, 2018</i>
U.S. foreign income tax credits	\$ 4,550	-	4,550
U.S. state loss carryforwards and credits	849	559	578
Polish loss carryforwards	-	78	76
	\$ 5,399	637	5,204

Undistributed Earnings

In accordance with ASC Topic 740, we assess whether the undistributed earnings from our foreign subsidiaries will be reinvested indefinitely or eventually distributed to our U.S. parent company. ASC Topic 740 requires that a deferred tax liability should be recorded for undistributed earnings from foreign subsidiaries that will not be reinvested indefinitely. Based on our assessment as of July 29, 2018, it is our intention not to permanently invest our undistributed earnings from our foreign subsidiaries. Also, we assess the recognition of U.S. foreign income tax credits associated with foreign withholding and income tax payments and whether it is more-likely-than-not that our foreign income tax credits will not be realized. If it is determined that any foreign income tax credits need to be recognized or it is more-likely-than-not our foreign income tax credits will not be realized, an adjustment to our provision for income taxes will be recognized at that time.

For fiscal 2019 and beyond, the Tax Act allows a U.S. corporation a 100% dividend received deduction for earnings and profits received from a 10% owned foreign corporation. Therefore, a deferred tax liability will be required for withholding taxes that are incurred by our foreign subsidiaries at the time E&P is

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distributed. As a result, at July 29, 2018 and April 29, 2018, we recorded a deferred income tax liability of \$2.8 million and \$4.3 million for withholding taxes on undistributed earnings and profits from our foreign subsidiaries.

At July 30, 2017, which was prior to the Tax Act being signed into law, we recorded a deferred income tax liability of \$810,000, which included U.S. and foreign withholding taxes totaling \$45.4 million, offset by U.S. foreign income tax credits of \$44.6 million.

Uncertainty In Income Taxes

In accordance with ASC Topic 740, an unrecognized income tax benefit for an uncertain income tax position can be recognized in the first interim period if the more-likely-than-not recognition threshold is met by the reporting period, or is effectively settled through examination, negotiation, or litigation, or the statute of limitations for the relevant taxing authority to examine and challenge the tax position has expired. If it is determined that any of the above conditions occur regarding our uncertain income tax positions, an adjustment to our unrecognized income tax benefits will be recorded at that time.

At July 29, 2018, we had a \$820,000 total gross unrecognized income tax benefit, of which \$440,000 and \$380,000 were classified as income taxes payable- long-term and non-current deferred income taxes, respectively, in the accompanying Consolidated Balance Sheets. At July 30, 2017, we had a \$12.4 million total gross unrecognized income tax benefit, of which \$11.9 million and \$487,000 were classified as non-current deferred income taxes and income taxes payable – long-term, respectively, in the accompanying Consolidated Balance Sheets. At April 29, 2018, we had a \$844,000 total gross unrecognized income tax benefit, of which \$464,000 and \$380,000 were classified as income taxes payable – long-term and non-current deferred income taxes respectively, in the accompanying Consolidated Balance Sheets.

At July 29, 2018, our \$820,000 total gross unrecognized income tax benefit included \$440,000 that, if recognized, would favorably affect the income tax rate in future periods. At July 30, 2017, our \$12.4 million total gross unrecognized income tax benefit, included \$487,000 that, if recognized, would favorably affect the income tax rate in future periods. At April 29, 2018, our \$844,000 total gross unrecognized income tax benefit included \$464,000 that, if recognized, would favorably affect the income tax rate in future periods.

Our gross unrecognized income tax benefit of \$820,000, relates to income tax positions for which significant change is currently not expected within the next year. This amount primarily relates to double taxation under applicable income tax treaties with foreign tax jurisdictions.

18. Stock-Based Compensation

Equity Incentive Plan Description

On September 16, 2015, our shareholders approved an equity incentive plan entitled the Culp, Inc. 2015 Equity Incentive Plan (the “2015 Plan”). The 2015 Plan updated and replaced our 2007 Equity Incentive Plan (the “2007 Plan”) as the vehicle for granting new equity-based awards substantially similar to those authorized under the 2007 Plan. In general, the 2015 Plan authorizes the grant of stock options intended to qualify as incentive stock options, nonqualified stock options, stock appreciation rights, restricted stock, restricted stock units, performance units, and other equity and cash related awards as determined by our Compensation Committee. An aggregate of 1,200,000 shares of common stock were authorized for issuance under the 2015 Plan, with certain sub-limits that would apply with respect to specific types of awards that may be issued as defined in the 2015 Plan. In connection with the approval of the 2015 Plan, no further awards will be granted under the 2007 Plan, but outstanding awards under the 2007 Plan will be settled in accordance with their terms.

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At July 29, 2018, there were 1,026,651 shares available for future equity-based grants under our 2015 plan.

Performance Based Restricted Stock Units

Executive Management (NEOs)

Fiscal 2019

We did not grant any performance based restricted stock units to NEOs during the first quarter of fiscal 2019.

Fiscal 2018

On July 13, 2017, we granted performance-based restricted stock units to NEOs which could earn up to a certain number of shares of common stock if certain performance targets are met over a three-fiscal year performance period as defined in the related restricted stock unit agreements. The number of shares of common stock that are earned based on the performance targets that have been achieved will be adjusted based on a market-based total shareholder return component as defined in the related restricted stock unit agreements.

Compensation cost was measured based on the fair market value on the date of grant (July 13, 2017). The fair market value per share was determined using the Monte Carlo simulation model for the market-based total shareholder return component and the closing price of our common stock for the performance-based components.

Fiscal 2017

On July 14, 2016 we granted performance-based restricted stock units to NEOs which could earn up to a certain number of shares of common stock if certain performance targets were met over a three-fiscal year performance period as defined in the related restricted stock unit agreements. These awards were measured based on the fair market value (closing price of our common stock) on the date of grant. No market-based total shareholder return component was included in this award.

Key Employees and a Non-Employee

Fiscal 2019

We did not grant any performance based restricted stock units to key employees or non-employees during the first quarter of fiscal 2019.

Fiscal 2018 and 2017

We granted performance-based restricted stock units which could earn up to a certain number of shares of common stock if certain performance targets are met over a three-fiscal year performance period as defined in the related restricted stock unit agreements. Our performance based restricted stock units granted to key employees were measured based on the fair market value (the closing price of our common stock) on the date of grant. Our performance based restricted stock units granted to a non-employee were measured based on the fair market value (the closing price of our common stock) at the earlier date of when the performance criteria are met or the end of the reporting period. No market-based total shareholder return component was included in these awards.

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The following table summarizes information related to our grants of performance based restricted stock units associated with NEOs and key employees that are currently unvested:

Date of Grant	(3) Restricted Stock Units Awarded	Price Per Share	Vesting Period
July 13, 2017 (1)	78,195	\$31.85 (4)	3 years
July 13, 2017 (2)	44,000	\$32.50 (5)	3 years
July 14, 2016 (1) (2)	107,880	\$28.00 (5)	3 years

(1) Performance-based restricted stock units awarded to NEOs.

(2) Performance-based restricted stock units awarded to key employees.

(3) Amounts represent the maximum number of common stock shares that could be earned if certain performance targets are met as defined in the related restricted stock unit agreements.

(4) Price per share represents the fair market value per share (\$0.98 per \$1 or a reduction of \$0.65 to the closing price of the our common stock) determined using the Monte Carlo simulation model for the market-based total shareholder return component and the closing price of our common stock (\$32.50) for the performance-based components of the performance-based restricted stock units granted to our NEOs on July 13, 2017.

(5) Price per share represents the closing price of our common stock on the date of grant.

The following table summarizes information related to our grants of performance-based restricted stock units associated with a non-employee that are currently unvested:

Date of Grant	(1) Restricted Stock Units Awarded	Price Per Share	Vesting Period
July 14, 2016	11,549	\$24.75 (2)	3 years

(1) Amounts represent the maximum number of common stock shares that could be earned if certain performance targets are met as defined in the related restricted stock unit agreements.

(2) The respective grant was unvested at the end of our reporting period. Accordingly, the price per share represents the closing price of our common stock on July 29, 2018, the end of our reporting period.

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The following table summarizes information related to our performance based restricted stock units that vested during the three-month periods ending July 29, 2018 and July 30, 2017:

Fiscal Year	Common Stock Shares Vested	(3) Weighted Average Fair Value	Price Per Share
Fiscal 2019 (1)	107,553	\$3,466	\$32.23 (4)
Fiscal 2019 (2)	10,364	\$320	\$30.90 (5)
Fiscal 2018 (1)	102,845	\$1,820	\$17.70 (4)
Fiscal 2018 (2)	16,000	\$520	\$32.50 (5)

(1) NEOs and key employees.

(2) Non-employee

(3) Dollar amounts are in thousands.

(4) Price per share represents closing price of our common stock on the date of grant.

(5) The respective grant vested during the first quarter of fiscal 2019 or 2018, respectively. Accordingly, the price per share represents the closing price of our common stock on the date the award vested.

Overall

We recorded a credit to compensation expense of \$506,000 and a charge to compensation expense totaling \$751,000 within selling, general, and administrative expenses for the three-month periods ending July 29, 2018 and July 30, 2017, respectively. Compensation cost is recorded based on an assessment each reporting period of the probability that certain performance goals will be met during the vesting period. If performance goals are not probable of occurrence, compensation cost will not be recognized and any recognized compensation cost would be reversed.

At July 29, 2018, the remaining unrecognized compensation cost related to the performance based restricted stock units was \$456,000, which is expected to be recognized over a weighted average vesting period of 1.4 years.

Time Vested Restricted Stock Units

Fiscal 2019

We did not grant any time vested restricted stock units to key employees or non-employees during the first quarter of fiscal 2019.

Fiscal 2018 Grant

On July 13, 2017, an employee was granted 1,200 shares of time vested restricted stock units which will vest over the requisite service period of 11 months. This award was measured at its fair market value, which was \$32.50 per share, and represented the closing price of our common stock on the date of grant.

During the first quarter of fiscal 2019, 1,200 shares of common stock associated with this grant vested and had a weighted average fair value of \$39,000 or \$32.50 per share.

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Fiscal 2017 Grant

On July 14, 2016, an employee was granted 1,200 shares of time vested restricted stock units which vested over the requisite service period of 11 months. This award was measured at its fair market value, which was \$28 per share, and represented the closing price of our common stock on the date of grant.

During the first quarter of fiscal 2018, 1,200 shares of common stock associated with this grant vested and had a weighted average fair value of \$34,000 or \$28 per share.

Overall

We recorded compensation expense of \$5,000 and \$6,000 within selling, general, and administrative expense associated with our time vested restricted stock unit awards for the three-month periods ending July 29, 2018 and July 30, 2017, respectively.

As of July 29, 2018, all awarded time vested restricted stock units had vested and therefore, no unrecognized compensation cost was remaining.

19. Statutory Reserves

Our subsidiaries located in China are required to transfer 10% of their net income, as determined in accordance with the People's Republic of China (PRC) accounting rules and regulations, to a statutory surplus reserve fund until such reserve balance reaches 50% of the company's registered capital.

The transfer to this reserve must be made before distributions of any dividend to shareholders. As of July 29, 2018, the company's statutory surplus reserve was \$4.3 million, representing 10% of accumulated earnings and profits determined in accordance with PRC accounting rules and regulations. The surplus reserve fund is non-distributable other than during liquidation and can be used to fund previous years' losses, if any, and may be utilized for business expansion or converted into share capital by issuing new shares to existing shareholders in proportion to their shareholding or by increasing the par value of the shares currently held by them provided that the remaining reserve balance after such issue is not less than 25% of the registered capital.

Our subsidiaries located in China can transfer funds to the parent company with the exception of the statutory surplus reserve of \$4.3 million to assist with debt repayment, capital expenditures, and other expenses of the company's business.

20. Commitments and Contingencies

Litigation

The company is involved in legal proceedings and claims which have arisen in the ordinary course of business. Management has determined that it is not reasonably possible that these actions, when ultimately concluded and settled, will have a material adverse effect upon the financial position, results of operations, or cash flows of the company.

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Accounts Payable – Capital Expenditures

At July 29, 2018, we had total amounts due regarding capital expenditures totaling \$862,000, which pertained to outstanding vendor invoices, none of which were financed. The total amount outstanding of \$862,000 is required to be paid based on normal credit terms.

At July 30, 2017, and April 29, 2018, we had total amounts due regarding capital expenditures totaling \$5.6 million and \$1.8 million, respectively, of which \$3.9 million and \$1.4 million was financed and pertained to completed work for the construction of a new building (see below).

Purchase Commitments – Capital Expenditures

At July 29, 2018, we had open purchase commitments to acquire equipment for our mattress fabrics segment totaling \$1.7 million.

New Building

Effective May 16, 2016, we entered into an agreement with a contractor to construct a new building located in North Carolina to expand our distribution capabilities and office space at a cost of \$11.3 million. This agreement required an installment payment of \$1.9 million that was made in April 2016 with additional installment payments of \$4.3 million that were made in fiscal 2017, \$3.7 million that were made in fiscal 2018, with the final installment payment of \$1.4 million made in May 2018 (first quarter of fiscal 2019). Interest was charged on the required outstanding installment payments for services that were previously rendered at a rate of 2.25% plus the current 30-day LIBOR rate.

Also, we were required to issue a letter of credit totaling \$5.0 million with the contractor's bank being the beneficiary. In addition to the interest charged on the outstanding installment payments noted above, there was a 0.1% unused fee calculated on the balance of the \$5.0 million letter of credit less the amount outstanding per month (see Note 11 for further details).

This new building was placed into service in July 2017 (first quarter of fiscal 2018).

21. Common Stock Repurchase Program

On June 15, 2016, we announced that our board of directors approved an authorization for us to acquire up to \$5.0 million of our common stock. Under the common stock repurchase program, shares may be purchased from time to time in open market transactions, block trades, through plans established under the Securities Exchange Act Rule 10b5-1, or otherwise. The amount of shares purchased and the timing of such purchases will be based on working capital requirements, market and general business conditions, and other factors, including alternative investment opportunities.

During the three-month ended July 29, 2018, we purchased 2,990 shares of our common stock at a cost of \$72,000. During the three-months ended July 30, 2017, we did not purchase any shares of our common stock.

At July 29, 2018, we had \$4.9 million available for repurchases of our common stock.

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

22. Dividend Program

On August 29, 2018, we announced that our board of directors approved a quarterly cash dividend of \$0.09 per share. This payment will be made on or about October 15, 2018, to shareholders of record as of October 1, 2018.

During the three-months ended July 29, 2018, dividend payments totaled \$1.1 million, which represented a quarterly dividend payment of \$0.09 per share. During the three-months ended July 30, 2017, dividend payments totaled \$3.6 million, of which \$2.6 million represented a special cash dividend payment of \$0.21 per share, and \$1.0 million represented a quarterly dividend payment of \$0.08 per share.

Future dividend payments are subject to board approval and may be adjusted at the board's discretion as business needs or market conditions change.

CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING INFORMATION

This report and the exhibits attached hereto contain “forward-looking statements” within the meaning of the federal securities laws, including the Private Securities Litigation Reform Act of 1995 (Section 27A of the Securities Act of 1933 and Section 21E of the Securities and Exchange Act of 1934). Such statements are inherently subject to risks and uncertainties. Further, forward looking statements are intended to speak only as of the date on which they are made, and we disclaim any duty to update or alter such statements. Forward-looking statements are statements that include projections, expectations or beliefs about future events or results or otherwise are not statements of historical fact. Such statements are often but not always characterized by qualifying words such as “expect,” “believe,” “estimate,” “plan,” and “project,” and their derivatives, and include but are not limited to statements about expectations for our future operations, production levels, sales, profit margins, profitability, operating income, capital expenditures, working capital levels, income taxes, SG&A or other expenses, pre-tax income, earnings, cash flow, and other performance or liquidity measures, as well as any statements regarding potential acquisitions, future economic or industry trends or future developments. Factors that could influence the matters discussed in such statements include the level of housing starts and sales of existing homes, consumer confidence, trends in disposable income, and general economic conditions, as well as our success in finalizing acquisition negotiations, and integrating acquired business into our existing operations could have a negative effect on our business and prospects. Likewise, increases in interest rates, particularly home mortgage rates, and increases in consumer debt or the general rate of inflation, could affect us adversely. Changes in consumer tastes or preferences toward products not produced by us could erode demand for our products. Changes in tariffs or trade policy, or changes in the value of the U.S. dollar versus other currencies could affect our financial results because a significant portion of our operations are located outside the United States. Strengthening of the U.S. dollar against other currencies could make our products less competitive on the basis of price in markets outside the United States, and strengthening of currencies in Canada and China can have a negative impact on our sales of products produced in those places. Also, economic and political instability in international areas could affect our operations or sources of goods in those areas, as well as demand for our products in international markets. Finally, increases in market prices for petrochemical products can significantly affect the prices we pay for raw materials, and in turn, increase our operating costs and decrease our profitability. Further information about these factors, as well as other factors that could affect our future operations or financial results and the matters discussed in forward-looking statements, are included in Item 1A “Risk Factors” section in our Form 10-K filed with the Securities and Exchange Commission on July 13, 2018, for the fiscal year ended April 29, 2018.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following analysis of 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.

General

Our fiscal year is the 52 or 53-week period ending on the Sunday closest to April 30. The three-months ended July 29, 2018, and July 30, 2017, each represent 13-week periods. Our operations are classified into two business segments: mattress fabrics and upholstery fabrics. The mattress fabrics segment manufactures, sources and sells fabrics and mattress covers to bedding manufacturers. We have wholly owned mattress fabric operations located in Stokesdale, NC, High Point, NC, and Quebec, Canada, and a fifty percent owned cut and sew mattress cover operation located in Haiti. Additionally, with the recent acquisition of eLuxury, LLC (ELUX), we now have a majority owned internet company located in Evansville, IN that offers bedding accessories and home goods directly to consumers. The upholstery fabrics segment develops, manufactures, and sells fabrics primarily to residential and commercial furniture manufacturers. We have wholly owned upholstery fabric operations located in Shanghai, China and Burlington, NC, and with the recent acquisition of Read Window Products, LLC (Read), we now have a wholly owned company located in Knoxville, TN that provides window treatment products and installation services to customers located in the hospitality and commercial industries.

We evaluate the operating performance of our segments based upon income from operations before certain unallocated corporate expenses and other non-recurring items. Cost of sales in both segments include costs to manufacture, source, or develop our products, including costs such as raw material and finished goods purchases, direct and indirect labor, overhead and incoming freight charges. Unallocated corporate expenses represent primarily compensation and benefits for certain executive officers, all costs associated with being a public company, and other miscellaneous expenses.

Executive Summary

Results of Operations

(dollars in thousands)	Three Months Ended		Change
	July 29, 2018	July 30, 2017	
Net sales	\$ 71,473	\$ 79,533	(10.1)%
Gross profit	10,559	16,465	(35.9)%
Gross profit margin	14.8%	20.7%	(590)bp
SG&A expenses	8,033	9,501	(15.5)%
Income from operations	2,075	6,964	(70.2)%
Operating margin	2.9%	8.8%	(590)bp
Income before income taxes	1,948	6,742	(71.1)%
Income taxes	906	1,640	(44.8)%
Net income	965	4,984	(80.6)%
Net income attributable to			
Culp Inc common shareholders	957	4,984	(80.8)%

Net Sales

Overall, our net sales decreased for the first quarter of fiscal 2019 by 10.1% compared with the same period a year ago, with mattress fabric sales declining 23.6% and upholstery fabrics increasing 10.9%. The decrease in mattress fabrics sales net sales reflects unfavorable economic conditions primarily from a significant increase of low-priced mattresses from China. Currently, we estimate total mattress imports represent approximately 20% of U.S. industry shipments. However, we are optimistic that the U.S. bedding industry could benefit in the near term from relief under U.S. trade laws to address this situation. If and when such action would occur, we believe it will favorably affect our business and the domestic mattress industry going forward.

The increase in upholstery fabric net sales primarily relates to the net sales contribution from Read, acquired on April 1, 2018.

See the Segment Analysis section below for further details.

Income Before Income Taxes

Overall, our operating performance for the first quarter was affected by the decrease in sales of mattress fabrics noted above, increased operating costs associated with our China operations due to unfavorable foreign currency exchange rates, and the closing of our upholstery fabric operation located in Anderson, SC, in which we recorded a restructuring and restructuring related charge of \$2.0 million.

See the Segment Analysis section below for further details.

Income Taxes

We recorded income tax expense of \$906,000 or 46.5% of income before income taxes for the first quarter compared with income tax expense of \$1.6 million or 24.3% of income before income taxes for the same period a year ago. The increase in our effective income tax rate was primarily due to the mix of pre-tax earnings favoring our foreign jurisdictions that are taxed at higher income and withholding tax rates compared to the U.S. federal statutory rate of 21%.

Refer to Note 17 located in the notes to the consolidated financial statements for further details regarding our provision for income taxes.

Liquidity

At July 29, 2018, our cash and investments (which comprise of cash and cash equivalents, short-term investments (available for sale), and short-term and long-term investments (held-to-maturity), totaled \$39.3 million at July 29, 2018, compared with \$54.5 million at April 29, 2018. Additionally, we borrowed \$4.0 million on our U.S. line of credit during the first quarter compared with \$5.0 million compared with the same period a year ago, to support our short-term cash needs that historically occur during our first quarter.

The decrease in our cash and investments from the end of fiscal 2018 was primarily due to cash payments at closing of \$11.6 million for the acquisition of ELUX, capital expenditures totaling \$2.2 million (of which \$1.4 million was vendor-financed) that were mostly associated with our mattress fabrics segment, returned \$1.2 million to our shareholders primarily in the form of our regular quarterly cash dividend payment, \$1.3 million in employee withholding tax payments associated with the vesting of certain stock-based compensation awards, partially offset by net borrowings on our U.S. line of credit of \$4.0 million to support working capital requirements.

See the Liquidity section below for further details.

Dividend and Common Stock Repurchase Programs

On August 29, 2018, we announced that our board of directors approved a quarterly cash dividend of \$0.09 per share. This payment will be made on or about October 15, 2018, to shareholders of record as of October 1, 2018.

During the three-months ended July 29, 2018, dividend payments totaled \$1.1 million, which represented a quarterly dividend payment of \$0.09 per share. During the three-months ended July 30, 2017, dividend payments totaled \$3.6 million, of which \$2.6 million represented a special cash dividend payment of \$0.21 per share, and \$1.0 million represented a quarterly dividend payment of \$0.08 per share.

During the three-month ended July 29, 2018, we purchased 2,990 shares of our common stock at a cost of \$72,000. During the three-months ended July 30, 2017, we did not purchase any shares of our common stock. At July 29, 2018, we had \$4.9 million available for repurchases of our common stock.

Segment Analysis

Mattress Fabrics Segment

Three Months Ended				
(dollars in thousands)	July 29, 2018		July 30, 2017	Change
Net sales	\$	36,983	\$ 48,429	(23.6)%
Gross profit		5,971	9,760	(38.8)%
Gross profit margin		16.1%	20.2%	(410)bp
SG&A expenses		3,148	3,391	(7.2)%
Income from operations		2,823	6,368	(55.7)%
Operating margin		7.6%	13.1%	(550)bp

Net Sales

Overall

As expected, our sales for the quarter reflect significant disruptions and uncertainties surrounding the mattress industry compared with market conditions for the same period a year ago. During the first quarter, we experienced very soft demand trends related to the rapid growth of low-cost imported mattress from China. In addition, ongoing changes with a large mattress retailer have created more uncertainty throughout the mattress industry supply chain, which affected our distribution.

We have remained focused on our product diversification strategy with a favorable product mix of mattress fabrics and sewn covers. We recently launched our new line of bedding accessories, marketed under the brand name, 'Comfort Supply Company by Culp.' As we have identified additional marketing channels, we have also implemented a new digital marketing strategy and expanded our social media presence to enhance Culp's brand awareness and increase sales, especially with younger consumers.

Gross Profit and Operating Income

Our operating results declined in the first quarter of fiscal 2019 compared with the same period a year ago, due to the decrease in net sales noted above. Over the past several years, we have invested substantially in creating a sustainable and efficient platform with enhanced capacity and distribution capabilities that will allow us to align our costs with current and expected demand trends. In addition, we have reduced our capital expenditure budget and deferred certain capital projects that were originally expected to be completed in fiscal 2019.

During the second quarter, we currently expect continued uncertainty in the mattress industry that will affect short-term demand trends and our operating performance. We are optimistic that the

proposed relief being sought by the bedding industry under U.S. trade laws to address the impact of imported, low-priced mattresses from China will be favorable for our business.

eLuxury, LLC (ELUX)

Overview

Effective June 22, 2018, we entered Equity Purchase Agreement (Equity Agreement) in which Culp Inc. (CULP) acquired an initial 80% ownership interest in (ELUX), an internet company offering bedding accessories and home goods directly to consumers. ELUX's primary products include a line of mattress pads manufactured at ELUX's facility located in Evansville, Indiana. ELUX also offers handmade platform beds, cotton bed sheets, and other bedding items. Their products are available on ELUX's own branded website, eLuxury.com, Amazon and other leading online retailers for specialty home goods.

We believe this acquisition will provide a new sales channel for the bedding accessory category and will expand our opportunity to participate in the rapidly growing e-commerce direct-to-consumer space. This business combination brings together ELUX's experience in e-commerce, online brand building, and direct-to-consumer shopping and fulfillment expertise with our global production, sourcing, and distribution capabilities. We also have an opportunity to market our new line of bedding accessories, marketed under the brand name, "Comfort Supply Company by Culp", as well as other finished products that we may develop, through this e-commerce platform.

The estimated consideration given for the initial 80% ownership interest in ELUX totaled \$18.1 million, of which \$12.5 million represents the estimated purchase price and \$5.6 million represents the fair value for contingent consideration associated with an earn-out obligation (see below for further details). Of the \$12.5 million estimated purchase price, \$11.6 million was paid at closing on June 22, 2018, \$185,000 was paid in August 2018, and \$749,000 is to be paid in September 2019, subject to certain conditions as defined in the Equity Agreement.

Assets Acquired and Liabilities Assumed

The following table presents the preliminary allocation of the acquisition cost to the assets acquired and liabilities assumed based on their fair values.

(dollars in thousands)	Fair Value
Goodwill	\$ 13,653
Tradename	6,549
Equipment	2,179
Inventory	1,804
Accounts receivable and other current assets	108
Accounts payable	(1,336)
Accrued expenses	(295)
Non-controlling interest in ELUX	(4,532)
	<u>\$ 18,130</u>

The estimated fair values of the assets acquired and liabilities assumed are provisional and are based on the information that was currently available to estimate the fair value of assets acquired and liabilities assumed. We believe that information provides a reasonable basis for estimating the fair values of assets acquired and liabilities assumed, but we are waiting for additional information necessary to finalize those fair values. Therefore, the provisional measurements of fair value reflected

are subject to change and such changes could be significant. The Company expects to finalize the valuation and complete the purchase price allocation as soon as practicable but no later than one year from the acquisition date.

We recorded the tradename at fair market based on the relief from royalty method. This tradename was determined to have an indefinite useful life and, therefore, is not being amortized. Equipment will be depreciated on a straight-line basis over useful lives ranging from five to ten years.

The goodwill related to this acquisition is attributable to ELUX's reputation with the products they offer and management's experience in e-commerce, online brand building, and direct-to-consumer shopping and fulfillment expertise. Goodwill was assigned to the mattress fabrics segment and is deductible for income tax purposes over the statutory period of fifteen years.

As mentioned above, the Equity Agreement contains a contingent consideration arrangement that requires us to pay the seller who is also the shareholder of the noncontrolling interest an earn-out payment based on adjusted EBITDA to be determined over a three-year period in relation to a pre-established adjusted EBITDA target. We recorded a contingent liability for this earn-out obligation at its fair value totaling \$5.6 million based on the Black Scholes pricing model.

Consolidation and Non-Controlling Interest

The Equity Agreement contains substantive profit-sharing arrangement provisions in which it explicitly states the ownership interests at the effective date of this business combination and the allocation of net income or loss between the controlling interest (Culp) and the noncontrolling interest. The Equity Agreement states that at the effective date of this acquisition (June 22, 2018), Culp acquired an 80% ownership interest in ELUX with the seller retaining a 20% noncontrolling interest. Additionally, the Equity Agreement states that ELUX's net income or loss will be allocated a percentage of 70% and 30% to Culp and the noncontrolling interest, respectively.

As result of the acquisition of our 80% controlling interest, we included all the accounts of ELUX in our consolidated financial statements and have eliminated all significant intercompany balances and transactions.

Based on the terms of the Equity Agreement, we believe the related risks associated with the ownership interests are aligned and therefore, the total consideration of \$18.1 million for the 80% controlling interest provides information for the equity value of ELUX as a whole, and therefore, is useful in estimating the fair value of the 20% noncontrolling interest. In order to determine the carrying value of our noncontrolling interest in ELUX, we applied the Hypothetical-Liquidation-At-Book-Value method (HLBV). HLBV is an approach that is used in practice to determine the carrying value of a noncontrolling interest if it is consistent with an existing profit-sharing arrangement such as the Equity Agreement. Therefore, the carrying amount of the noncontrolling interest of \$4.5 million represents the \$4.5 million fair value determined at the acquisition date plus its allocation of net income totaling \$8,000 subsequent to the acquisition date and until the end of our first quarter of fiscal 2019.

Other

Acquisitions costs totaling \$270,000 were included in selling, general, and administrative expenses in our Consolidated Statement of Net Income for the three-month period ending July 29, 2018.

Actual revenue and net income for the period June 22, 2018 through July 29, 2018 were included in our Consolidated Statement of Net Income for the three-months ended July 29, 2018, and totaled \$2.6 million and \$27,000, respectively.

Segment assets

Segment assets consist of accounts receivable, inventory, property, plant and equipment, goodwill and other intangible assets associated with prior acquisitions and the recent acquisition of ELUX, and our investment in an unconsolidated joint venture.

(dollars in thousands)	July 29, 2018	July 30, 2017	April 29, 2018
Accounts receivable and inventory	\$ 45,085	\$ 46,750	\$ 43,935
Property, plant & equipment	50,297	50,270	48,797
Goodwill	25,115	11,462	11,462
Tradename	6,549	-	-
Non-compete agreement	734	809	753
Customer relationships	600	651	613
Investment in unconsolidated joint venture	1,525	1,477	1,501

Accounts Receivable & Inventory

As of July 29, 2018, accounts receivable and inventory decreased by \$1.7 million or 3.6% compared with July 30, 2017. This decrease is due to a decrease in accounts receivable resulting from the decline in net sales noted above. Despite the decrease in net sales in the first quarter compared to the same period a year ago, inventory was flat primarily due to inventory acquired from ELUX totaling \$1.8 million, offset by the decrease in inventory from our existing business primarily from the decline in net sales noted above.

As of July 29, 2018, accounts receivable and inventory increased \$1.2 million or 2.6% compared with April 29, 2018. Despite the decrease in net sales in the first quarter compared with the fourth quarter of fiscal 2018, inventory increased \$4.5 million. This increase was primarily due to inventory acquired from ELUX totaling \$1.8 million and an increase in inventory primarily from inventory purchases in excess of actual demand trends that were lower than anticipated. The increase inventory was partially offset by a decrease in accounts receivable resulting from the decline net sales noted above.

Property, Plant & Equipment

The \$50.3 million at July 29, 2018, represents property, plant and equipment of \$37.2 million and \$13.1 million located in the U.S. and Canada, respectively. The \$50.3 million at July 30, 2017, represents property, plant, and equipment of \$35.8 million and \$14.5 million located in the U.S. and Canada, respectively. The \$48.8 million at April 29, 2018, represents property, plant, and equipment of \$35.4 million and \$13.4 million located in the U.S. and Canada, respectively.

The increase in property, plant, and equipment during the first quarter of 2019 was primarily due to the acquisition of equipment acquired from ELUX totaling \$2.2 million.

Goodwill and Tradename

The increase in the carrying value of our goodwill and the acquisition of our tradename were associated with the business combination of ELUX noted above.

Investment in Unconsolidated Joint Venture

Our investment in unconsolidated joint venture represents our fifty percent ownership of Class International Holdings Ltd. (See Note 8 to the consolidated financial statements for further details).

Customer Relationships and Non-Compete Agreement

The decreases in carrying values of our customer relationships and non-compete agreement at July 29, 2018, compared with July 30, 2017, and April 29, 2018, are due to amortization expense.

Upholstery Fabrics Segment

Net Sales

<i>(dollars in thousands)</i>	Three Months Ended					
	July 29, 2018		July 30, 2017		% Change	
Non U.S. Produced	\$	30,368	88%	\$	29,386	95% 3.3%
U.S. Produced		4,122	12%		1,718	5% 139.9%
Total	\$	34,490	100%	\$	31,104	100% 10.9%

Our upholstery fabrics sales were in line with expectations for the first quarter of fiscal 2019 as we were able to execute our product-drive strategy and diversify our customer base. Our results reflect consistent organic growth with our China produced fabrics, as we continued to see favorable demand trends for our popular line of ‘performance fabrics.’ Also, our sales for the first quarter included the first full quarter of operations for Read.

Gross Profit, Selling, General & Administrative Expenses, and Operating Income

<i>(dollars in thousands)</i>	Three Months Ended		Change
	July 29, 2018	July 30, 2017	
Gross profit	\$ 6,153	\$ 6,705	(8.2)%
Gross profit margin	17.8%	21.6%	(380)bp
SG&A expenses	3,626	3,811	(4.9)%
Income from operations	2,527	2,895	(12.7)%
Operating margin	7.3%	9.3%	(200)bp
Restructuring related charges	1,565	-	100%

As expected, our operating performance for the first quarter of fiscal 2019 was primarily affected by higher operating costs associated with our operations located in China due to unfavorable foreign currency exchange rates.

Exit and Disposal Activity

On June 12, 2018, our board of directors decided to close our upholstery fabrics manufacturing facility in Anderson, South Carolina. This closure is due to a continued decline in demand for the products manufactured at this facility, reflecting a change in consumer style preferences. We expect to close this facility during the second quarter of fiscal 2018.

Restructuring expense and related charges totaled \$2.0 million of which \$1.6 million represented inventory markdowns and \$451,000 represented employee termination benefits. Of this total charge, \$1.6 million and \$451,000 were recorded in cost of sales and restructuring expense in the Consolidated Statement of Net Income for the three-month period July 29, 2018.

Currently, management expects to offset most of the \$2.0 million charge over the 2nd and 3rd quarters from sale of associated property, plant, and equipment.

Segment Assets

Segment assets consist of accounts receivable, inventory, property, plant, and equipment, and goodwill and other intangible assets associated with the acquisition of Read.

<i>(dollars in thousands)</i>	July 29, 2018	July 30, 2017	April 29, 2018
Accounts receivable and inventory	\$ 33,129	\$ 30,617	\$ 35,826
Property, plant & equipment	2,370	1,857	2,445
Goodwill	2,107	-	2,107
Customer relationships	2,164	-	2,226
Tradename	683	-	683

Accounts Receivable & Inventory

As of July 29, 2018, accounts receivable and inventory increased by \$2.5 million or 8.2%, compared with July 30, 2017. This increase is primarily due to the accounts receivable and inventory totaling \$2.0 million that was acquired from Read on April 1, 2018

As of July 29, 2018, accounts receivable and inventory decreased \$2.7 million or 7.5%, compared with April 29, 2018. This decrease is primarily due to the decrease in working capital associated with the closure of our operation located in Anderson, SC noted above.

Property, Plant & Equipment

The \$2.4 million at July 29, 2018, represents property, plant, and equipment of \$1.8 million and \$616,000 located in the U.S. and China, respectively. The \$1.9 million at July 30, 2017, represents property, plant, and equipment of \$1.2 million and \$684,000 located in the U.S. and China, respectively. The \$2.4 million at April 29, 2018, represents property, plant, and equipment of \$1.8 million and \$661,000 located in the U.S. and China, respectively.

The increase in property, plant, and equipment as of July 29, 2018, compared with July 30, 2017, was primarily due to the acquisition of equipment acquired from Read approximating \$379,000.

Other Income Statement Categories

<i>(dollars in thousands)</i>	Three Months Ended			% Change
	July 29, 2018	July 30, 2017		
SG&A expenses	\$ 8,033	\$ 9,501		(15.5)%
Restructuring expense	451	-		100.0%
Interest expense	20	-		100.0%
Interest income	150	131		14.5%
Other expense	257	353		(27.2)%

Selling, General and Administrative Expenses

SG&A expenses decreased during first quarter of fiscal 2019 compared with the same period a year ago due primarily to lower incentive compensation expense reflecting weaker financial results in relation to pre-established financial targets and the decrease in net sales in the first quarter of fiscal 2019 compared with the first quarter of fiscal 2018.

Interest Expense

Interest costs charged to operations were \$20,000 and \$64,000 for the three months ended July 29, 2018 and July 30, 2017, respectively.

No interest costs for the construction of qualifying fixed assets were capitalized for the three months ended July 29, 2018. Interest costs totaling \$64,000 for the construction of qualifying fixed

assets were capitalized for the three-months ended July 30, 2017. As a result, these interest costs will be amortized over the related assets' useful lives.

Interest Income

Interest income was primarily flat for the first quarter of fiscal 2019 compared with the first quarter of fiscal 2018. Our interest income is mostly associated with our investment grade U.S. Corporate bonds located in the Cayman Islands.

Other Expense

Other expense decreased for the first quarter of fiscal 2019 compared with the same period a year ago. This decrease was mostly due to more favorable foreign currency exchange rates associated with our operations located in China.

Income Taxes

We recorded income tax expense of \$906,000, or 46.5% of income before income taxes, for the three-month period ended July 29, 2018, compared to income tax expense of \$1.6 million or 24.3% of income before income taxes, for the three-month period ended July 30, 2017. Our effective income tax rates for the three-month periods ended July 29, 2018, and July 30, 2017, were based upon the estimated effective income tax rate applicable for the full year after giving effect to any significant items related specifically to interim periods. The effective income tax rate can be affected over the fiscal year by the mix and timing of actual earnings from our U.S. operations and foreign subsidiaries located in China and Canada versus annual projections and changes in foreign currency exchange rates in relation to the U.S. dollar.

The following schedule summarizes the factors that contribute to the difference between income tax expense at the federal income tax rate and the effective income tax rate reflected in the consolidated financial statements:

	2019	2018
Federal income tax rate	21.0%	34.0%
Change in estimate of U.S. valuation allowance	8.6	1.4
Foreign income tax rate differential	8.3	(1.3)
Global Intangible Low Taxed Income Tax (GILTI)	2.5	-
Tax effects of Chinese foreign exchange (losses) gains	2.1	(0.9)
Excess income tax deficiency (benefits)		
related to stock-based compensation	1.7	(8.2)
Other	2.3	(0.7)
	46.5%	24.3%

2017 Tax Cuts and Jobs Act

On December 22, 2017, the Tax Cuts and Jobs Act (H.R.1) (the "Tax Act") was signed into law. The key impacts of the Tax Act on our financial statements during fiscal 2019 will be the reduction of our U.S. federal statutory income tax rate to 21% compared with the blended statutory income tax rate of 30.4% during fiscal 2018 and the creation of the Global Intangible Low Taxed Income Tax ("GILTI").

In order to calculate GILTI, provisional estimates were required based on (i) projection and estimates associated with U.S. and foreign pre-tax earnings and income tax expense for fiscal 2019,

(ii) projections and estimates regarding certain assets that will be held in our domestic operations or foreign subsidiaries, and (iii) projections and estimates associated with our net sales with foreign jurisdictions. Our estimates may change based on actual versus projected results.

Valuation Allowance

In accordance with ASC Topic 740, we evaluate our deferred income taxes to determine if a valuation allowance is required. ASC Topic 740 requires that companies assess whether a valuation allowance should be established based on the consideration of all available evidence using a “more-likely-than-not” standard, with significant weight being given to evidence that can be objectively verified. Since the company operates in multiple jurisdictions, we assess the need for a valuation allowance on a jurisdiction-by-jurisdiction basis, taking into account the effects of local tax law.

Refer to Note 17 located in the notes to the consolidated financial statements for disclosures regarding our assessments of our recorded valuation allowance as of July 29, 2018, July 30, 2017, and April 29, 2018, respectively.

Undistributed Earnings

In accordance with ASC Topic 740, we assess whether the undistributed earnings from our foreign subsidiaries will be reinvested indefinitely or eventually distributed to our U.S. parent company. ASC Topic 740 requires that a deferred tax liability should be recorded for undistributed earnings from foreign subsidiaries that will not be reinvested indefinitely. Also, we assess the recognition of U.S. foreign income tax credits associated with foreign withholding and income tax payments and whether it is more-likely-than-not that our foreign income tax credits will not be realized. If it is determined that any foreign income tax credits need to be recognized or it is more-likely-than-not our foreign income tax credits will not be realized, an adjustment to our provision for income taxes will be recognized at that time.

Refer to Note 17 located in the notes to the consolidated financial statements for disclosures regarding our assessments of our recorded deferred income tax liability balances associated with undistributed earnings from our foreign subsidiaries as of July 29, 2018, July 30, 2017, and April 29, 2018, respectively.

Uncertainty In Income Taxes

In accordance with ASC Topic 740, an unrecognized income tax benefit for an uncertain income tax position can be recognized in the first interim period if the more-likely-than-not recognition threshold is met by the reporting period, or is effectively settled through examination, negotiation, or litigation, or the statute of limitations for the relevant taxing authority to examine and challenge the tax position has expired. If it is determined that any of the above conditions occur regarding our uncertain income tax positions, an adjustment to our unrecognized income tax benefits will be recorded at that time.

Refer to Note 17 located in the Notes to the Consolidated Financial Statements for disclosures regarding our assessments of our uncertain income tax positions as of July 29, 2018, July 30, 2017, and April 29, 2018.

Income Taxes Paid

We reported income tax expense of \$906,000 and \$1.6 million for the three-month periods ending July 29, 2018 and July 30, 2017, respectively. However, our income tax payments totaled \$3.2 million and \$536,000 million for the three-month periods ending July 29, 2018 and July 30, 2017, respectively. Our income tax payments were associated with our foreign subsidiaries located in Canada and China. These payments increased during the first quarter of fiscal 2019 as compared with the same period a year ago, primarily from higher withholding tax payments associated with recent earnings and profit distributions from our Canadian and Chinese subsidiaries.

As a result of the Tax Act noted above, we were required to calculate a one-time mandatory repatriation tax (the “Transition Tax”) for our fiscal 2018 related to the transition of a U.S. international tax from a worldwide tax system to a territorial tax system. Consequently, we will start making income tax payments associated with the Transition Tax in the second quarter fiscal 2019, in which we elected to pay over a period of eight years. Additionally, as part of the Tax Act, we currently expect to elect out of using our U.S. Federal net loss operating carryforwards to offset the Transition Tax in order to fully utilize our foreign tax credits. As a result, we have approximately \$7.0 million of U.S. Federal net loss operating carryforwards to apply against fiscal 2019 U.S. taxable income. This fact, coupled with the lower U.S. corporate income tax rate and the immediate expensing of U.S. capital expenditures next year, is currently expected to result in minimal U.S. cash income taxes paid in fiscal 2019 (including the Transition Tax that will be made this fiscal year).

Liquidity and Capital Resources

Liquidity

Overall

Currently, our sources of liquidity include cash and cash equivalents, cash flow from operations, and amounts available under our revolving credit lines. These sources have been adequate for day-to-day operations, capital expenditures, debt payments, common stock repurchases, and dividend payments. We believe our present cash and cash equivalents of \$8.6 million at July 29, 2018, cash flow from operations, and the current availability (\$30.9 million as of July 29, 2018) under our revolving credit lines will be sufficient to fund our foreseeable business needs, contractual obligations, and potential acquisitions.

At July 29, 2018, our cash and investments (which comprise cash and cash equivalents, short-term investments (available for sale), and short-term and long-term investments (held-to-maturity)) totaled \$39.3 million at July 29, 2018, compared with \$54.5 million at April 29, 2018. Additionally, we had net borrowings of \$4.0 million on our U.S. line of credit during the first quarter compared with \$5.0 million compared with the same period a year ago, to support our short-term cash needs that historically occur during our first quarter.

The decrease in our cash and investments from the end of fiscal 2018 was primarily due to cash payments at closing of \$11.6 million for the acquisition of ELUX, capital expenditures totaling \$2.2 million (of which \$1.4 million was vendor-financed) that were mostly associated with our mattress fabrics segment, returned \$1.2 million to our shareholders primarily in the form of our

regular quarterly cash dividend payment, \$1.3 million in employee withholding tax payments associated with the vesting of certain stock-based compensation awards, partially offset by net borrowings on our U.S. line of credit of \$4.0 million to support working capital requirements.

Our cash and cash equivalents and short-term investment (available for sale) balance may be adversely affected by factors beyond our control, such as lower net sales due to weakening industry demand and delays in receipt of payment on accounts receivable.

By Geographic Area

A summary of our cash and cash equivalents, short-term investments (available for sale), and short-term and long-term investments (held-to-maturity) by geographic area follows:

<i>(dollars in thousands)</i>	July 29, 2018	July 30, 2017	April 29, 2018
Cayman Islands	\$ 31,024	\$ 37,460	\$ 31,000
China	4,742	8,301	10,537
United States	3,407	2,818	9,221
Canada	176	3,119	3,715
	\$ 39,349	\$ 51,698	\$ 54,473

Currently, we are holding a significant amount of our cash and investments with our international holding company located in the Cayman Islands in relation to the other jurisdictions in which we operate. Our cash and investments located in this jurisdiction stemmed from accumulated earnings and profits (totaling \$57.5 million as of July 29, 2018) that were distributed from our subsidiaries located in China. Of the \$31.0 million held in the Cayman Islands, \$30.8 million represents investment grade U.S. corporate bonds with maturities with less than one year (as of July 29, 2018), ranging from September 2018 through May 2019. These investments are classified as held-to-maturity as we have the positive intent and ability to hold these investments until maturity.

For fiscal 2019 and beyond, the Tax Act allows a U.S. corporation a 100% dividend received income tax deduction on earnings and profits repatriated to the U.S. from 10% owned foreign corporations. As a result, and as our U.S. corporate bonds mature, we plan to repatriate our earnings and profits residing in the Cayman Islands to the U.S. parent company.

Dividend Program

On August 29, 2018, we announced that our board of directors approved a quarterly cash dividend of \$0.09 per share. This payment will be made on or about October 15, 2018, to shareholders of record as of October 1, 2018.

During the three-months ended July 29, 2018, dividend payments totaled \$1.1 million, which represented a quarterly dividend payment of \$0.09 per share. During the three-months ended July 30, 2017, dividend payments totaled \$3.6 million, of which \$2.6 million represented a special cash dividend payment of \$0.21 per share, and \$1.0 million represented a quarterly dividend payment of \$0.08 per share.

Future dividend payments are subject to board approval and may be adjusted at the board's discretion as business needs or market conditions change.

Common Stock Repurchase Program

On June 15, 2016, we announced that our board of directors approved an authorization for us to acquire up to \$5.0 million of our common stock. Under the common stock repurchase program, shares may be purchased from time to time in open market transactions, block trades, through plans established under the Securities Exchange Act Rule 10b5-1, or otherwise. The amount of shares purchased and the timing of such purchases will be based on working capital requirements, market and general business conditions, and other factors, including alternative investment opportunities.

During the three-month ended July 29, 2018, we purchased 2,990 shares of our common stock at a cost of \$72,000. During the three-months ended July 30, 2017, we did not purchase any shares of our common stock.

At July 29, 2018, we had \$4.9 million available for repurchases of our common stock.

Working Capital

Accounts receivable at July 29, 2018, were \$23.2 million, an increase of \$1.1 million, or 5%, compared with \$22.1 million at July 30, 2017. Days' sales outstanding were 29 days for first quarter of fiscal 2019 compared with 25 days for the first quarter of fiscal 2018. The increase in our days' sales outstanding is primarily due to mattress fabric customers currently not taking advantage of cash discounts as compared to the same period a year ago.

Inventories as of July 29, 2018, were \$55.0 million, compared with \$55.2 million at July 30, 2017. Inventory turns were 4.5 and 4.7 for first quarter of fiscal 2019 and 2018, respectively.

Accounts payable-trade as of July 29, 2018, were \$25.1 million, a decrease of \$4.0 million, or 14%, compared with \$29.1 million at July 30, 2017. This decrease is primarily due to the decrease in net sales during the first quarter of fiscal 2019 compared with the first quarter of fiscal 2018.

Operating working capital (accounts receivable and inventories, less accounts payable-trade, accounts payable-capital expenditures, and deferred revenue) was \$51.7 million at July 29, 2018, compared with \$42.6 million at July 30, 2017. Operating working capital turnover was 6.6 during the first quarter of fiscal 2019 compared with 7.4 during the first quarter of fiscal 2018.

Financing Arrangements

Currently, we have revolving credit agreements with banks for our U.S parent company and our operations located in China. The purposes of our revolving lines of credit are to support potential short-term cash needs in different jurisdictions, mitigate our risk associated with foreign currency exchange rate fluctuations, and ultimately repatriate earnings and profits from our foreign subsidiaries to the U.S. for various strategic purposes. Our revolving credit agreements require us to maintain compliance with certain financial covenants as defined in the respective agreements.

At July 29, 2018, we were in compliance with all our financial covenants.

Refer to Note 11 located in the notes to the consolidated financial statements for further details of our revolving credit agreements.

Capital Expenditures and Depreciation

Overall

Capital expenditures on a cash basis were \$2.2 million (of which \$1.4 million were vendor-financed) for the three-months ending July 29, 2018 compared with \$3.5 million (of which \$1.3 million were vendor-financed) for the same period a year ago. Capital expenditures mostly related to our mattress fabrics segment for the three-month periods ending July 29, 2018 and July 30, 2017, respectively.

Depreciation expense was \$2.0 million for the three-month period ending July 29, 2018 compared with \$1.8 million for the three-month period ending July 30, 2017 and mostly related to the mattress fabrics segment.

For fiscal 2019, we are projecting capital expenditures to be in the range of \$6.0 million to \$6.5 million. Depreciation expense projected to be approximately \$8.0 million in fiscal 2019. The estimated capital expenditures and depreciation expense for fiscal 2019 mostly relates to the mattress fabrics segment. These are management's current expectations only, and changes in our business could cause changes in plans for capital expenditures and expectations related to depreciation expense.

Accounts Payable – Capital Expenditures

At July 29, 2018, we had total amounts due regarding capital expenditures totaling \$862,000, of which pertained to outstanding vendor invoices, none of which were financed. The total amount outstanding of \$862,000 is required to be paid based on normal credit terms.

Purchase Commitments – Capital Expenditures

At July 29, 2018, we had open purchase commitments to acquire equipment for our mattress fabrics segment totaling \$1.7 million.

New Building

Effective May 16, 2016, we entered into an agreement with a contractor to construct a new building located in North Carolina to expand our distribution capabilities and office space at a cost of \$11.3 million. This agreement required an installment payment of \$1.9 million that was made in April 2016 with additional installment payments of \$4.3 million that were made in fiscal 2017, \$3.7 million that were made in fiscal 2018, with the final installment payment of \$1.4 million made in May 2018 (first quarter of fiscal 2019). Interest was charged on the required outstanding installment payments for services that were previously rendered at a rate of \$2.25% plus the current 30-day LIBOR rate.

Also, we were required to issue a letter of a credit totaling \$5.0 million with the contractor's bank being the beneficiary. In addition to the interest charged on the outstanding installment payments noted above, there was a 0.1% unused fee calculated on the balance of the \$5.0 million letter of credit less the amount outstanding per month (see Note 11 for further details).

This new building was placed into service in July 2017 (first quarter of fiscal 2018).

Critical Accounting Policies and Recent Accounting Developments

At July 29, 2018, there were no changes in the nature of our significant accounting policies or the application of those policies from those reported in our annual report on Form 10-K for the year ended April 29, 2018.

Refer to Note 2 located in the notes to the consolidated financial statements for recently adopted and issued accounting pronouncements since the filing of our Form 10-K for the year ended April 29, 2018.

Contractual Obligations

As of July 29, 2018, there were no significant or new contractual obligations from those reported in our annual report on Form 10-K for the year ended April 29, 2018.

Inflation

Any significant increase in our raw material costs, utility/energy costs and general economic inflation could have a material adverse impact on the company, because competitive conditions have limited our ability to pass significant operating increases on to customers.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to market risk from changes in interest rates on our revolving credit lines.

At July 29, 2018 our U.S. revolving credit agreement requires interest to be charged at a rate (applicable interest rate of 3.53% at July 29, 2018) as a variable spread over LIBOR based on our ratio of debt to EBITDA as defined in the agreement. Our revolving credit line associated with our China subsidiaries bears interest at a rate determined by the Chinese government. At July 29, 2018, our U.S. revolving credit line had outstanding borrowings of \$5.0 million. There were no borrowings outstanding under our revolving credit line associated with our China operations at July 29, 2018.

We are exposed to market risk from changes in the value of foreign currencies for our subsidiaries domiciled in Canada and China. We try to maintain a natural hedge by keeping a balance of our assets and liabilities denominated in the local currency of our subsidiaries domiciled in Canada and China, although there is no assurance that we will be able to continually maintain this natural hedge. Our foreign subsidiaries use the United States dollar as their functional currency. A substantial portion of the company's imports purchased outside the United States are denominated in U.S. dollars. A 10% change in the above exchange rates at July 29, 2018, would not have had a significant impact on our results of operations or financial position.

ITEM 4. CONTROLS AND PROCEDURES

We have conducted an evaluation of the effectiveness of our disclosure controls and procedures as of July 29, 2018, the end of the period covered by this report. This evaluation was conducted under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer. Based upon that evaluation, we have concluded that these disclosure controls and procedures are effective to ensure that information required to be disclosed in the reports filed by us and submitted under the Securities Exchange Act of 1934, as amended (the "Exchange Act") is recorded, processed, summarized, and reported as and when required. Further, we concluded that our disclosure controls and procedures are effective to ensure that information required to be disclosed in reports filed by us under the Exchange Act is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, in a manner to allow timely decisions regarding the required disclosures.

There has been no change in our internal control over financial reporting that occurred during the quarter ended July 29, 2018, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Part II – Other Information

Item 1. Legal Proceedings

There have not been any material changes to our legal proceedings during the three months ended July 29, 2018. Our legal proceedings are disclosed in the company's annual report on Form 10-K filed with the Securities and Exchange Commission on July 13, 2018 for the fiscal year ended April 29, 2018.

Item 1A. Risk Factors

There have not been any material changes to our risk factors during the three months ended July 29, 2018. Our risk factors are disclosed in the company's annual report on Form 10-K filed with the Securities and Exchange Commission on July 13, 2018 for the fiscal year ended April 29, 2018.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

ISSUER PURCHASES OF EQUITY SECURITIES

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(d) Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (1)
April 30, 2018 to June 3, 2018	-	-	-	\$5,000,000
June 4, 2018 to July 1, 2018	-	-	-	\$5,000,000
July 2, 2018 to July 29, 2018	2,990	23.99	2,990	\$4,928,275
Total	2,900	23.99	2,990	\$4,928,275

(1) On June 15, 2016, we announced that our board of directors increased the authorization for us to acquire up to \$5.0 million of our common stock.

Item 6. Exhibits

The following exhibits are submitted as part of this report.

- | | |
|---------|--|
| 10.1 | Credit Agreement by and between Culp, Inc. and Wells Fargo Bank, N.A., dated August 3, 2013, along with amendments thereto, including the Fifth Amendment to Credit Agreement dated as of August 13, 2018. |
| 31.1 | Certification of Chief Executive Officer Pursuant to Section 302 of Sarbanes-Oxley Act of 2002. |
| 31.2 | Certification of Chief Financial Officer Pursuant to Section 302 of Sarbanes-Oxley Act of 2002. |
| 32.1 | Certification of Chief Executive Officer Pursuant to Section 906 of Sarbanes-Oxley Act of 2002. |
| 32.2 | Certification of Chief Financial Officer Pursuant to Section 906 of Sarbanes-Oxley Act of 2002. |
| 101.INS | XBRL Instance Document |
| 101.SCH | XBRL Taxonomy Extension Schema Document |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document |

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: September 7, 2018

By: /s/ Kenneth R. Bowling
Kenneth R. Bowling
Senior Vice President and Chief Financial Officer
(Authorized to sign on behalf of the registrant
and also signing as principal financial officer)

By: /s/ Thomas B. Gallagher, Jr.
Thomas B. Gallagher, Jr.
Corporate Controller
(Authorized to sign on behalf of the registrant
and also signing as principal accounting officer)

EXHIBIT INDEX

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101.DEF	XBRL Taxonomy Extension Definition Linkbase Document

EXHIBIT 10.1

CREDIT AGREEMENT

THIS CREDIT AGREEMENT (this "Agreement") is entered into as of August 13, 2013 by and between CULP, INC., a North Carolina corporation ("Borrower"), and WELLS FARGO BANK, NATIONAL ASSOCIATION ("Bank").

RECITALS

Borrower has requested that Bank extend or continue credit to Borrower as described below, and Bank has agreed to provide such credit to Borrower on the terms and conditions contained herein.

NOW, THEREFORE, for valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Bank and Borrower hereby agree as follows:

ARTICLE I

DEFINITIONS

As used herein, the following terms shall have the meanings set forth after each, and any other term in this Agreement shall have the meaning set forth at the place defined:

(a) "Applicable Margin" shall be 1.60% until the first Rate Determination Date (hereafter defined) after August 1, 2013, and as of and after such first Rate Determination Date after August 1, 2013 shall be determined based on the pricing grid set forth below and tied to the Consolidated Total Debt to Consolidated EBITDA ratio determined as set forth in Section 5.9(b):

Price Level	Consolidated Funded Total Debt to Consolidated EBITDA Ratio	Applicable Margin
I	Less than 0.50 to 1.00	1.60%
II	Greater than or equal to 0.50 to 1.00 but less than 1.25 to 1.00	2.00%
III	Greater than or equal to 1.25 to 1.00 but less than 2.00 to 1.00	2.45%
IV	Greater than or equal to 2.00 to 1.00 but less than or equal to 2.50 to 1.00	2.85%

The Applicable Margin shall be determined effective as of the date (herein, the “Rate Determination Date”) which is 10 days after receipt by the Bank of the annual (in the case of the fourth Fiscal Quarter) and quarterly financial statements of the Borrower pursuant to the provisions of Section 5.3 for the Fiscal Quarter as of the end of which the foregoing ratio is being determined, based on such quarterly or annual financial statements, as the case may be, for the Fiscal Quarter then ended, and the Applicable Margin so determined shall remain effective from such Rate Determination Date until the date which is 10 days after receipt by the Bank of the financial statements for the next Fiscal Quarter (which latter date shall be a new Rate Determination Date); provided that if the Borrower shall have failed to deliver to the Bank the financial statements required to be delivered pursuant to the provisions of Section 5.3 with respect to the Fiscal Quarter most recently ended within the time period specified herein, then for the period beginning on the day which is 10 days after the required delivery date of such financial statements and ending on the earlier of (A) 10 days after the date on which the Borrower shall deliver to the Bank the financial statements to be delivered pursuant to the provisions of Section 5.3 with respect to such Fiscal Quarter or any subsequent Fiscal Quarter, or (B) 10 days after the date on which the Borrower shall deliver to the Bank annual financial statements required to be delivered pursuant to the provisions of Section 5.3(a) with respect to the Fiscal Year which includes such Fiscal Quarter or any subsequent Fiscal Year, the Applicable Margin shall be determined at Pricing Level IV set forth above. Any change in the Applicable Margin as of any Rate Determination Date shall result in a corresponding change, effective on and as of such Rate Determination Date, in the interest rate applicable to the Loans outstanding on such Rate Determination Date.

(b) "Business Day" means any day except a Saturday, Sunday or any other day on which commercial banks in North Carolina are authorized or required by law to close.

(c) "Capital Stock" means any nonredeemable capital stock of Borrower or any Consolidated Subsidiary (to the extent issued to a Person other than Borrower), whether common or preferred.

(d) "China Subsidiaries" means, collectively, Culp Fabrics (Shanghai) Co., Ltd., Culp Fabrics (Shanghai) International Trading Co., Ltd. and Culp Cut and Sew Co., Ltd. (each of which has been incorporated under the laws of the People's Republic of China).

(e) "Consolidated EBITDA" means at any time the sum of the following, determined on a consolidated basis for Borrower and its Consolidated Subsidiaries, at the end of each Fiscal Quarter, for the Fiscal Quarter just ended and the three (3) immediately preceding Fiscal Quarters: (i) Consolidated Net Income (exclusive of (y) non-cash charges and (z) restructuring and related cash charges); plus (ii) Consolidated Net Interest Expense; plus (iii) taxes on income; plus (iv) depreciation; plus (v) amortization.

(f) "Consolidated Net Income" means, for any period, the Net Income of Borrower and its Consolidated Subsidiaries determined on a consolidated basis, but excluding (i) extraordinary items and other non-recurring items and (ii) any equity interests of Borrower or any Subsidiary in the unremitted earnings of any Person that is not a Subsidiary.

(g) "Consolidated Net Interest Expense" for any period means interest, whether expensed or capitalized, in respect of debt of Borrower or any of its Consolidated Subsidiaries outstanding during such period.

(h) "Consolidated Net Worth" means, on a consolidated basis and in accordance with generally accepted accounting principles consistently applied, at any time, (i) the sum of (x) the par value (or value stated on the books of Borrower) of Capital Stock (excluding therefrom Redeemable Preferred Stock, treasury stock and capital stock subscribed and unissued) plus (y) the amount of paid-in capital and retained earnings of Borrower and its Subsidiaries, minus (ii) to the extent included in the immediately preceding clause (i), all amounts properly attributable to minority interests, if any, in the stock and surplus of any such Subsidiaries.

(i) “Consolidated Subsidiary” means at any date any Subsidiary or other entity the accounts of which, in accordance with generally accepted accounting principles applied on a consistent basis, would be consolidated with those of Borrower in its consolidated financial statements as of such date.

(j) “Culp Europe” means CULP EUROPE Spółka z ograniczoną odpowiedzialnością, a company organized under the laws of the Republic of Poland and a Wholly Owned Subsidiary of Borrower.

(k) “Culp Europe Credit Agreement” means the Credit Agreement dated as of January 17, 2012 by and between Culp Europe and Bank providing for a revolving line of credit in the original principal amount of up to Six Million Eight Hundred Thousand Polish Zloty (zł6,800,000.00), as the same may be amended from time to time.

(l) “Culp Europe Indebtedness” means all indebtedness of Culp Europe to Bank including, without limitation, such indebtedness pursuant to the Culp Europe Loan Documents.

(m) “Culp Europe Loan Documents” means the Culp Europe Credit Agreement and all other documents evidencing, securing or executed in connection with the Culp Europe Indebtedness, as the same may be amended from time to time.

(n) “Culp Europe Reserve” means an amount as may be required by Bank at any time and from time to time in respect of the Culp Europe Indebtedness including any currency fluctuations in connection therewith, the amount of which reserve is currently \$2,400,000.00 but is subject to change by Bank from time to time in its sole and absolute discretion.

(o) “Daily One Month LIBOR” means, for any day, the rate of interest equal to LIBOR then in effect for delivery of funds for a one (1) month period.

(p) “Existing Letter of Credit” means the existing letter of credit issued by Bank, as issuer, in the face amount of \$195,000.00, for the benefit of Great American Insurance as beneficiary thereunder.

(q) "Fiscal Quarter" means any fiscal quarter of Borrower.

(r) "Fiscal Year" means any fiscal year of Borrower, ending on the Sunday closest to April 30 of each year.

(s) "LIBOR" means the rate per annum (rounded upward, if necessary, to the nearest whole 1/100 of 1%) and determined pursuant to the following formula:

$$\text{LIBOR} = \frac{\text{Base LIBOR}}{100\% - \text{LIBOR Reserve Percentage}}$$

(i) "Base LIBOR" means the rate per annum for United States dollar deposits quoted by Bank as the Inter-Bank Market Offered Rate, with the understanding that such rate is quoted by Bank for the purpose of calculating effective rates of interest for loans making reference thereto, for delivery of funds for one (1) month in an amount equal to the outstanding principal balance of the Line of Credit Note. Borrower understands and agrees that Bank may base its quotation of the Inter-Bank Market Offered Rate upon such offers or other market indicators of the Inter-Bank Market as Bank in its discretion deems appropriate including, but not limited to, the rate offered for U.S. dollar deposits on the London Inter-Bank Market.

(ii) "LIBOR Reserve Percentage" means the reserve percentage prescribed by the Board of Governors of the Federal Reserve System (or any successor) for "Eurocurrency Liabilities" (as defined in Regulation D of the Federal Reserve Board, as amended), adjusted by Bank for expected changes in such reserve percentage during the term of the Line of Credit Note.

(t) "Material Adverse Effect" or "Material Adverse Change" means, with respect to any event, act, condition or occurrence of whatever nature (including any adverse determination in any litigation, arbitration, or governmental investigation or proceeding), whether singly or in conjunction with any other event or events, act or acts, condition or conditions, occurrence or occurrences, whether or not related, a material adverse change in, or a material adverse effect upon, any of (i) the financial condition, operations, business or properties of the Borrower and its Subsidiaries taken as a whole, (ii) the ability of the Borrower to perform its obligations under the Loan Documents, (iii) the legality, validity or enforceability of any Loan Document, or (iv) the rights and remedies of Bank under the Loan Documents.

(u) “Net Income” means, as applied to any Person for any period, the aggregate amount of net income of such person, after taxes, for such period, as determined in accordance with generally accepted accounting principles applied on a consistent basis.

(v) “Omaha Note Purchase Agreement” means that certain Note Purchase Agreement, dated as of August 11, 2008, among the Borrower, as the Company, and Mutual of Omaha Insurance Company and United of Omaha Life Insurance Company, as Purchasers, and as may be amended in the future.

(w) “Person” means an individual, a corporation, a partnership, a limited liability company, an unincorporated association, a trust or any other entity or organization including, but not limited to, a government or political subdivision or an agency or instrumentality thereof.

(x) “Redeemable Preferred Stock” of any Person means any preferred stock issued by such Person which is at any time during the term of the Line of Credit either (i) mandatorily redeemable (by sinking fund or similar payments or otherwise) or (ii) redeemable at the option of the holder thereof.

(y) “Subsidiary” means any corporation or other entity of which securities or other ownership interests having ordinary voting power to elect a majority of the board of directors or other persons performing similar functions are at the time directly or indirectly owned by the Borrower.

(z) “Wholly Owned Subsidiary” means any Subsidiary all of the shares of capital stock or other ownership interests of which (except directors’ qualifying shares) are at the time directly or indirectly owned by the Borrower.

ARTICLE II

CREDIT TERMS

SECTION 2.1. LINE OF CREDIT.

(a) Line of Credit. Subject to the terms and conditions of this Agreement, Bank hereby agrees to make advances to Borrower from time to time up to and including August 31, 2015, not to exceed at any time the aggregate principal amount of TEN MILLION AND NO/100 DOLLARS (\$10,000,000.00) ("Line of Credit"), the proceeds of which shall be used to provide working capital and for general corporate purposes; provided, however, that no portion of the proceeds of the Line of Credit will be used by the Borrower or any Subsidiary (i) in connection with, whether directly or indirectly, any tender offer for, or other acquisition of, stock of any corporation with a view towards obtaining control of such other corporation, unless such tender offer or other acquisition is to be made on a negotiated basis with the approval of the board of directors of the corporation to be acquired, and the provisions of Section 6.6 would not be violated, (ii) directly or indirectly, for the purpose, whether immediate, incidental or ultimate, of purchasing or carrying any Margin Stock (as hereinafter defined), or (iii) for any purpose in violation of any applicable law or regulation. Borrower's obligation to repay advances under the Line of Credit shall be evidenced by a promissory note dated as of the date hereof ("Line of Credit Note"), all terms of which are incorporated herein by this reference.

(b) Limitation on Borrowings. Outstanding borrowings under the Line of Credit shall not at any time exceed the maximum principal amount set forth above less the amount of the Culp Europe Reserve.

(c) Letter of Credit Subfeature. As a subfeature under the Line of Credit, Bank agrees from time to time during the term thereof to issue or cause an affiliate to issue standby letters of credit for the account of Borrower (each, a "New Letter of Credit"; the Existing Letter of Credit and each New Letter of Credit are herein referred to individually as a "Letter of Credit" and collectively as "Letters of Credit"); provided however, that the aggregate undrawn amount of all outstanding Letters of Credit shall not at any time exceed One Million and No/100 Dollars (\$1,000,000.00). The form and substance of each Letter of Credit shall be subject to approval by Bank, in its sole discretion. Each Letter of Credit shall be issued for a term not to exceed three hundred sixty-five (365) days, as designated by Borrower; provided however, that no Letter of Credit shall be issued with, nor shall Bank be required to renew or (if applicable) allow automatic renewal of any Letter of Credit so that it will have, an expiration date that is subsequent to the maturity date of the Line of Credit. The undrawn amount of all Letters of Credit shall be reserved under the Line of Credit and shall not be available for borrowings thereunder. Each Letter of Credit shall be subject to the additional terms and conditions of the Letter of Credit agreements, applications and any related documents required by Bank in connection with the issuance thereof (each, a "Letter of Credit Agreement"). Each drawing paid under a Letter of Credit shall be deemed an advance under the Line of Credit and shall be repaid by Borrower in accordance with the terms and conditions of this Agreement applicable to such advances; provided however, that if advances under the Line of Credit are not available, for any reason, at the time any drawing is paid, then Borrower shall immediately pay to Bank the full amount drawn, together with interest thereon from the date such drawing is paid to the date such amount is fully repaid by Borrower, at the rate of interest applicable to advances under the Line of Credit. In such event Borrower agrees that Bank, in its sole discretion, may debit any account maintained by Borrower with Bank for the amount of any such drawing.

(d) Borrowing and Repayment. Borrower may from time to time during the term of the Line of Credit borrow, partially or wholly repay its outstanding borrowings, and reborrow, subject to all of the limitations, terms and conditions contained herein or in the Line of Credit Note; provided however, that the total outstanding borrowings under the Line of Credit shall not at any time exceed the maximum principal amount available thereunder, as set forth above.

SECTION 2.2. INTEREST/FEES.

(a) Interest. The outstanding principal balance of the Line of Credit shall bear interest, and the amount of each drawing paid under any Letter of Credit shall bear interest from the date such drawing is paid to the date such amount is fully repaid by Borrower, at a fluctuating rate per annum equal to the Daily One Month LIBOR in effect from time to time plus the Applicable Margin. Each change in Daily One Month LIBOR shall become effective on each Business Day such change is announced within Bank. Bank is hereby authorized to note the date and interest rate applicable to the Line of Credit and any payments made thereon on Bank's books and records (either manually or by electronic entry) and/or on any schedule attached to the Line of Credit Note, which notations shall be prima facie evidence of the accuracy of the information noted.

(b) Taxes and Regulatory Costs. Borrower shall pay to Bank immediately upon demand, in addition to any other amounts due or to become due hereunder or under the Line of Credit Note, any and all (i) withholdings, interest equalization taxes, stamp taxes or other taxes (except income and franchise taxes) imposed by any domestic or foreign governmental authority and related in any manner to LIBOR, and (ii) future, supplemental, emergency or other changes in the LIBOR Reserve Percentage, assessment rates imposed by the Federal Deposit Insurance Corporation, or similar requirements or costs imposed by any domestic or foreign governmental authority or resulting from compliance by Bank with any request or directive (whether or not having the force of law) from any central bank or other governmental authority and related in any manner to LIBOR to the extent they are not included in the calculation of LIBOR. In determining which of the foregoing are attributable to any LIBOR option available to Borrower hereunder, any reasonable allocation made by Bank among its operations shall be conclusive and binding upon Borrower.

(c) Computation and Payment. Interest shall be computed on the basis of a 360-day year, actual days elapsed. Interest shall be payable at the times and place set forth in the Line of Credit Note.

(d) Commitment Fee. Borrower shall pay to Bank a non-refundable commitment fee for the Line of Credit equal to Forty Thousand and No/100 Dollars (\$40,000.00), which fee shall be due and payable in full on the date of this Agreement.

(e) Letter of Credit Fees. Borrower shall pay to Bank (i) fees upon the issuance of each Letter of Credit equal to (x) the face amount thereof multiplied by (y) the Applicable Margin on an annualized basis, and (ii) fees upon the payment or negotiation of each drawing under any Letter of Credit and fees upon the occurrence of any other activity with respect to any Letter of Credit (including without limitation, the transfer, amendment or cancellation of any Letter of Credit) determined in accordance with Bank's standard fees and charges then in effect for such activity.

SECTION 2.3. COLLECTION OF PAYMENTS. Borrower authorizes Bank to collect all principal, interest and fees due hereunder by charging Borrower's deposit account number 2040230014183 with Bank, or any other deposit account maintained by Borrower with Bank, for the full amount thereof. Should there be insufficient funds in any such deposit account to pay all such sums when due, the full amount of such deficiency shall be immediately due and payable by Borrower.

ARTICLE III

REPRESENTATIONS AND WARRANTIES

Borrower represents and warrants to Bank as follows:

SECTION 3.1. LEGAL STATUS. Borrower is a corporation, duly organized and existing and in good standing under the laws of North Carolina, and is qualified or licensed to do business (and is in good standing as a foreign corporation, if applicable) in all jurisdictions in which such qualification or licensing is required except for any jurisdictions in which the failure to so qualify or to be so licensed does not have and would not reasonably be expected to cause a Material Adverse Effect.

SECTION 3.2. AUTHORIZATION AND VALIDITY. This Agreement and each promissory note, contract, instrument and other document required hereby or at any time hereafter delivered to Bank in connection herewith (collectively, the "Loan Documents") have been duly authorized, and upon their execution and delivery in accordance with the provisions hereof will constitute legal, valid and binding agreements and obligations of Borrower or the party which executes the same, enforceable in accordance with their respective terms.

SECTION 3.3. NO VIOLATION. The execution, delivery and performance by Borrower of each of the Loan Documents do not violate any provision of any law or regulation, or contravene any provision of the Articles of Incorporation or By-Laws of Borrower, or result in any breach of or default under any contract, obligation, indenture or other instrument to which Borrower is a party or by which Borrower may be bound.

SECTION 3.4. LITIGATION. There are no pending, or to the best of Borrower's knowledge threatened, actions, claims, investigations, suits or proceedings by or before any governmental authority, arbitrator, court or administrative agency which could have a Material Adverse Effect on the financial condition or operation of Borrower other than those disclosed by Borrower to Bank in writing prior to the date hereof.

SECTION 3.5. CORRECTNESS OF FINANCIAL STATEMENTS. The consolidated balance sheet of Borrower and its Consolidated Subsidiaries as of April 28, 2013, and the related consolidated statements of income, shareholders' equity and cash flows for the fiscal year then ended, reported on by Grant Thornton LLP, true copies of which have been delivered by Borrower to Bank prior to the date hereof, (a) are complete and correct and present fairly the consolidated financial condition of Borrower and its Consolidated Subsidiaries as of such dates and their consolidated results of operations and cash flows for such periods stated, (b) disclose all liabilities of Borrower and its Consolidated Subsidiaries that are required to be reflected or reserved against under generally accepted accounting principles, whether liquidated or unliquidated, fixed or contingent, and (c) have been prepared in accordance with generally accepted accounting principles consistently applied. Since the dates of such financial statements there has been no Material Adverse Change in the financial condition of Borrower, nor has Borrower mortgaged, pledged, granted a security interest in or otherwise encumbered any of its assets or properties except in favor of Bank or as otherwise permitted by Bank in writing.

SECTION 3.6. INCOME TAX RETURNS. Borrower has no knowledge of any pending assessments or adjustments of its income tax payable with respect to any year.

SECTION 3.7. NO SUBORDINATION. There is no agreement, indenture, contract or instrument to which Borrower is a party or by which Borrower may be bound that requires the subordination in right of payment of any of Borrower's obligations subject to this Agreement to any other obligation of Borrower.

SECTION 3.8. PERMITS, FRANCHISES. Borrower possesses, and will hereafter possess, all permits, consents, approvals, franchises and licenses required and rights to all trademarks, trade names, patents, and fictitious names, if any, necessary to enable it to conduct the business in which it is now engaged in compliance with applicable law, except for any such permits, consents, approvals, franchises and licenses the failure to possess which does not have and would not reasonably be expected to cause a Material Adverse Effect.

SECTION 3.9. ERISA. Borrower and each member of the Controlled Group is in compliance in all material respects with all applicable provisions of the Employee Retirement Income Security Act of 1974, as amended or recodified from time to time ("ERISA"); Borrower and each member of the Controlled Group has not violated any provision of any defined employee pension benefit plan (as defined in ERISA) maintained or contributed to by Borrower or such member of the Controlled Group (each, a "Plan"); no Reportable Event as defined in ERISA has occurred and is continuing with respect to any Plan initiated by Borrower and any member of the Controlled Group; Borrower and each member of the Controlled Group has met its minimum funding requirements under ERISA with respect to each Plan; and each Plan will be able to fulfill its benefit obligations as they come due in accordance with the Plan documents and under generally accepted accounting principles. "Controlled Group" means all members of a controlled group of corporations and all trades or businesses (whether or not incorporated) under common control which, together with Borrower, are treated as a single employer under Section 414 of the Internal Revenue Code (including any amendments thereto or successors thereof).

SECTION 3.10. OTHER OBLIGATIONS. Neither Borrower nor any of its Consolidated Subsidiaries is in default on any obligation for borrowed money, any purchase money obligation or any other material lease, commitment, contract, instrument or obligation, except for any such default that does not have and would not reasonably be expected to cause a Material Adverse Effect.

SECTION 3.11. ENVIRONMENTAL MATTERS. Except as disclosed by Borrower to Bank in writing prior to the date hereof, Borrower and its Subsidiaries are in compliance in all material respects with all applicable federal or state environmental, hazardous waste, health and safety statutes, and any rules or regulations adopted pursuant thereto, which govern or affect any of Borrower's and/or its Subsidiaries' operations and/or properties, including without limitation, the Comprehensive Environmental Response, Compensation and Liability Act of 1980, the Superfund Amendments and Reauthorization Act of 1986, the Federal Resource Conservation and Recovery Act of 1976, and the Federal Toxic Substances Control Act, as any of the same may be amended, modified or supplemented from time to time. None of the operations of Borrower or its Subsidiaries is the subject of any federal or state investigation evaluating whether any remedial action involving a material expenditure is needed to respond to a release of any toxic or hazardous waste or substance into the environment. Neither Borrower nor any Subsidiary of Borrower has any material contingent liability in connection with any release of any toxic or hazardous waste or substance into the environment.

SECTION 3.12. SUBSIDIARIES. Each of the Borrower's Subsidiaries is a corporation duly organized, validly existing and in good standing under the laws of its jurisdiction of incorporation, is duly qualified or licensed to do business (and is in good standing as a foreign corporation, if applicable) in all jurisdictions in which such qualification or licensing is required except for any jurisdictions in which the failure to so qualify or to be so licensed does not have and would not reasonably be expected to cause a Material Adverse Effect, and has all corporate powers and governmental licenses, authorizations, consents and approvals required to carry on its business as now conducted. The Borrower has no Subsidiaries except for those Subsidiaries listed on **Schedule 3.12** (and any new Subsidiaries created after the date hereof as to which Bank has been notified in writing) which schedule accurately sets forth each such Subsidiary's complete name and jurisdiction of incorporation as of the date hereof.

SECTION 3.13. INVESTMENT COMPANY ACT. Neither the Borrower nor any of its Subsidiaries is an "investment company" within the meaning of the Investment Company Act of 1940, as amended.

SECTION 3.14. PUBLIC UTILITY HOLDING COMPANY ACT. Neither the Borrower nor any of its Subsidiaries is a "holding company", or a "subsidiary company" of a "holding company", or an "affiliate" of a "holding company" or of a "subsidiary company" of a "holding company", as such terms are defined in the Public Utility Holding Company Act of 1935, as amended.

SECTION 3.15. CAPITAL STOCK. All Capital Stock, debentures, bonds, notes and all other securities of Borrower and its Subsidiaries presently issued and outstanding are validly and properly issued in accordance with all applicable laws, including but not limited to, "Blue Sky" laws of all applicable states and the federal securities laws. The issued shares of Capital Stock of Borrower's Wholly Owned Subsidiaries are owned by Borrower free and clear of any lien or adverse claim. At least a majority of the issued shares of capital stock of each of Borrower's other Subsidiaries (other than Wholly Owned Subsidiaries) is owned by Borrower free and clear of any lien or adverse claim.

SECTION 3.16. MARGIN STOCK. Neither Borrower nor any of its Subsidiaries is engaged principally, or as one of its important activities, in the business of purchasing or carrying any Margin Stock, and no part of the proceeds of the Line of Credit will be used to purchase or carry any Margin Stock or to extend credit to others for the purpose of purchasing or carrying Margin Stock, or be used for any purpose which violates, or which is inconsistent with, the provisions of Regulation T, U or X of the Board of Governors of the Federal Reserve System, as in effect from time to time, together with all official rulings and interpretations issued thereunder. "Margin Stock" means "margin stock" as defined in said Regulations T, U or X.

ARTICLE IV

CONDITIONS

SECTION 4.1. CONDITIONS OF INITIAL EXTENSION OF CREDIT. The obligation of Bank to extend any credit contemplated by this Agreement is subject to the fulfillment to Bank's satisfaction of all of the following conditions:

(a) Approval of Bank Counsel. All legal matters incidental to the extension of credit by Bank shall be satisfactory to Bank's counsel.

(b) Documentation. Bank shall have received, in form and substance satisfactory to Bank, each of the following, duly executed:

- (i) This Agreement and each promissory note or other instrument or document required hereby.
 - (ii) Certificates of corporate resolutions and incumbency with respect to this Agreement and the Culp Europe Indebtedness.
- (c) Financial Condition. There shall have been no Material Adverse Change, as determined by Bank, in the financial condition or business of Borrower, nor any material decline, as determined by Bank, in the market value of any collateral required hereunder or a substantial or material portion of the assets of Borrower.
- (d) Insurance. Borrower shall have delivered to Bank evidence of insurance coverage on all Borrower's property, in form, substance, amounts, covering risks and issued by companies satisfactory to Bank.

SECTION 4.2. CONDITIONS OF EACH EXTENSION OF CREDIT. The obligation of Bank to make each extension of credit requested by Borrower hereunder shall be subject to the fulfillment to Bank's satisfaction of each of the following conditions:

- (a) Compliance. The representations and warranties contained herein and in each of the other Loan Documents shall be true on and as of the date of each such extension of credit by Bank pursuant hereto, with the same effect as though such representations and warranties had been made on and as of each such date (except to the extent any such representation or warranty related to a specific date, in which case each such representation or warranty shall be true and correct as of such date), and on each such date, no Event of Default as defined herein, and no condition, event or act which with the giving of notice or the passage of time or both would constitute such an Event of Default, shall have occurred and be continuing or shall exist.

ARTICLE V

AFFIRMATIVE COVENANTS

Borrower covenants that so long as Bank remains committed to extend credit to Borrower pursuant hereto, or any liabilities (whether direct or contingent, liquidated or unliquidated) of Borrower to Bank under any of the Loan Documents remain outstanding, and until payment in full of all obligations of Borrower subject hereto, Borrower shall, unless Bank otherwise consents in writing:

SECTION 5.1. PUNCTUAL PAYMENTS. Punctually pay all principal, interest, fees or other liabilities due under any of the Loan Documents at the times and place and in the manner specified therein.

SECTION 5.2. ACCOUNTING RECORDS. Maintain, and cause each Subsidiary to maintain, adequate books and records in accordance with generally accepted accounting principles consistently applied, and permit any representative of Bank, at any reasonable time and upon reasonable prior notice, to inspect, audit and examine such books and records, to make copies of the same, and to inspect the properties of Borrower and each Subsidiary.

SECTION 5.3. FINANCIAL STATEMENTS. Provide to Bank all of the following, in form and detail satisfactory to Bank:

(a) not later than ninety (90) days after and as of the end of each Fiscal Year, a consolidated (and consolidating, if requested by Bank) balance sheet of Borrower and its Consolidated Subsidiaries as of the end of such Fiscal Year and the related consolidated (and consolidating, if requested by Bank) statements of income, shareholders' equity and cash flows for such Fiscal Year, setting forth in each case in comparative form the figures for the previous fiscal year, all certified by Grant Thornton LLP or other independent public accountants of nationally recognized standing, with such certification to be free of exceptions and qualifications not reasonably acceptable to Bank;

(b) not later than forty-five (45) days after and as of the end of each of the first three (3) Fiscal Quarters of each Fiscal Year, a consolidated balance sheet of the Borrower and its Consolidated Subsidiaries (broken down by business unit, if requested by Bank) as of the end of such Fiscal Quarter and the related consolidated statement of income and statement of cash flows (broken down by business unit, if requested by Bank) for such Fiscal Quarter and for the portion of the Fiscal Year ended at the end of such Fiscal Quarter, setting forth in each case in comparative form the figures for the corresponding fiscal quarter and the corresponding portion of the previous fiscal year, all certified (subject to normal year-end adjustments) as to fairness of presentation in accordance with generally accepted accounting principles applied on a consistent basis by the chief financial officer or the chief accounting officer of Borrower;

(c) contemporaneously with the delivery of each set of financial statements referred to in paragraphs (a) and (b) above, a certificate, substantially in the form of Exhibit A (a "Compliance Certificate"), of the chief financial officer or chief accounting officer of Borrower (i) setting forth in reasonable detail the calculations required to establish whether the Borrower was in compliance with the requirements of Sections 5.9, 6.2, 6.3, 6.4 and 6.6 hereof on the date of such financial statements, and (ii) stating whether any Event of Default exists on the date of such certificate and, if any Event of Default then exists, setting forth the details thereof and the action which Borrower is taking or proposes to take with respect thereto;

(d) contemporaneously with the delivery of each set of annual financial statements referred to in paragraph (a) above, a statement from the firm of independent public accountants which reported on such statements to the effect that nothing has come to their attention to cause them to believe that any Event of Default existed under Sections 5.4, 5.5, 5.6, 5.7, 5.8 and 5.9 and Article VI hereof on the date of such financial statements;

(e) promptly upon the mailing thereof to the shareholders of Borrower generally, copies of all financial statements, reports and proxy statements so mailed;

(f) promptly upon the filing thereof, copies of all registration statements (other than the exhibits thereto and any registration statements on Form S-8 or its equivalent or any filings under Section 16 of the Securities and Exchange Act) and annual, quarterly or monthly reports which Borrower shall have filed with the Securities and Exchange Commission; and

(g) from time to time such other information as Bank may reasonably request.

SECTION 5.4. COMPLIANCE. Preserve and maintain, and cause each Subsidiary to preserve and maintain, all licenses, permits, governmental approvals, rights, privileges and franchises necessary for the conduct of its business, except for such licenses, permits, governmental approvals, rights, privileges and franchises the failure to maintain which does not have and would not reasonably be expected to cause a Material Adverse Effect; and comply, and cause each Subsidiary to comply, with the provisions of all articles of incorporation, by-laws, and similar formation and corporate governance documents of Borrower and its Subsidiaries and with the requirements of all laws, rules, regulations and orders of any governmental authority applicable to Borrower, each Subsidiary and/or their respective businesses, except where such non-compliance does not have and would not reasonably be expected to cause a Material Adverse Effect.

SECTION 5.5. INSURANCE. Maintain and keep in force for each business in which Borrower is engaged, and cause each Subsidiary to maintain and keep in force for each business in which it is engaged, insurance of the types and in amounts customarily carried in similar lines of business, including but not limited to fire, extended coverage, public liability, flood, property damage and workers' compensation, with all such insurance carried with companies and in amounts satisfactory to Bank, and deliver to Bank from time to time at Bank's request, made upon reasonable notice, schedules setting forth all insurance then in effect.

SECTION 5.6. FACILITIES. Keep, and cause each Subsidiary to keep, its properties in good condition, repair and working order, reasonable wear and tear excepted.

SECTION 5.7. TAXES. Pay and cause each of its Subsidiaries to pay promptly when due all taxes (including without limitation federal and state income taxes and state and local property taxes), assessments, governmental charges, claims for labor, supplies, rent and other obligations which, if unpaid, might become a lien against the property of Borrower or any Subsidiary, except (a) such as Borrower and/or such Subsidiary may in good faith contest or as to which a bona fide dispute may arise, and (b) for which Borrower and/or such Subsidiary has made provision, to Bank's reasonable satisfaction, for eventual payment thereof in the event Borrower and/or such Subsidiary is obligated to make such payment.

SECTION 5.8. LITIGATION. Promptly give notice in writing to Bank of any litigation pending or threatened against Borrower with a claim in excess of \$5,000,000.00.

SECTION 5.9. FINANCIAL CONDITION. Maintain Borrower's financial condition as follows using generally accepted accounting principles consistently applied and used consistently with prior practices (except to the extent modified by the definitions herein):

(a) Tangible Net Worth. Tangible Net Worth not less than the sum of (i) \$95,034,300, plus (ii) commencing for the Fiscal Quarter ended April 28, 2013, an aggregate amount equal to 50% of its Consolidated Net Income (but, in each case, only if a positive number) for each completed Fiscal Quarter.

The term "Tangible Net Worth" as used in this Section 5.9(a) shall have the definition given such term in the Omaha Note Purchase Agreement (but excluding for purposes of this Section 5.9(a) any future amendments thereto not made with the written consent of Bank).

(b) Consolidated Total Debt/Consolidated EBITDA Ratio. Ratio of Consolidated Total Debt to Consolidated EBITDA not greater than 2.50 to 1.00 as of each Fiscal Quarter end, determined on a rolling 4-quarter basis.

The term "Consolidated Total Debt" as used in this Section 5.9(b) shall have the definition given such terms in the Omaha Note Purchase Agreement (but excluding for purposes of this Section 5.9(b) any future amendments thereto not made with the written consent of Bank).

(c) Consolidated EBITDAR/Consolidated Fixed Charges. Ratio of Consolidated EBITDAR to Consolidated Fixed Charges not less than 2.25 to 1.00 as of each Fiscal Quarter end, determined on a rolling 4-quarter basis.

The terms "Consolidated EBITDAR" and "Consolidated Fixed Charges" as used in this Section 5.9(c) shall have the definitions given such terms in the Omaha Note Purchase Agreement (but excluding for purposes of this Section 5.9(c) any future amendments thereto not made with the written consent of Bank).

SECTION 5.10. NOTICE TO BANK. Promptly (but in no event more than five (5) Business Days after Borrower becomes aware of the occurrence of each such event or matter) give written notice to Bank in reasonable detail of: (a) the occurrence of any Event of Default, or any condition, event or act which with the giving of notice or the passage of time or both would constitute an Event of Default, together with the details of any action which Borrower is taking or proposes to take with respect thereto; (b) any change in the name, jurisdiction of organization or location of the chief executive office of Borrower or any of its Subsidiaries; (c) the occurrence and nature of any Reportable Event or Prohibited Transaction, each as defined in ERISA, or any funding deficiency with respect to any Plan; or (d) any termination or cancellation (without replacement therefor by Borrower) of any insurance policy which Borrower is required to maintain, or any uninsured or partially uninsured loss through liability or property damage, or through fire, theft or any other cause affecting a material portion of Borrower's property.

SECTION 5.11. DEPOSIT ACCOUNTS. Maintain Borrower's principal deposit accounts and other traditional banking relationships with Bank.

SECTION 5.12. MAINTENANCE OF EXISTENCE. Maintain, and cause each Subsidiary to maintain, its corporate existence and carry on its business in substantially the same manner and in substantially the same fields as such business is now carried on and maintained.

ARTICLE VI

NEGATIVE COVENANTS

Borrower further covenants that so long as Bank remains committed to extend credit to Borrower pursuant hereto, or any liabilities (whether direct or contingent, liquidated or unliquidated) of Borrower to Bank under any of the Loan Documents remain outstanding, and until payment in full of all obligations of Borrower subject hereto, Borrower will not without Bank's prior written consent:

SECTION 6.1. USE OF FUNDS. Use any of the proceeds of any credit extended hereunder except for the purposes stated in Article II hereof.

SECTION 6.2. CAPITAL EXPENDITURES. Make, and will not permit any of its Subsidiaries to make, capital expenditures in excess of \$10,000,000.00 in the aggregate (combined for Borrower and its Subsidiaries) during any Fiscal Year.

SECTION 6.3. LIENS AND OTHER INDEBTEDNESS. Create, incur, assume or permit to exist, nor shall any Consolidated Subsidiary create, incur, assume or permit to exist, any lien on any asset now owned or hereafter acquired by it, and Borrower shall not permit any Subsidiary to incur any indebtedness or liabilities resulting from borrowings, loans or advances, whether secured or unsecured, matured or unmatured, liquidated or unliquidated, joint or several, other than any liabilities of Subsidiaries existing as of, and disclosed to Bank prior to, the date hereof and listed on **Schedule 6.3**, and except for (a) any lien existing on any specific fixed asset of any corporation at the time such corporation becomes a Consolidated Subsidiary and not created in contemplation of such event; (b) any lien on any specific fixed asset securing debt incurred or assumed for the purpose of financing all or any part of the cost of acquiring or constructing such asset, provided that such lien attaches to such asset concurrently or within 18 months after the acquisition or completion of construction thereof; (c) any lien on any specific fixed asset of any corporation existing at the time such corporation is merged or consolidated with or into Borrower or a Consolidated Subsidiary and not created in contemplation of such event; (d) any lien existing on any specific fixed asset prior to the acquisition thereof by Borrower or a Consolidated Subsidiary and not created in contemplation of such acquisition; (e) liens securing debt owed by a Subsidiary to Borrower; (f) any lien arising out of the refinancing, extension, renewal or refunding of any debt secured by any lien permitted by any of the foregoing clauses (a) through (e), provided that such debt is not secured by any additional assets, and the amount of such debt secured by any such lien is not increased; (g) liens incidental to the conduct of its business or ownership of its assets which do not secure debt and do not in the aggregate materially detract from the value of its assets or materially impair the use thereof in the operation of its business; (h) any lien on Margin Stock; (i) debt owing to Borrower or another Subsidiary; (j) liens which (x) are incurred in connection with the purchase of looms, (y) secure debt consisting only of the deferred purchase price of such looms, and no other debt, which deferred purchase price debt is non-interest bearing and payable in no more than two (2) years from the date of purchase, and (z) encumber only the looms so purchased, and not any other assets; (k) liens not otherwise permitted by the foregoing clauses (a) through (j) securing debt (other than the Line of Credit), and debt of Subsidiaries not otherwise permitted by clause (i) above, in an aggregate principal amount at any time outstanding not to exceed 15% of Consolidated Net Worth; and (l) the Culp Europe Indebtedness; provided, however, that the sum of (A) the aggregate amount of debt secured by liens permitted by the foregoing clauses (a) through (g) and (k), plus (B) debt of Subsidiaries permitted by clause (k) shall not exceed an aggregate amount equal to 15% of Consolidated Net Worth.

SECTION 6.4. MERGER, CONSOLIDATION, TRANSFER OF ASSETS. Merge into or consolidate with any other entity; or discontinue or eliminate any business line or segment; acquire all or substantially all of the assets of any other entity; nor sell, lease, transfer or otherwise dispose of all or a substantial or material portion of its assets, nor shall Borrower permit any Subsidiary to do any of the foregoing; provided that, (a) Borrower may merge with another person if (i) such person was organized under the laws of the United States of America or one of its states, (ii) Borrower is the corporation surviving such merger, and (iii) immediately after giving effect to such merger no Event of Default shall have occurred and be continuing; (b) Subsidiaries of Borrower may merge with each other; and (c) the foregoing limitation on the sale, lease or other transfer of assets and on the discontinuation or elimination of a business line or segment shall not prohibit, during any Fiscal Quarter, a transfer of assets or the discontinuance or elimination of a business line or segment (in a single transaction or in a series of related transactions) unless the aggregate assets to be so transferred or utilized in a business line or segment to be so discontinued, when combined with all other assets transferred, and all other assets utilized in all other business lines or segments discontinued, during such Fiscal Quarter and the immediately preceding three (3) Fiscal Quarters, contributed more than 10% of Consolidated EBITDA during the four (4) Fiscal Quarters immediately preceding such Fiscal Quarter.

SECTION 6.5. GUARANTIES. Guarantee or become liable in any way as surety, endorser (other than as endorser of negotiable instruments for deposit or collection in the ordinary course of business), accommodation endorser or otherwise for, nor pledge or hypothecate any assets of Borrower as security for, any liabilities or obligations of any other person or entity, except that Borrower may guarantee the Culp Europe Indebtedness.

SECTION 6.6. LOANS, ADVANCES, INVESTMENTS. Make any loans or advances to or investments in any Person, nor shall any Subsidiary make any loans or advances to or investments in any Person, except any of the foregoing existing as of, and disclosed to Bank prior to, the date hereof and listed on **Schedule 6.6**, and except for (a) loans or advances to employees not exceeding \$5,000,000.00 in the aggregate principal amount outstanding at any time, in each case made in the ordinary course of business and consistent with practices existing on the date hereof; (b) deposits required by government agencies or public utilities; (c) loans and advances made prior to the date hereof to Rayonese Textile, Inc., and additional loans and advances after the date hereof to Culp Europe and the China Subsidiaries; (d) other loans and advances in an amount which, together with investments permitted by clause (m) below, does not exceed 10% of Consolidated Net Worth; (e) investments in direct obligations of the United States Government maturing within one year; (f) investments in certificates of deposit issued by a commercial bank whose credit is satisfactory to Bank; (g) investments in commercial paper rated A1 or the equivalent thereof by Standard & Poor's Rating Group, a division of McGraw-Hill, Inc. ("S&P") or P1 or the equivalent thereof by Moody's Investor Service, Inc. ("Moody's") and in either case maturing within six (6) months after the date of acquisition; (h) investments in tender bonds the payment of the principal of and interest on which is fully supported by a letter of credit issued by a United States bank whose long-term certificates of deposit are rated at least AA or the equivalent thereof by S&P and Aa or the equivalent thereof by Moody's; (i) investments pursuant to its deferred compensation plan, funded with life insurance or other investment products through a Rabbi Trust; (j) investments in joint ventures in an aggregate amount not exceeding \$25,000,000.00; (k) investments made prior to the date hereof in 3096726 Canada Inc. and/or in Rayonese Textile, Inc; (l) the guaranty by Borrower of the Culp Europe Indebtedness; and/or (m) other investments in an amount which, together with the loans and advances permitted by clause (d) above, does not exceed 10% of Consolidated Net Worth; provided that after giving effect to the making of any loans, advances, deposits or investments permitted by this Section 6.6, no Event of Default shall be in existence or created thereby.

SECTION 6.7. DIVIDENDS, DISTRIBUTIONS. Permit any Subsidiary to, directly or indirectly, create or otherwise cause or suffer to exist or become effective any encumbrance or restriction on the ability of any such Subsidiary to (a) pay any dividends or make any other distributions on its Capital Stock or any other interest, other than dividends paid or payable in the form of additional Capital Stock (it being understood that the requirement under the laws of China that the China Subsidiaries retain at least 10% of its net income shall not constitute a violation of the foregoing covenant), or (b) make or repay any loans or advances to Borrower or the parent of such Subsidiary.

SECTION 6.8. DISSOLUTION. Suffer or permit, nor shall any of Borrower's Subsidiaries suffer or permit, dissolution or liquidation either in whole or in part or redeem or retire any shares of its own stock or that of any Subsidiary, except through corporate reorganization permitted by Section 6.4.

SECTION 6.9. TRANSACTIONS WITH AFFILIATES. Enter into or be a party to, nor shall any of Borrower's Subsidiaries enter into or be a party to, any transaction with any Affiliate of Borrower or such Subsidiary (which Affiliate is not Borrower or a Wholly Owned Subsidiary), except as permitted by law and pursuant to reasonable terms which are fully disclosed to Bank and are no less favorable to Borrower or such Subsidiary than would be obtained in a comparable arms' length transaction with a Person which is not an Affiliate. "Affiliate" of a relevant Person means (i) a Person that directly, or indirectly through one or more intermediaries, controls the relevant Person (a "Controlling Person"), (ii) any Person (other than the relevant Person or a Subsidiary of the relevant person) which is controlled by or is under common control with a Controlling Person, or (iii) any Person (other than a Subsidiary of the relevant Person) of which the relevant Person owns, directly or indirectly, 20% or more of the common stock or equivalent equity interests; and "control" means possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of a Person, whether through the ownership of voting securities, by contract or otherwise.

SECTION 6.10. CHANGE OF FISCAL YEAR. Change its Fiscal Year.

ARTICLE VII

EVENTS OF DEFAULT

SECTION 7.1. The occurrence of any of the following shall constitute an "Event of Default" under this Agreement:

- (a) Borrower shall fail to pay when due any principal payable under the Loan Documents or any reimbursement obligation with respect to any Letter of Credit, or shall fail to pay any interest payable under the Loan Documents within five (5) Business Days after such interest shall become due, or shall fail to pay any fee or other amount payable under any of the Loan Documents within five (5) Business Days after such fee or other amount becomes due.
- (b) Any financial statement or certificate furnished to Bank pursuant to, or any representation or warranty made by Borrower or any other party under this Agreement or any other Loan Document shall prove to be incorrect, false or misleading in any material respect when furnished or made.
- (c) Any default in the performance of or compliance with any obligation, agreement or other provision contained herein or in any other Loan Document (other than those specifically described as an "Event of Default" in this section 7.1), and with respect to any such default that by its nature can be cured, such default shall continue for a period of thirty (30) days from its occurrence.
- (d) Any default in the payment or performance of any obligation, or any defined event of default, under the terms of any contract, instrument or document (other than any of the Loan Documents) pursuant to which Borrower, any Subsidiary, any guarantor hereunder (with each such guarantor referred to herein as a "Third Party Obligor") has incurred any debt or other liability to any person or entity, including Bank; provided, however, that any cure period applicable to such default has expired, and with respect to a default under any obligation to any person or entity other than Bank, the amount of said obligation exceeds \$5,000,000.00.

(e) Borrower, any Subsidiary or any Third Party Obligor shall suffer or consent to or apply for the appointment of a receiver, trustee, custodian or liquidator of itself or any of its property, or shall make a general assignment for the benefit of creditors; Borrower, any Subsidiary or any Third Party Obligor shall file a voluntary petition in bankruptcy, or seeking reorganization, in order to effect a plan or other arrangement with creditors or any other relief under the Bankruptcy Reform Act, Title 11 of the United States Code, as amended or recodified from time to time ("Bankruptcy Code"), or under any state or federal law granting relief to debtors, whether now or hereafter in effect; or Borrower, any Subsidiary or any Third Party Obligor shall file an answer admitting the jurisdiction of the court and the material allegations of any involuntary petition; or Borrower, any Subsidiary or any Third Party Obligor shall be adjudicated a bankrupt, or an order for relief shall be entered against Borrower, any Subsidiary or any Third Party Obligor by any court of competent jurisdiction under the Bankruptcy Code or any other applicable state or federal law relating to bankruptcy, reorganization or other relief for debtors.

(f) The filing of a notice of judgment lien of an amount in excess of \$5,000,000.00 against Borrower, any Subsidiary or any Third Party Obligor; or the service of a notice of levy and/or of a writ of attachment or execution, or other like process, against the assets of Borrower, any Subsidiary or any Third Party Obligor; or the entry of one or more judgments or orders for the payment of money in an aggregate amount in excess of \$5,000,000.00 against Borrower, any Subsidiary or any Third Party Obligor which judgment or order shall continue unsatisfied and unstayed for a period of thirty (30) days; or any involuntary petition or proceeding pursuant to the Bankruptcy Code or any other applicable state or federal law relating to bankruptcy, reorganization or other relief for debtors is filed or commenced against Borrower, any Subsidiary or any Third Party Obligor and the involuntary petition or proceeding continues undismissed more than sixty (60) days following the date of its filing.

(g) The dissolution or liquidation of Borrower, any Subsidiary or any Third Party Obligor, except as may be permitted by Section 6.4(c); or Borrower, any Subsidiary or any Third Party Obligor, or any of its directors, stockholders or members, shall take action seeking to effect the dissolution or liquidation of Borrower, such Subsidiary or such Third Party Obligor, except as may be permitted by Section 6.4(c).

(h) (i) Except for the Culp Family, any Person or two or more Persons acting in concert shall have acquired beneficial ownership (within the meaning of Rule 13d-3 of the Securities and Exchange Commission under the Securities Act of 1934) of 20% or more of the outstanding shares of the voting stock of Borrower; or (ii) as of any date a majority of the board of directors of Borrower consists of individuals who were not either (x) directors of Borrower as of the corresponding date of the previous year, (y) selected or nominated to become directors by the board of directors of Borrower of which a majority consisted of individuals described in the foregoing clause (x), or (z) selected or nominated to become directors by the board of directors of Borrower of which a majority consisted of individuals described in the foregoing clause (x) and individuals described in the foregoing clause (y). "Culp Family" means Robert G. Culp, III, his spouse, his mother, his siblings, his lineal descendants, and any trusts established for the benefit of any of them.

(i) An “Event of Default” (as defined therein) under the Omaha Note Purchase Agreement shall have occurred and be continuing.

(j) An “Event of Default” (as defined therein) shall have occurred under any of the Culp Europe Loan Documents.

SECTION 7.2. REMEDIES. Upon the occurrence of any Event of Default: (a) all indebtedness of Borrower under each of the Loan Documents, any term thereof to the contrary notwithstanding, shall at Bank's option and without notice become immediately due and payable without presentment, demand, protest or notice of dishonor, all of which are hereby expressly waived by Borrower; (b) the obligation, if any, of Bank to extend any further credit under any of the Loan Documents shall immediately cease and terminate; and (c) Bank shall have all rights, powers and remedies available under each of the Loan Documents, or accorded by law, including without limitation the right to resort to any or all security for any credit subject hereto and to exercise any or all of the rights of a beneficiary or secured party pursuant to applicable law. All rights, powers and remedies of Bank may be exercised at any time by Bank and from time to time after the occurrence of an Event of Default, are cumulative and not exclusive, and shall be in addition to any other rights, powers or remedies provided by law or equity.

ARTICLE VIII

MISCELLANEOUS

SECTION 8.1. NO WAIVER. No delay, failure or discontinuance of Bank in exercising any right, power or remedy under any of the Loan Documents shall affect or operate as a waiver of such right, power or remedy; nor shall any single or partial exercise of any such right, power or remedy preclude, waive or otherwise affect any other or further exercise thereof or the exercise of any other right, power or remedy. Any waiver, permit, consent or approval of any kind by Bank of any breach of or default under any of the Loan Documents must be in writing and shall be effective only to the extent set forth in such writing.

SECTION 8.2. NOTICES. All notices, requests and demands which any party is required or may desire to give to any other party under any provision of this Agreement must be in writing delivered to each party at the following address:

BORROWER: Culp, Inc.

1823 Eastchester Drive

P.O. Box 2686

High Point, North Carolina 27265

Attention: Kenneth R. Bowling

Vice President and Chief Financial Officer

Telecopier Number: (336) 887-7089

BANK: WELLS FARGO BANK, NATIONAL ASSOCIATION

100 North Main Street

MAC D4001-053

Winston-Salem, North Carolina 27101

Attention: Timothy Sechrest, Senior Vice President

Telecopier Number: (336) 732-4833

or to such other address as any party may designate by written notice to all other parties. Each such notice, request and demand shall be deemed given or made as follows: (a) if sent by hand delivery, upon delivery; (b) if sent by mail, upon the earlier of the date of receipt or three (3) days after deposit in the U.S. mail, first class and postage prepaid; and (c) if sent by telecopy, upon receipt.

SECTION 8.3. COSTS, EXPENSES AND ATTORNEYS' FEES. Borrower shall pay to Bank immediately upon demand the full amount of all payments, advances, charges, costs and expenses, including reasonable attorneys' fees (to include outside counsel fees), expended or incurred by Bank in connection with (a) the negotiation and preparation of this Agreement and the other Loan Documents, Bank's continued administration hereof and thereof, and the preparation of any amendments and waivers hereto and thereto, (b) the enforcement of Bank's rights and/or the collection of any amounts which become due to Bank under any of the Loan Documents, and (c) the prosecution or defense of any action in any way related to any of the Loan Documents, including without limitation, any action for declaratory relief, whether incurred at the trial or appellate level, in an arbitration proceeding or otherwise, and including any of the foregoing incurred in connection with any bankruptcy proceeding (including without limitation, any adversary proceeding, contested matter or motion brought by Bank or any other person) relating to Borrower or any other person or entity.

SECTION 8.4. SUCCESSORS, ASSIGNMENT. This Agreement shall be binding upon and inure to the benefit of the heirs, executors, administrators, legal representatives, successors and assigns of the parties; provided however, that Borrower may not assign or transfer its interests or rights hereunder without Bank's prior written consent. Bank reserves the right to sell, assign, transfer, negotiate or grant participations in all or any part of, or any interest in, Bank's rights and benefits under each of the Loan Documents. Bank shall use commercially reasonable efforts to give prior notice to Borrower before assigning more than fifty percent (50%) of its interest in the loans made hereunder. In connection therewith, Bank may disclose all documents and information which Bank now has or may hereafter acquire relating to any credit subject hereto, Borrower or its business, or any collateral required hereunder.

SECTION 8.5. ENTIRE AGREEMENT; AMENDMENT. This Agreement and the other Loan Documents constitute the entire agreement between Borrower and Bank with respect to each credit subject hereto and supersede all prior negotiations, communications, discussions and correspondence concerning the subject matter hereof. This Agreement may be amended or modified only in writing signed by each party hereto.

SECTION 8.6. NO THIRD PARTY BENEFICIARIES. This Agreement is made and entered into for the sole protection and benefit of the parties hereto and their respective permitted successors and assigns, and no other person or entity shall be a third party beneficiary of, or have any direct or indirect cause of action or claim in connection with, this Agreement or any other of the Loan Documents to which it is not a party.

SECTION 8.7. TIME. Time is of the essence of each and every provision of this Agreement and each other of the Loan Documents.

SECTION 8.8. SEVERABILITY OF PROVISIONS. If any provision of this Agreement shall be prohibited by or invalid under applicable law, such provision shall be ineffective only to the extent of such prohibition or invalidity without invalidating the remainder of such provision or any remaining provisions of this Agreement.

SECTION 8.9. COUNTERPARTS. This Agreement may be executed in any number of counterparts, each of which when executed and delivered shall be deemed to be an original, and all of which when taken together shall constitute one and the same Agreement.

SECTION 8.10. GOVERNING LAW. This Agreement shall be governed by and construed in accordance with the laws of the State of North Carolina, without reference to the conflicts of law or choice of law principles thereof.

SECTION 8.11. ARBITRATION; WAIVER OF JURY TRIAL.

(a) Arbitration. The parties hereto agree, upon demand by any party, to submit to binding arbitration all claims, disputes and controversies between or among them (and their respective employees, officers, directors, attorneys, and other agents), whether in tort, contract or otherwise in any way arising out of or relating to (i) any credit subject hereto, or any of the Loan Documents, and their negotiation, execution, collateralization, administration, repayment, modification, extension, substitution, formation, inducement, enforcement, default or termination; or (ii) requests for additional credit.

(b) Governing Rules. Any arbitration proceeding will (i) proceed in a location in North Carolina selected by the American Arbitration Association (“AAA”); (ii) be governed by the Federal Arbitration Act (Title 9 of the United States Code), notwithstanding any conflicting choice of law provision in any of the documents between the parties; and (iii) be conducted by the AAA, or such other administrator as the parties shall mutually agree upon, in accordance with the AAA’s commercial dispute resolution procedures, unless the claim or counterclaim is at least \$1,000,000.00 exclusive of claimed interest, arbitration fees and costs in which case the arbitration shall be conducted in accordance with the AAA’s optional procedures for large, complex commercial disputes (the commercial dispute resolution procedures or the optional procedures for large, complex commercial disputes to be referred to herein, as applicable, as the “Rules”). If there is any inconsistency between the terms hereof and the Rules, the terms and procedures set forth herein shall control. Any party who fails or refuses to submit to arbitration following a demand by any other party shall bear all costs and expenses incurred by such other party in compelling arbitration of any dispute. Nothing contained herein shall be deemed to be a waiver by any party that is a bank of the protections afforded to it under 12 U.S.C. §91 or any similar applicable state law.

(c) No Waiver of Provisional Remedies, Self-Help and Foreclosure. The arbitration requirement does not limit the right of any party to (i) foreclose against real or personal property collateral; (ii) exercise self-help remedies relating to collateral or proceeds of collateral such as setoff or repossession; or (iii) obtain provisional or ancillary remedies such as replevin, injunctive relief, attachment or the appointment of a receiver, before during or after the pendency of any arbitration proceeding. This exclusion does not constitute a waiver of the right or obligation of any party to submit any dispute to arbitration or reference hereunder, including those arising from the exercise of the actions detailed in sections (i), (ii) and (iii) of this paragraph.

(d) Arbitrator Qualifications and Powers. Any arbitration proceeding in which the amount in controversy is \$5,000,000.00 or less will be decided by a single arbitrator selected according to the Rules, and who shall not render an award of greater than \$5,000,000.00. Any dispute in which the amount in controversy exceeds \$5,000,000.00 shall be decided by majority vote of a panel of three arbitrators; provided however, that all three arbitrators must actively participate in all hearings and deliberations. The arbitrator will be a neutral attorney licensed in the State of North Carolina or a neutral retired judge of the state or federal judiciary of North Carolina, in either case with a minimum of ten years experience in the substantive law applicable to the subject matter of the dispute to be arbitrated. The arbitrator will determine whether or not an issue is arbitratable and will give effect to the statutes of limitation in determining any claim. In any arbitration proceeding the arbitrator will decide (by documents only or with a hearing at the arbitrator's discretion) any pre-hearing motions which are similar to motions to dismiss for failure to state a claim or motions for summary adjudication. The arbitrator shall resolve all disputes in accordance with the substantive law of North Carolina and may grant any remedy or relief that a court of such state could order or grant within the scope hereof and such ancillary relief as is necessary to make effective any award. The arbitrator shall also have the power to award recovery of all costs and fees, to impose sanctions and to take such other action as the arbitrator deems necessary to the same extent a judge could pursuant to the Federal Rules of Civil Procedure, the North Carolina Rules of Civil Procedure or other applicable law. Judgment upon the award rendered by the arbitrator may be entered in any court having jurisdiction. The institution and maintenance of an action for judicial relief or pursuit of a provisional or ancillary remedy shall not constitute a waiver of the right of any party, including the plaintiff, to submit the controversy or claim to arbitration if any other party contests such action for judicial relief.

(e) Discovery. In any arbitration proceeding, discovery will be permitted in accordance with the Rules. All discovery shall be expressly limited to matters directly relevant to the dispute being arbitrated and must be completed no later than 20 days before the hearing date. Any requests for an extension of the discovery periods, or any discovery disputes, will be subject to final determination by the arbitrator upon a showing that the request for discovery is essential for the party's presentation and that no alternative means for obtaining information is available.

(f) Class Proceedings and Consolidations. No party hereto shall be entitled to join or consolidate disputes by or against others in any arbitration, except parties who have executed any Loan Document, or to include in any arbitration any dispute as a representative or member of a class, or to act in any arbitration in the interest of the general public or in a private attorney general capacity.

(g) Payment Of Arbitration Costs And Fees. The arbitrator shall award all costs and expenses of the arbitration proceeding.

(h) Miscellaneous. To the maximum extent practicable, the AAA, the arbitrators and the parties shall take all action required to conclude any arbitration proceeding within 180 days of the filing of the dispute with the AAA. No arbitrator or other party to an arbitration proceeding may disclose the existence, content or results thereof, except for disclosures of information by a party required in the ordinary course of its business or by applicable law or regulation. If more than one agreement for arbitration by or between the parties potentially applies to a dispute, the arbitration provision most directly related to the Loan Documents or the subject matter of the dispute shall control. This arbitration provision shall survive termination, amendment or expiration of any of the Loan Documents or any relationship between the parties.

(i) Waiver of Jury Trial. The parties hereto hereby acknowledge that by agreeing to binding arbitration they have irrevocably waived their respective rights to a jury trial with respect to any action, claim or other proceeding arising out of any dispute in connection this Agreement or any other agreement or document delivered in connection herewith, any rights or obligations hereunder or thereunder, or the performance of such rights and obligations. This provision is a material inducement for the parties entering into this Agreement.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed, with the intention that it constitute an instrument under seal, as of the day and year first written above.

CULP, INC.

WELLS FARGO BANK,

NATIONAL ASSOCIATION

By: /s/ Kenneth R. Bowling

By: /s/ Timothy Sechrest

Name: Kenneth R. Bowling

Name: Timothy Sechrest

Title: VP and Chief Financial Officer

Title: Senior Vice President

FIRST AMENDMENT TO CREDIT AGREEMENT

THIS FIRST AMENDMENT TO CREDIT AGREEMENT (this "Amendment") is entered into as of July 10, 2015 by and between CULP, INC., a North Carolina corporation ("Borrower"), and WELLS FARGO BANK, NATIONAL ASSOCIATION ("Bank").

RECITALS

WHEREAS, Borrower is currently indebted to Bank pursuant to the terms and conditions of that certain Credit Agreement between Borrower and Bank dated as of August 13, 2013, as amended from time to time ("Credit Agreement").

WHEREAS, Bank and Borrower have agreed to certain changes in the terms and conditions set forth in the Credit Agreement and have agreed to amend the Credit Agreement to reflect said changes.

NOW, THEREFORE, for valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

1. Amendments to Credit Agreement. The Credit Agreement is hereby amended as set forth in this Section 1.

1.1 The following amendments are hereby made to Article I ("Definitions") of the Credit Agreement:

(a) The definition of "Applicable Margin" is hereby amended and restated in its entirety to read as follows:

“(a) “Applicable Margin” shall be shall be 1.50% until the first Rate Determination Date (hereafter defined) after August 1, 2015, and as of and after such first Rate Determination Date after August 1, 2015 shall be determined based on the pricing grid set forth below and tied to the Consolidated Total Debt to Consolidated EBITDA ratio determined as set forth in Section 5.9(b):

Price Level	Consolidated Total Debt to Consolidated EBITDA Ratio	Applicable Margin
I	Less than 0.50 to 1.00	1.50%
II	Greater than or equal to 0.50 to 1.00 but less than 1.25 to 1.00	1.90%
III	Greater than or equal to 1.25 to 1.00 but less than 2.00 to 1.00	2.35%
IV	Greater than or equal to 2.00 to 1.00 but less than or equal to 2.25 to 1.00	2.75%

The Applicable Margin shall be determined effective as of the date (herein, the “Rate Determination Date”) which is 10 days after receipt by the Bank of the annual (in the case of the fourth Fiscal Quarter) and quarterly financial statements of the Borrower pursuant to the provisions of Section 5.3 for the Fiscal Quarter as of the end of which the foregoing ratio is being determined, based on such quarterly or annual financial statements, as the case may be, for the Fiscal Quarter then ended, and the Applicable Margin so determined shall remain effective from such Rate Determination Date until the date which is 10 days after receipt by the Bank of the financial statements for the next Fiscal Quarter (which latter date shall be a new Rate Determination Date); provided that if the Borrower shall have failed to deliver to the Bank the financial statements required to be delivered pursuant to the provisions of Section 5.3 with respect to the Fiscal Quarter most recently ended within the time period specified herein, then for the period beginning on the day which is 10 days after the required delivery date of such financial statements and ending on the earlier of (A) 10 days after the date on which the Borrower shall deliver to the Bank the financial statements to be delivered pursuant to the provisions of Section 5.3 with respect to such Fiscal Quarter or any subsequent Fiscal Quarter, or (B) 10 days after the date on which the Borrower shall deliver to the Bank annual financial statements required to be delivered pursuant to the provisions of Section 5.3(a) with respect to the Fiscal Year which includes such Fiscal Quarter or any subsequent Fiscal Year, the Applicable Margin shall be determined at Pricing Level IV set forth above. Any change in the Applicable Margin as of any Rate Determination Date shall result in a corresponding change, effective on and as of such Rate Determination Date, in the interest rate applicable to the Loans outstanding on such Rate Determination Date.”

(b) The definition of “Culp Europe Credit Agreement” is hereby amended and restated in its entirety to read as follows:

“(n) “Culp Europe Credit Agreement” means the Amended and Restated Credit Agreement (Multi-Currency Revolving Credit Facility) dated as of January 31, 2014 by and between Culp Europe and Bank providing for a revolving line of credit in the original principal amount of up to One Million Five Hundred Thousand Euros (€1,500,000.00) or the equivalent in Alternative Currency, as defined therein, as the same may be amended from time to time.”

1.2 Section 2.1(a) of the Credit Agreement is hereby amended by deleting "August 31, 2015" as the last day on which Bank will make advances under the Line of Credit, and by substituting for said date "August 31, 2017."

1.3 Section 5.9 of the Credit Agreement is hereby amended and restated in its entirety to read as follows:

“SECTION 5.9. FINANCIAL CONDITION. Maintain Borrower’s financial condition as follows using generally accepted accounting principles consistently applied and used consistently with prior practices (except to the extent modified by the definitions herein):

(a) Tangible Net Worth. Tangible Net Worth not less than \$75,000,000.00 for each completed Fiscal Quarter, with “Tangible Net Worth” defined as shareholder’s equity determined in accordance with generally accepted accounting principles consistently applied, less intangible assets.

(b) Consolidated Total Debt/Consolidated EBITDA Ratio. Ratio of Consolidated Total Debt to Consolidated EBITDA not greater than 2.25 to 1.00 as of each Fiscal Quarter end, determined on a rolling 4-quarter basis, commencing with the Fiscal Quarter ending on or about August 2, 2015.

The term “Consolidated Total Debt” as used in this Section 5.9(b) shall have the definition given such term in the Omaha Note Purchase Agreement (but excluding for purposes of this Section 5.9(b) any future amendments thereto not made with the written consent of Bank), which definition shall survive for purposes of this Agreement notwithstanding the termination of the Omaha Note Purchase Agreement or the repayment full of the Borrower’s obligations thereunder.

(c) Consolidated EBITDAR/Consolidated Fixed Charges. Ratio of Consolidated EBITDAR to Consolidated Fixed Charges not less than 2.00 to 1.00 as of each Fiscal Quarter end, determined on a rolling 4-quarter basis, commencing with the Fiscal Quarter ending on or about August 2, 2015.

The terms “Consolidated EBITDAR” and “Consolidated Fixed Charges” as used in this Section 5.9(c) shall have the definitions given such terms in the Omaha Note Purchase Agreement (but excluding for purposes of this Section 5.9(c) any future amendments thereto not made with the written consent of Bank), which definitions shall survive for purposes of this Agreement notwithstanding the termination of the Omaha Note Purchase Agreement or the repayment full of the Borrower’s obligations thereunder.”

1.4. Section 6.2 of the Credit Agreement is hereby amended by deleting the reference to “\$10,000,000.00” and substituting in lieu thereof “\$12,000,000.00.”

1.5. The Compliance Checklist attached to the Form of Compliance Certificate attached at Exhibit A to the Credit Agreement is hereby deleted and replaced by the Compliance Checklist attached as Exhibit A to this Amendment.

2. Conditions to Effectiveness. The effectiveness of this Amendment is subject to the fulfillment to Bank's satisfaction of the following conditions:

- (a) Documentation. Bank shall have received, in form and substance satisfactory to Bank, each of the following, duly executed:
 - (i) This Amendment;
 - (ii) A First Modification to Revolving Line of Credit Note; and
 - (iii) Such other documentation as Bank may reasonably require in connection with this Amendment.
- (b) Financial Condition. There shall have been no material adverse change, as determined by Bank, in the financial condition or business of Borrower, nor any material decline, as determined by Bank, in the market value of any substantial or material portion of the assets of Borrower.
- (c) Amendment Fee. In consideration of the changes set forth herein and as a condition to the effectiveness hereof, immediately upon signing this Amendment Borrower shall pay to Bank a non-refundable fee of \$40,000.00.

3. No Further Amendment. Except as specifically provided herein, all terms and conditions of the Credit Agreement remain in full force and effect, without waiver or modification. All terms defined in the Credit Agreement shall have the same meaning when used in this Amendment. This Amendment and the Credit Agreement shall be read together, as one document.

4. Representations and Warranties. Borrower hereby remakes all representations and warranties contained in the Credit Agreement and reaffirms all covenants set forth therein. Borrower further certifies that as of the date of this Amendment there exists no Event of Default as defined in the Credit Agreement, nor any condition, act or event which with the giving of notice or the passage of time or both would constitute any such Event of Default.

5. Costs. Borrower agrees to pay all costs and expenses of the Bank in connection with the preparation, execution and delivery of this Amendment, including without limitation the fees and expenses of the Bank's legal counsel.

6. Counterparts. This Amendment may be executed in any number of counterparts, each of which when executed and delivered shall be deemed to be an original, and all of which when taken together shall constitute one and the same document.

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be executed, with the intention that it constitute an instrument under seal, as of the day and year first written above.

CULP, INC.

By: /s/ Kenneth R. Bowling
Name: Kenneth R. Bowling
Title: Chief Financial Officer

WELLS FARGO BANK,
NATIONAL ASSOCIATION

By: /s/ Timothy Sechrest
Name: Timothy Sechrest
Title: Senior Vice President

SECOND AMENDMENT TO CREDIT AGREEMENT

THIS SECOND AMENDMENT TO CREDIT AGREEMENT (this "Amendment") is entered into as of, March 10th, 2016 by and between CULP, INC., a North Carolina corporation ("Borrower"), and WELLS FARGO BANK, NATIONAL ASSOCIATION ("Bank").

RECITALS

WHEREAS, Borrower is currently indebted to Bank pursuant to the terms and conditions of that certain Credit Agreement between Borrower and Bank dated as of August 13, 2013, as amended by a First Amendment to Credit Agreement between Borrower and Bank dated as of July 10, 2015, and as further amended from time to time ("Credit Agreement").

WHEREAS, Bank and Borrower have agreed to certain changes in the terms and conditions set forth in the Credit Agreement and have agreed to amend the Credit Agreement to reflect said changes.

NOW, THEREFORE, for valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

1. Amendments to Credit Agreement. The Credit Agreement is hereby amended as set forth in this Section 1.

1.1 The following amendments are hereby made to Article I ("Definitions") of the Credit Agreement:

(a) The definition of “Applicable Margin” is hereby amended and restated in its entirety to read as follows:

“(a) “Applicable Margin” shall be shall be 1.45% until the first Rate Determination Date (hereafter defined) after March 1, 2016, and as of and after such first Rate Determination Date after March 1, 2016 shall be determined based on the pricing grid set forth below and tied to the Consolidated Total Debt to Consolidated EBITDA ratio determined as set forth in Section 5.9(b):

Price Level	Consolidated Total Debt to Consolidated EBITDA Ratio	Applicable Margin
I	Less than 0.75 to 1.00	1.45%
II	Greater than or equal to 0.75 to 1.00 but less than 1.50 to 1.00	1.90%
III	Greater than or equal to 1.50 to 1.00 but less than 2.25 to 1.00	2.35%

The Applicable Margin shall be determined effective as of the date (herein, the “Rate Determination Date”) which is 10 days after receipt by the Bank of the annual (in the case of the fourth Fiscal Quarter) and quarterly financial statements of the Borrower pursuant to the provisions of Section 5.3 for the Fiscal Quarter as of the end of which the foregoing ratio is being determined, based on such quarterly or annual financial statements, as the case may be, for the Fiscal Quarter then ended, and the Applicable Margin so determined shall remain effective from such Rate Determination Date until the date which is 10 days after receipt by the Bank of the financial statements for the next Fiscal Quarter (which latter date shall be a new Rate Determination Date); provided that if the Borrower shall have failed to deliver to the Bank the financial statements required to be delivered pursuant to the provisions of Section 5.3 with respect to the Fiscal Quarter most recently ended within the time period specified herein, then for the period beginning on the day which is 10 days after the required delivery date of such financial statements and ending on the earlier of (A) 10 days after the date on which the Borrower shall deliver to the Bank the financial statements to be delivered pursuant to the provisions of Section 5.3 with respect to such Fiscal Quarter or any subsequent Fiscal Quarter, or (B) 10 days after the date on which the Borrower shall deliver to the Bank annual financial statements required to be delivered pursuant to the provisions of Section 5.3(a) with respect to the Fiscal Year which includes such Fiscal Quarter or any subsequent Fiscal Year, the Applicable Margin shall be determined at Pricing Level III set forth above. Any change in the Applicable Margin as of any Rate Determination Date shall result in a corresponding change, effective on and as of such Rate Determination Date, in the interest rate applicable to the Loans outstanding on such Rate Determination Date.”

(b) The definition of “LIBOR” is hereby amended by adding the following sentence at the end thereof: “Notwithstanding anything in this Agreement to the contrary, if LIBOR determined as provided above would be less than zero percent (0.0%), then LIBOR shall be deemed to be zero percent (0.0%).”

1.2 Section 2.1(a) of the Credit Agreement is hereby amended and restated in its entirety to read as follows:

“(a) Line of Credit. Subject to the terms and conditions of this Agreement, Bank hereby agrees to make advances to Borrower from time to time up to and including August 15, 2018, not to exceed at any time the aggregate principal amount of THIRTY MILLION AND NO/100 DOLLARS (\$30,000,000.00) (“Line of Credit”), the proceeds of which shall be used to provide working capital and for general corporate purposes; provided, however, that no portion of the proceeds of the Line of Credit will be used by the Borrower or any Subsidiary (i) in connection with, whether directly or indirectly, any tender offer for, or other acquisition of, stock of any corporation with a view towards obtaining control of such other corporation, unless such tender offer or other acquisition is to be made on a negotiated basis with the approval of the board of directors of the corporation to be acquired, and the provisions of Section 6.6 would not be violated, (ii) directly or indirectly, for the purpose, whether immediate, incidental or ultimate, of purchasing or carrying any Margin Stock (as hereinafter defined), or (iii) for any purpose in violation of any applicable law or regulation. Borrower's obligation to repay advances under the Line of Credit shall be evidenced by a promissory note dated as of the date hereof (as amended from time to time, the “Line of Credit Note”), all terms of which are incorporated herein by this reference.”

1.3 Section 5.9(a) of the Credit Agreement is hereby amended and restated in its entirety to read as follows:

“(a) Liquidity. Unencumbered Liquid Assets with an aggregate fair market value not at any time less than Twenty Million and No/100 Dollars (\$20,000,000.00). As used herein, “Unencumbered Liquid Assets” shall mean cash, cash equivalents and/or publicly traded marketable securities acceptable to Bank in its sole discretion, free of any lien or other encumbrance. Retirement account assets held in a fiduciary capacity by Borrower shall not qualify as Unencumbered Liquid Assets.”

1.4. Section 5.9(c) of the Credit Agreement is hereby deleted.

1.5 Section 6.2 of the Credit Agreement is hereby amended and restated in its entirety to read as follows:

“SECTION 6.2. CAPITAL EXPENDITURES. Make, and will not permit any of its Subsidiaries to make, capital expenditures in excess of \$15,000,000.00 in the aggregate (combined for Borrower and its Subsidiaries) during any Fiscal Year.”

1.6. The Compliance Checklist attached to the Form of Compliance Certificate attached at Exhibit A to the Credit Agreement is hereby deleted and replaced by the Compliance Checklist attached as Exhibit A to this Amendment.

2. Conditions to Effectiveness. The effectiveness of this Amendment is subject to the fulfillment to Bank’s satisfaction of the following conditions:

- (a) Documentation. Bank shall have received, in form and substance satisfactory to Bank, each of the following, duly executed:
 - (i) This Amendment;
 - (ii) A Second Modification to Revolving Line of Credit Note;

- (iii) A Pledge Agreement by Borrower of not less than 65% of the voting stock of Culp International Holdings Ltd., an exempted company incorporated with limited liability under the laws of the Cayman Islands, and a share transfer certificate executed in blank; and
- (iv) Such other documentation as Bank may reasonably require in connection with this Amendment.
- (b) Financial Condition. There shall have been no material adverse change, as determined by Bank, in the financial condition or business of Borrower, nor any material decline, as determined by Bank, in the market value of any substantial or material portion of the assets of Borrower.
- (c) Amendment Fee. In consideration of the changes set forth herein and as a condition to the effectiveness hereof, immediately upon signing this Amendment Borrower shall pay to Bank a non-refundable fee of \$60,000.00.

3. No Further Amendment. Except as specifically provided herein, all terms and conditions of the Credit Agreement remain in full force and effect, without waiver or modification. All terms defined in the Credit Agreement shall have the same meaning when used in this Amendment. This Amendment and the Credit Agreement shall be read together, as one document.

4. Representations and Warranties. Borrower hereby remakes all representations and warranties contained in the Credit Agreement and reaffirms all covenants set forth therein. Borrower further certifies that as of the date of this Amendment there exists no Event of Default as defined in the Credit Agreement, nor any condition, act or event which with the giving of notice or the passage of time or both would constitute any such Event of Default.

5. Costs. Borrower agrees to pay all costs and expenses of the Bank in connection with the preparation, execution and delivery of this Amendment, including without limitation the fees and expenses of the Bank's legal counsel (including Lender's North Carolina counsel and Cayman Islands local counsel).

6. Counterparts. This Amendment may be executed in any number of counterparts, each of which when executed and delivered shall be deemed to be an original, and all of which when taken together shall constitute one and the same document.

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be executed, with the intention that it constitute an instrument under seal, as of the day and year first written above.

CULP, INC.

WELLS FARGO BANK,

NATIONAL ASSOCIATION

By: /s/ Kenneth R. Bowling

By: /s/ Timothy Sechrest

Name: Kenneth R. Bowling

Name: Timothy Sechrest

Title: Chief Financial Officer

Title: Senior Vice President

THIRD AMENDMENT TO CREDIT AGREEMENT

THIS THIRD AMENDMENT TO CREDIT AGREEMENT (this "Amendment") is entered into as of August 1, 2016 by and between CULP, INC., a North Carolina corporation ("Borrower"), and WELLS FARGO BANK, NATIONAL ASSOCIATION ("Bank").

RECITALS

WHEREAS, Borrower is currently indebted to Bank pursuant to the terms and conditions of that certain Credit Agreement between Borrower and Bank dated as of August 13, 2013, as amended by a First Amendment to Credit Agreement between Borrower and Bank dated as of July 10, 2015, by a Second Amendment to Credit Agreement between Borrower and Bank dated as of March 10, 2016, and as further amended from time to time ("Credit Agreement").

WHEREAS, Bank and Borrower have agreed to certain changes in the terms and conditions set forth in the Credit Agreement and have agreed to amend the Credit Agreement to reflect said changes.

NOW, THEREFORE, for valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

1. Amendments to Credit Agreement. The Credit Agreement is hereby amended as set forth in this Section 1.

1.1 Section 2.1(c) of the Credit Agreement is hereby amended and restated in its entirety to read as follows:

“(c) Letter of Credit Subfeature. As a subfeature under the Line of Credit, Bank agrees from time to time during the term thereof to issue or cause an affiliate to issue standby letters of credit for the account of Borrower (each, a "New Letter of Credit"; the Existing Letter of Credit and each New Letter of Credit are herein referred to individually as a "Letter of Credit" and collectively as "Letters of Credit"); provided however, that the aggregate undrawn amount of all outstanding Letters of Credit shall not at any time exceed Seven Million Five Hundred Thousand and No/100 Dollars (\$7,500,000.00). The form and substance of each Letter of Credit shall be subject to approval by Bank, in its sole discretion. Each Letter of Credit shall be issued for a term not to exceed seven hundred thirty (730) days, as designated by Borrower; provided however, that no Letter of Credit shall be issued with, nor shall Bank be required to renew or (if applicable) allow automatic renewal of any Letter of Credit so that it will have, an expiration date that is subsequent to the maturity date of the Line of Credit (with any such Letter of Credit with an expiration date subsequent to the maturity of the Line of Credit to be referred to as an "Extended Date Letter of Credit") unless Borrower, not less than ninety (90) days prior to the maturity date of the Line of Credit, provides Bank with cash collateral (which may be in addition to or, if agreed by Bank, may be a replacement for, such other collateral that may have been granted by Borrower to Bank, pursuant to

this Agreement or otherwise), consisting of a deposit account maintained by Borrower with Bank in an amount that is not less than one hundred five percent (105%) of the undrawn amount of such Extended Date Letter of Credit, as evidenced by and subject to the security agreements and other documents as Bank shall reasonably require, all in form and substance satisfactory to Bank; and provided further, that in no event shall any Extended Date Letter of Credit have a then current expiration date more than three hundred sixty-five (365) days beyond the maturity date of the Line of Credit. The undrawn amount of all Letters of Credit shall be reserved under the Line of Credit and shall not be available for borrowings thereunder. Each Letter of Credit shall be subject to the additional terms and conditions of the Letter of Credit agreements, applications and any related documents required by Bank in connection with the issuance thereof (each, a "Letter of Credit Agreement"). Each drawing paid under a Letter of Credit shall be deemed an advance under the Line of Credit and shall be repaid by Borrower in accordance with the terms and conditions of this Agreement applicable to such advances; provided however, that if advances under the Line of Credit are not available, for any reason, at the time any drawing is paid, then Borrower shall immediately pay to Bank the full amount drawn, together with interest thereon from the date such drawing is paid to the date such amount is fully repaid by Borrower, at the rate of interest applicable to advances under the Line of Credit. In such event Borrower agrees that Bank, in its sole discretion, may debit any account maintained by Borrower with Bank for the amount of any such drawing."

2. Conditions to Effectiveness. The effectiveness of this Amendment is subject to the fulfillment to Bank's satisfaction of the following conditions:

- (a) Documentation. Bank shall have received, in form and substance satisfactory to Bank, each of the following, duly executed:
 - (i) This Amendment; and
 - (ii) Such other documentation as Bank may reasonably require in connection with this Amendment.
- (b) Financial Condition. There shall have been no material adverse change, as determined by Bank, in the financial condition or business of Borrower, nor any material decline, as determined by Bank, in the market value of any substantial or material portion of the assets of Borrower.

3. No Further Amendment. Except as specifically provided herein, all terms and conditions of the Credit Agreement remain in full force and effect, without waiver or modification. All terms defined in the Credit Agreement shall have the same meaning when used in this Amendment. This Amendment and the Credit Agreement shall be read together, as one document.

4. Representations and Warranties. Borrower hereby remakes all representations and warranties contained in the Credit Agreement and reaffirms all covenants set forth therein. Borrower further certifies that as of the date of this Amendment there exists no Event of Default as defined in the Credit Agreement, nor any

condition, act or event which with the giving of notice or the passage of time or both would constitute any such Event of Default.

5. Costs. Borrower agrees to pay all costs and expenses of the Bank in connection with the preparation, execution and delivery of this Amendment, including without limitation the fees and expenses of the Bank's legal counsel.

6. Counterparts. This Amendment may be executed in any number of counterparts, each of which when executed and delivered shall be deemed to be an original, and all of which when taken together shall constitute one and the same document.

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be executed, with the intention that it constitute an instrument under seal, as of the day and year first written above.

CULP, INC.

WELLS FARGO BANK,
NATIONAL ASSOCIATION

By: /s/ Kenneth R. Bowling
Name: Kenneth R. Bowling
Title: Senior VP, CFO

By: /s/ Timothy Sechrest
Name: Timothy Sechrest
Title: Senior Vice President

FOURTH AMENDMENT TO CREDIT AGREEMENT

THIS FOURTH AMENDMENT TO CREDIT AGREEMENT (this "Amendment") is entered into as of September 27, 2016 by and between CULP, INC., a North Carolina corporation ("Borrower"), and WELLS FARGO BANK, NATIONAL ASSOCIATION ("Bank").

RECITALS

WHEREAS, Borrower is currently indebted to Bank pursuant to the terms and conditions of that certain Credit Agreement between Borrower and Bank dated as of August 13, 2013, as amended by a First Amendment to Credit Agreement between Borrower and Bank dated as of July 10, 2015, by a Second Amendment to Credit Agreement between Borrower and Bank dated as of March 10, 2016, by a Third Amendment to Credit Agreement between Borrower and Bank dated as of August 1, 2016, and as further amended from time to time ("Credit Agreement").

WHEREAS, Bank and Borrower have agreed to certain changes in the terms and conditions set forth in the Credit Agreement and have agreed to amend the Credit Agreement to reflect said changes.

NOW, THEREFORE, for valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

1. Amendments to Credit Agreement. The Credit Agreement is hereby amended as set forth in this Section 1.

1.1 Section 6.6 of the Credit Agreement is hereby amended by inserting immediately following clause (h) of said Section 6.6 a new clause (h(i)) which shall read as follows:

"(h(i)): investments in corporate bonds of domestic United States issuers in an aggregate amount not exceeding \$50,000,000.00 at any time, which bonds shall be rated at least BBB or the equivalent thereof by S&P or Baa2 or the equivalent thereof by Moody's and, in either case, shall mature within three (3) years of their issuance;"

2. Conditions to Effectiveness. The effectiveness of this Amendment is subject to the fulfillment to Bank's satisfaction of the following conditions:

- (a) Documentation. Bank shall have received, in form and substance satisfactory to Bank, each of the following, duly executed:
 - (i) This Amendment; and
 - (ii) Such other documentation as Bank may reasonably require in connection with this Amendment.
- (b) Financial Condition. There shall have been no material adverse change, as determined by Bank, in the financial condition or business of Borrower, nor any material decline, as determined by Bank, in the market value of any substantial or material portion of the assets of Borrower.

3. No Further Amendment. Except as specifically provided herein, all terms and conditions of the Credit Agreement remain in full force and effect, without waiver or modification. All terms defined in the Credit Agreement shall have the same meaning when used in this Amendment. This Amendment and the Credit Agreement shall be read together, as one document.

4. Representations and Warranties. Borrower hereby remakes all representations and warranties contained in the Credit Agreement and reaffirms all covenants set forth therein. Borrower further certifies that as of the date of this Amendment there exists no Event of Default as defined in the Credit Agreement, nor any condition, act or event which with the giving of notice or the passage of time or both would constitute any such Event of Default.

5. Costs. Borrower agrees to pay all costs and expenses of the Bank in connection with the preparation, execution and delivery of this Amendment, including without limitation the fees and expenses of the Bank's legal counsel.

6. Counterparts. This Amendment may be executed in any number of counterparts, each of which when executed and delivered shall be deemed to be an original, and all of which when taken together shall constitute one and the same document.

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be executed, with the intention that it constitute an instrument under seal, as of the day and year first written above.

CULP, INC.

By: /s/ Kenneth R Bowling
Name: Kenneth R Bowling
Title: Senior Vice President, CFO

WELLS FARGO BANK,
NATIONAL ASSOCIATION

By: /s/ Timothy Sechrest
Name: Timothy Sechrest
Title: Senior Vice President

FIFTH AMENDMENT TO CREDIT AGREEMENT

THIS FIFTH AMENDMENT TO CREDIT AGREEMENT (this "Amendment") is entered into as of August 13, 2018 by and between CULP, INC., a North Carolina corporation ("Borrower"), and WELLS FARGO BANK, NATIONAL ASSOCIATION ("Bank").

RECITALS

WHEREAS, Borrower is currently indebted to Bank pursuant to the terms and conditions of that certain Credit Agreement between Borrower and Bank dated as of August 13, 2013, as amended by a First Amendment to Credit Agreement between Borrower and Bank dated as of July 10, 2015, by a Second Amendment to Credit Agreement between Borrower and Bank dated as of March 10, 2016, by a Third Amendment to Credit Agreement between Borrower and Bank dated as of August 1, 2016, by a Fourth Amendment to Credit Agreement between Borrower and Bank dated as of September 27, 2016, and as further amended from time to time ("Credit Agreement").

WHEREAS, Bank and Borrower have agreed to certain changes in the terms and conditions set forth in the Credit Agreement and have agreed to amend the Credit Agreement to reflect said changes.

NOW, THEREFORE, for valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

1. Amendments to Credit Agreement. The Credit Agreement is hereby amended as set forth in this Section 1.

1.1 The following amendments are hereby made to Article I ("Definitions") of the Credit Agreement:

(a) The definition of "Existing Letter of Credit" is hereby amended and restated in its entirety to read as follows:

““Existing Letter of Credit” means the existing letter of credit issued by Bank, as issuer, in the face amount of \$250,000.00, for the benefit of Great American Insurance, as beneficiary thereunder.”

(b) The definition of "LIBOR" is hereby amended and restated in its entirety to read as follows:

““LIBOR” means the rate of interest per annum determined by Bank based on the rate for United States dollar deposits for delivery of funds for one (1) month as published by the ICE Benchmark Administration Limited, a United Kingdom company, at approximately 11:00 a.m., London time, or, for any day not a London Business Day, the immediately preceding London Business Day (or if not so published, then as determined by Bank from another recognized source or interbank quotation); provided, however, that if LIBOR determined as provided above would be less than zero percent (0.0%), then LIBOR shall be deemed to be zero percent (0.0%).”

(c) A new definition of "London Business Day" is hereby added to Article I of the Credit Agreement, in appropriate alphabetical order, to read as follows:

"London Business Day" means any day that is a day for trading by and between banks in dollar deposits in the London interbank market."

1.2 Section 2.1(a) of the Credit Agreement is hereby amended and restated in its entirety to read as follows:

"(a) Line of Credit. Subject to the terms and conditions of this Agreement, Bank hereby agrees to make advances to Borrower from time to time up to and including August 15, 2020, not to exceed at any time the aggregate principal amount of TWENTY-FIVE MILLION AND NO/100 DOLLARS (\$25,000,000.00) ("Line of Credit"), the proceeds of which shall be used to provide working capital and for general corporate purposes; provided, however, that no portion of the proceeds of the Line of Credit will be used by the Borrower or any Subsidiary (i) in connection with, whether directly or indirectly, any tender offer for, or other acquisition of, stock of any corporation with a view towards obtaining control of such other corporation, unless such tender offer or other acquisition is to be made on a negotiated basis with the approval of the board of directors of the corporation to be acquired, and the provisions of Section 6.6 would not be violated, (ii) directly or indirectly, for the purpose, whether immediate, incidental or ultimate, of purchasing or carrying any Margin Stock (as hereinafter defined), or (iii) for any purpose in violation of any applicable law or regulation. Borrower's obligation to repay advances under the Line of Credit shall be evidenced by a promissory note dated as of the date hereof (as amended from time to time, the "Line of Credit Note"), all terms of which are incorporated herein by this reference."

1.3 Section 2.1(c) of the Credit Agreement is hereby amended and restated in its entirety to read as follows:

"(c) Letter of Credit Subfeature. As a subfeature under the Line of Credit, Bank agrees from time to time during the term thereof to issue or cause an affiliate to issue standby letters of credit for the account of Borrower (each, a "New Letter of Credit"; the Existing Letter of Credit and each New Letter of Credit are herein referred to individually as a "Letter of Credit" and collectively as "Letters of Credit"); provided however, that the aggregate undrawn amount of all outstanding Letters of Credit shall not at any time exceed One Million and No/100 Dollars (\$1,000,000.00). The form and substance of each Letter of Credit shall be subject to approval by Bank, in its sole discretion. Each Letter of Credit shall be issued for a term not to exceed seven hundred thirty (730) days, as designated by Borrower; provided however, that no Letter of Credit shall be issued with, nor shall Bank be required to renew or (if applicable) allow automatic renewal of any Letter of Credit so that it will have, an expiration date that is subsequent to the maturity date of the Line of Credit (with any such Letter of Credit with an expiration date subsequent to the maturity of the Line of Credit to be referred to as an "Extended Date Letter of Credit") unless Borrower, not less than ninety (90) days prior to the maturity date of the Line of Credit, provides Bank with cash collateral (which may be in addition to or, if agreed by Bank, may be a replacement for, such other collateral that may have been granted by Borrower to Bank, pursuant to this Agreement or otherwise), consisting of a deposit account maintained by Borrower with Bank in an amount

that is not less than one hundred five percent (105%) of the undrawn amount of such Extended Date Letter of Credit, as evidenced by and subject to the security agreements and other documents as Bank shall reasonably require, all in form and substance satisfactory to Bank; and provided further, that in no event shall any Extended Date Letter of Credit have a then current expiration date more than three hundred sixty-five (365) days beyond the maturity date of the Line of Credit. The undrawn amount of all Letters of Credit shall be reserved under the Line of Credit and shall not be available for borrowings thereunder. Each Letter of Credit shall be subject to the additional terms and conditions of the Letter of Credit agreements, applications and any related documents required by Bank in connection with the issuance thereof (each, a "Letter of Credit Agreement"). Each drawing paid under a Letter of Credit shall be deemed an advance under the Line of Credit and shall be repaid by Borrower in accordance with the terms and conditions of this Agreement applicable to such advances; provided however, that if advances under the Line of Credit are not available, for any reason, at the time any drawing is paid, then Borrower shall immediately pay to Bank the full amount drawn, together with interest thereon from the date such drawing is paid to the date such amount is fully repaid by Borrower, at the rate of interest applicable to advances under the Line of Credit. In such event Borrower agrees that Bank, in its sole discretion, may debit any account maintained by Borrower with Bank for the amount of any such drawing."

1.4 Section 5.9(a) of the Credit Agreement is hereby amended and restated in its entirety to read as follows:

"(a) Liquidity. Unencumbered Liquid Assets with an aggregate fair market value not at any time less than Fifteen Million and No/100 Dollars (\$15,000,000.00). As used herein, "Unencumbered Liquid Assets" shall mean cash, cash equivalents and/or publicly traded marketable securities acceptable to Bank in its sole discretion, free of any lien or other encumbrance. Retirement account assets held in a fiduciary capacity by Borrower shall not qualify as Unencumbered Liquid Assets."

2. Conditions to Effectiveness. The effectiveness of this Amendment is subject to the fulfillment to Bank's satisfaction of the following conditions:

- (a) Documentation. Bank shall have received, in form and substance satisfactory to Bank, each of the following, duly executed:
 - (i) This Amendment;
 - (ii) A Third Modification to Revolving Line of Credit Note; and
 - (iii) Such other documentation as Bank may reasonably require in connection with this Amendment.
- (b) Financial Condition. There shall have been no material adverse change, as determined by Bank, in the financial condition or business of Borrower, nor any material decline, as determined by Bank, in the market value of any substantial or material portion of the assets of Borrower.

- (c) Amendment Fee. In consideration of the changes set forth herein and as a condition to the effectiveness hereof, immediately upon signing this Amendment Borrower shall pay to Bank a non-refundable fee of \$50,000.00.

3. No Further Amendment. Except as specifically provided herein, all terms and conditions of the Credit Agreement remain in full force and effect, without waiver or modification. All terms defined in the Credit Agreement shall have the same meaning when used in this Amendment. This Amendment and the Credit Agreement shall be read together, as one document.

4. Representations and Warranties. Borrower hereby remakes all representations and warranties contained in the Credit Agreement and reaffirms all covenants set forth therein. Borrower further certifies that as of the date of this Amendment there exists no Event of Default as defined in the Credit Agreement, nor any condition, act or event which with the giving of notice or the passage of time or both would constitute any such Event of Default. Borrower acknowledges and confirms that Bank has existing, valid first priority security interests and liens in the collateral securing the Line of Credit and that such security interests and liens shall secure Borrower's obligations under the Credit Agreement as amended by this Amendment including, without limitation, all obligations under the Line of Credit Note and all future modifications of the Credit Agreement, the Line of Credit Note and the other Loan Documents.

5. Costs. Borrower agrees to pay all costs and expenses of the Bank in connection with the preparation, execution and delivery of this Amendment, including without limitation the fees and expenses of the Bank's legal counsel.

6. Counterparts. This Amendment may be executed in any number of counterparts, each of which when executed and delivered shall be deemed to be an original, and all of which when taken together shall constitute one and the same document.

[Remainder of Page Intentionally Left Blank]

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be executed, with the intention that it constitute an instrument under seal, as of the day and year first written above.

CULP, INC.

By: /s/ Kenneth R Bowling
Name: Kenneth R Bowling
Title: Senior Vice President, CFO

WELLS FARGO BANK,
NATIONAL ASSOCIATION

By:/s/ Timothy Sechrest
Name: Timothy Sechrest
Title: Senior Vice President

CERTIFICATIONS

I, Franklin N. Saxon, certify that:

1. I have reviewed this Form 10-Q of Culp, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Franklin N. Saxon
Franklin N. Saxon
President and Chief Executive Officer
(Principal Executive Officer)

Date: September 7, 2018

CERTIFICATIONS

I, Kenneth R. Bowling, certify that:

1. I have reviewed this Form 10-Q of Culp, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Kenneth R. Bowling

Kenneth R. Bowling
Vice President and Chief Financial Officer
(Principal Financial Officer)

Date: September 7, 2018

Certification Pursuant to
18 U.S.C. Section 1350,
as Adopted Pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the Quarterly Report of Culp, Inc. (the “Company”) on Form 10-Q for the period ended July 29, 2018 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Franklin N. Saxon, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ Franklin N. Saxon
Franklin N. Saxon
President and Chief Executive Officer

September 7, 2018

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906 has been provided to Culp, Inc. and will be retained by Culp, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

Certification Pursuant to
18 U.S.C. Section 1350,
as Adopted Pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the Quarterly Report of Culp, Inc. (the “Company”) on Form 10-Q for the period ended July 29, 2018 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Kenneth R. Bowling, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ Kenneth R. Bowling
Kenneth R. Bowling
Vice President and Chief Financial Officer

September 7, 2018

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906 has been provided to Culp, Inc. and will be retained by Culp, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.