

SECURITIES AND EXCHANGE COMMISSION  
Washington, D. C. 20549

FORM 10-K

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

For the period ended April 27, 1997

Commission File No. 0-12781

CULP, INC.

(Exact name of registrant as specified in its charter)

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

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

101 S. MAIN ST., HIGH POINT, NORTH CAROLINA  
(Address of principal executive offices)

27261-2686  
(zip code)

(910) 889-5161

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act: NONE

Securities registered pursuant to Section 12(g) of the Act:

Common Stock, Par Value \$.05/Share

Indicate by check mark whether the registrant (1) has filed all reports  
required to be filed by Section 13 of the Securities Exchange Act of 1934 during  
the preceding 12 months and (2) has been subject to the filing requirements for  
at least the past 90 days. YES X NO

Indicate by check mark if disclosure of delinquent filers pursuant to  
Item 405 of Regulation SK is not contained herein, and will not be contained, to  
the best of registrant's knowledge, in definitive proxy or information  
statements incorporated by reference in Part III of this Form 10-K or any  
amendment to this Form 10-K.

As of July 8, 1997, 12,643,728 shares of common stock were outstanding.  
The aggregate market value of the voting stock held by non-affiliates of the  
registrant on that date was \$165,275,478 based on the closing sales price of  
such stock as quoted through the New York Stock Exchange Automated Quotation  
System (NYSE), assuming, for purposes of this report, that all executive  
officers and directors of the registrant are affiliates.

DOCUMENTS INCORPORATED BY REFERENCE

PART II

Portions of the Company's Annual Report to Shareholders for the fiscal  
year ended April 27, 1997 are incorporated by reference into Items 5,6,7 and 8.

PART III

The Company's Proxy Statement dated August 1, 1997 in connection with  
its Annual Meeting of Shareholders to be held on September 16, 1997 is  
incorporated by reference into Items 10, 11, 12 and 13.

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PART I

ITEM 1. BUSINESS

GENERAL DEVELOPMENT

THE COMPANY. Culp, Inc. (the Company) manufactures and markets upholstery fabrics and mattress tickings primarily for use in the furniture (residential, commercial and juvenile) and bedding industries on a worldwide basis. The Company's executive offices are located in High Point, North Carolina.. The Company was organized as a North Carolina corporation in 1972.

BUSINESS

Culp believes it is the largest manufacturer and marketer of furniture upholstery fabrics in the world and is a leading global producer of mattress fabrics (known as mattress ticking). The Company's fabrics are used principally in the production of residential and commercial furniture and bedding products, including sofas, recliners, chairs, loveseats, sectionals, sofa-beds, office seating, panel systems and mattress sets. Culp markets one of the broadest product lines in its industry, with a wide range of fabric constructions, patterns, colors, textures and finishes. This breadth is made possible by Culp's extensive manufacturing capabilities that include a variety of weaving, printing and finishing operations and the ability to produce various yarns and unfinished base fabrics (known as greige goods) used in its products. Culp's staff of over 50 designers uses Computer Aided Design (CAD) systems to develop the Company's own patterns and styles. Culp's product line currently includes more than 2,000 upholstery fabric patterns and 600 mattress ticking styles. Although Culp markets fabrics at most price levels, the Company has emphasized fabrics that have a broad appeal in the "good" and "better" price categories of furniture and bedding.

Culp markets its products worldwide, with sales to customers in over fifty (50) countries. The Company's international sales have increased from \$44.0 million in fiscal 1994 to \$101.6 million in fiscal 1997. Although shipments to U.S.-based customers continue to account for most of the Company's sales, Culp's success in building a global presence has led to an increasing proportion of sales to international accounts (25.5% of net sales for fiscal 1997). The Company's network of 30 international sales agents represents Culp's products in major furniture and bedding markets outside the United States.

Culp has eleven (11) manufacturing facilities, with a combined total of 2.3 million square feet, that are located in North Carolina (5), South Carolina (2), Pennsylvania (2), Georgia (1) and Quebec, Canada (1). The Company's distribution system is designed to offer customers fast, responsive delivery. Products are shipped directly to customers from the Company's manufacturing facilities, as well as from three regional distribution facilities strategically located in High Point, North Carolina, Los Angeles, California, and Tupelo, Mississippi, which are areas of high concentration of furniture manufacturing. In addition, the Company maintains an inventory of upholstery fabrics at a warehouse facility in Grand Rapids, Michigan to supply large commercial furniture manufacturers in that area.

Culp's position as a leading global marketer of upholstery fabrics and mattress ticking has been achieved through internal expansion and strategic acquisitions. The most recent acquisitions include

Rossville/Chromatex in fiscal 1994 and Rayonese in fiscal 1995. Each of these acquisitions has been successfully integrated into the Company's operations and has contributed to Culp's growth.

BUSINESS UNITS

Culp's organization encompasses four business units: (i) Culp Textures, (ii) Rossville/Chromatex, (iii) Velvets/Prints and (iv) Culp Home Fashions. Each of these business units is accorded considerable autonomy and is responsible for designing, manufacturing and marketing its respective product lines. Considerable synergies exist among the business units, including the sharing of common raw materials made internally, such as polypropylene yarns, certain dyed and spun yarns, greige goods and printed heat-transfer paper. Products manufactured at one business unit's facility are commonly transferred to another business unit's facility for additional value-added processing steps. For example, jacquard greige goods manufactured at Rayonese (part of Culp Home Fashions) are shipped to a Velvets/Prints' facility where printed fabrics are produced using various printing and finishing equipment. The following table sets forth certain information for each of the Company's business units

CULP'S BUSINESS UNITS

MAJOR PRODUCT CATEGORY	BUSINESS UNIT	FISCAL 1997 NET SALES	PERCENT OF FISCAL 1997 SALES	PRODUCT LINES (BASE CLOTH, IF APPLICABLE)
Upholstery Fabrics	Culp Textures	\$88.2 million	22.1%	Woven jacquards Woven dobbies
	Rossville/Chromatex	\$79.5 million	20.0%	Woven jacquards Woven dobbies
	Velvets/Prints	\$156.5 million	39.2%	Wet prints (flock) Heat-transfer prints (jacquard, flock) Woven velvet Tufted velvets (woven polyester)
Mattress Ticking	Culp Home Fashions	\$74.7 million	18.7%	Woven jacquards Heat-transfer prints (jacquard, knit, sheeting) Pigment prints (jacquard, knit, sheeting, non-woven)

CULP TEXTURES. Culp Textures manufactures and markets jacquard and doobby woven fabrics used primarily for residential and commercial furniture. Culp Textures' manufacturing facilities are located in Burlington and Graham, North Carolina and Pageland, South Carolina. Culp Textures has become increasingly vertically integrated, complementing its extensive weaving capabilities with the ability to extrude, dye and texturize yarn. Many of the designs marketed by Culp Textures feature intricate, complicated patterns such as floral and abstract designs. Culp Textures accounts for the majority of the Company's sales to the commercial furniture market. The Company maintains an inventory at a third-party warehouse in Grand Rapids, Michigan to supply fabrics marketed by Culp Textures to large commercial furniture manufacturers on a "just in time" basis.

ROSSVILLE/CHROMATEX. Rossville/Chromatex was acquired in fiscal 1994 and includes manufacturing facilities in Rossville, Georgia and West Hazelton, Pennsylvania. This acquisition expanded the Company's capacity for jacquard and dobby woven fabrics marketed principally for residential furniture. Although Rossville/Chromatex markets fabrics to many of the same customers served by Culp Textures, the patterns produced by Rossville/Chromatex have generally featured more textured and chenille yarns. Rossville/Chromatex has been particularly successful in spinning its own novelty yarns to produce textured fabrics that embody "country" patterns.

VELVETS/PRINTS. Velvets/Prints, Culp's largest business unit, manufactures and markets a broad range of printed and velvet fabrics. These include wet-printed designs on flock-base fabrics, heat-transfer prints on jacquard and flock-base fabrics, woven velvets and tufted velvets. These fabrics typically offer manufacturers richly colored patterns and textured surfaces. Recent product development improvements in manufacturing processes have significantly enhanced the quality of printed flock fabrics which are principally used for residential furniture. These fabrics are also used for other upholstered products such as baby car seats. These fabrics are manufactured at Burlington, North Carolina and Anderson, South Carolina, and will be manufactured at Lumberton, North Carolina when that facility is operational. A portion of the Company's current capital expenditures are directed toward expanding its capacity for printed fabrics. The Company's new wet-printing facility in Lumberton, North Carolina will produce fabrics to be marketed by the Velvets/Prints business unit. Culp has installed in Burlington the Company's first flock coating line (which produces flock-base or greige goods) to further vertically integrate its production of wet-printed flock fabrics. This operation began production in the fourth quarter of fiscal 1997.

CULP HOME FASHIONS. Culp Home Fashions principally markets mattress ticking to bedding manufacturers. These fabrics encompass woven jacquard ticking as well as heat-transfer and pigment-printed ticking on a variety of base fabrics, including jacquard, knit, poly/cotton sheeting and non-woven materials. Culp Home Fashions has successfully blended its diverse printing and finishing capabilities with its access to a variety of base fabrics to offer innovative designs to bedding manufacturers for mattress products. Printed jacquard fabrics represent Culp Home Fashions' fastest growing product line, offering customers better values with designs and textures of more expensive fabrics. Jacquard greige goods printed by Culp Home Fashions are provided by the business unit's Rayonese facility and Culp Textures jacquard weaving facility. The expansion of the Rayonese capacity has been an important factor in the ability of this business unit to increase its market share. Moreover, the additional Rayonese capacity has allowed the Company to increase vertical integration by supplying narrow-width jacquard greige goods to the Velvets/Prints business unit for the production of printed jacquard upholstery fabrics. Culp Home Fashions' manufacturing facilities are located in Stokesdale, North Carolina and St. Jerome, Quebec.

#### CAPITAL EXPENDITURES

Over the past six fiscal years, the Company has invested over \$100 million in capital expenditures to expand its manufacturing capacity, install more efficient production equipment and vertically integrate its operations. These expenditures have included, among other things, the installation of narrow and wide-width weaving machines and additional printing equipment to support the growth in woven and printed upholstery fabrics and mattress ticking. The Company spent approximately \$27.0 million in capital expenditures during fiscal 1997. A substantial portion of fiscal 1997's expenditures

were targeted to expand the Company's printing capacity to support sales growth in wet-printed flock fabrics and to vertically integrate the production of unprinted flock greige goods. As a result of expenditures to date, the Company believes it has been able to support a substantially higher level of sales, as well as lower its production costs and enhance its overall relative competitive position.

#### INDUSTRY SEGMENT

The Company operates in one segment and is principally involved in the designing, manufacturing and marketing of upholstery fabrics and mattress ticking used in the furniture (residential, commercial and juvenile) and bedding industries on a world-wide basis.

#### INDUSTRY OVERVIEW

Culp markets products worldwide to manufacturers and distributors that operate in three principal markets and several specialty markets:

**RESIDENTIAL FURNITURE.** This market includes upholstered furniture sold to consumers. Products include sofas, recliners, chairs, loveseats, sectionals and sofa-beds.

**COMMERCIAL FURNITURE.** This market includes upholstered office seating and panel systems sold primarily to be used in offices and institutional settings.

**BEDDING.** This market includes mattresses and box springs.

**SPECIALTY MARKETS.** This category represents several other markets, including juvenile furniture (baby car seats and baby items), "top of the bed" (comforters and bedspreads), outdoor furniture, recreational vehicle seating, automotive aftermarket (slip-on seat covers) and retail fabric stores.

The upholstery fabric manufacturing industry is fragmented. Although several major firms compete in this market, no one firm is dominant. Conversely, the mattress ticking industry is concentrated among relatively few large suppliers. According to Furniture/Today, a leading trade publication, annual sales of upholstery fabrics in the United States for residential applications are approximately \$2 billion. A recent survey conducted for Culp by an independent international consulting firm estimated annual sales of upholstery fabrics outside the United States to be more than \$4 billion.

Trends in upholstery fabrics and mattress ticking demand generally parallel trends in demand for consumer purchases of furniture and bedding. Factors influencing consumer purchases of home furnishings include the number of household formations, growth in the general population, the demographic profile of the population, consumer confidence, employment levels, the amount of disposable income, consumer debt levels, housing starts and existing home sales. The long-term trend in U.S. demand for furniture and bedding has been one of moderate growth, although there have been some occasional, temporary periods of modest downturns in sales due principally to changes in economic conditions.

The Company believes that demographic trends are supporting long-term growth in the U.S. residential furniture and bedding industries. In particular, as "baby boomers" (people born between 1946

and 1964) mature to the 35-to-64 year age group over the next decade, they will be reaching their highest earning power. This age group includes the largest consumers of residential furniture. Furthermore, statistics show that the average size of new homes has increased in recent years, which generally results in increased purchases of furnishings per home.

There is an established trend toward consolidation in the furniture industry at all levels. Furniture/Today has reported that the ten largest U.S. furniture manufacturers accounted for approximately 38% of the total industry sales in 1996, up from a 23% share eleven years earlier. This trend is likely to continue due to several factors, including the need to invest significant capital to maintain modern manufacturing and distribution facilities and to supply the furniture needs of increasingly large furniture retailers. The Company believes that, as this trend continues, opportunities may increasingly exist for large upholstery fabric manufacturers capable of supplying the product requirements of large furniture manufacturers on a timely basis.

Although the demand for home furnishings in more developed international geographic regions such as Western Europe is relatively mature, major areas such as Eastern Europe, the Middle East and Asia-Pacific are experiencing significant increases in sales of furniture and home furnishings. Consumers in these areas are attracted to designs that mirror American tastes, and U.S.-based manufacturers such as Culp have been able to capitalize on this preference. Production costs of fabrics involve a relatively low labor component, which provides an advantage for a Company with modern, efficient manufacturing equipment and systems. The large size of the furniture and bedding markets within the United States has led to a fabric manufacturing industry that features ready access to a broad range of raw materials, large manufacturers with lower costs resulting from economies of scale and the ready availability of new designs and patterns. The Company believes that these characteristics enable Culp to compete effectively in international markets.

#### PRODUCTS

The Company's products include principally upholstery fabrics and mattress ticking.

**UPHOLSTERY FABRICS.** The Company derives the majority of its revenues from the sale of upholstery fabrics primarily to the residential and commercial (contract) furniture markets. Sales of upholstery fabrics were 81% of sales in fiscal 1997, 81% in 1996, and 83% in 1995. The Company has emphasized fabrics and patterns that have broad appeal at promotional to medium prices, generally ranging from \$2.25 per yard to \$7.00 per yard.

**MATTRESS TICKING.** The Company manufactures mattress ticking (fabric used for covering mattresses and box springs) for sale to bedding manufacturers. Sales of mattress ticking constituted 19% of sales in fiscal 1997, 19% in 1996, and 17% in 1995.

The Company has emphasized fabrics and patterns which have broad appeal at prices generally ranging from \$1.20 to \$7.00 per yard.

The Company's upholstery fabrics and mattress ticking can each be broadly grouped under the three main categories of wovens, prints and velvets. The following table indicates the product lines

within each of these categories, a brief description of their characteristics and identification of their principal end-use markets.

CULP FABRIC CATEGORIES

UPHOLSTERY FABRICS	CHARACTERISTICS	PRINCIPAL MARKETS
<b>WOVENS:</b>		
Jacquards	Elaborate, complex designs such as florals and tapestries in traditional, transitional and contemporary styles. Woven on intricate looms using a wide variety of synthetic and natural yarns.	Residential furniture Commerical furniture
Dobbies	Geometric designs such as plaids, stripes and solids in Residential furniture traditional and country styles. Woven on less complicated Commercial furniture looms using a variety of weaving constructions and primarily synthetic yarns.	Residential furniture Commerical furniture
<b>PRINTS:</b>		
Wet prints	Contemporary patterns with deep, rich colors on a nylon flock base fabric for a very soft texture and excellent wearability. Produced by screen printing directly onto the base fabric.	Residential furniture Juvenile furniture
Heat-transfer prints	Sharp, intricate designs on flock or jacquard base fabrics. Plush feel (flocks), deep colors (jacquards) and excellent wearability. Produced by using heat and pressure to transfer color from printed paper onto base fabric.	Residential furniture Juvenile furniture
<b>VELVETS:</b>		
Woven velvets	Basic designs such as plaids and semi-plains in traditional and contemporary styles with a plush feel. Woven with a short-cut pile using various weaving methods and synthetic yarns.	Residential furniture
Tufted velvets	Lower cost production process of velvets in which synthetic yarns are punched into a base polyester fabric for texture. Similar designs as woven velvets.	Residential furniture
<b>MATTRESS TICKING</b>		
<b>WOVENS:</b>		
Jacquards	Florals and other intricate designs. Woven on complex looms using a wide variety of synthetic and natural yarns.	Bedding
<b>PRINTS:</b>		
Heat-transfer prints	Sharp, detailed designs. Produced by using heat and pressure to transfer color from printed paper onto base fabrics, including woven jacquards, knits and poly/cotton sheetings.	Bedding
Pigment prints	Variety of designs produced economically by screen printing pigments onto a variety of base fabrics, including jacquards, knits, poly/cotton sheeting and non-wovens.	Bedding

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Although fabrics marketed for upholstery applications and those used for mattress ticking may have similar appearances, mattress ticking must be manufactured on weaving and printing equipment in wider widths to accommodate the physical size of box springs and mattresses. The Company's products include all major types of coverings, except for leather, that manufacturers use today for furniture and bedding. The Company also markets fabrics for certain specialty markets, but these do not currently represent a material portion of the Company's business.

#### MANUFACTURING

Substantially all of the upholstery fabric and mattress ticking currently marketed by Culp is produced at the Company's eleven manufacturing facilities. These plants encompass a total of 2.3 million square feet and include yarn extrusion, spinning, dyeing and texturizing equipment, narrow and wide-width jacquard looms, dobby and woven velvet looms, tufting machines, printing equipment for pigment, heat-transfer and wet printing, as well as fabric finishing equipment. Culp is actively pursuing ISO certification for its manufacturing facilities. ISO certification is an international recognition of a Company's ability to deliver high quality products and services. Culp's facilities at Stokesdale, North Carolina, which produces mattress ticking, and at Anderson, South Carolina, which produces woven velvet upholstery fabric, were awarded ISO-9002 certification during fiscal 1997. Additionally, the Company's facility at Pageland, South Carolina, which produces jacquard and dobby upholstery fabric, was awarded ISO-9002 certification in fiscal 1998 prior to the filing of this report. The Company expects to complete the ISO certification process at additional facilities in the near future.

The Company's woven fabrics are made from various types of synthetic and natural yarn, such as polypropylene, polyester, acrylic, rayon, nylon or cotton. The Company currently extrudes and spins a portion of its own needs for yarn and purchases the remainder from outside suppliers. Although the Company believes it will continue to rely on suppliers for the majority of its yarn requirements, the percentage of internally generated yarn is expected to increase as additional extrusion equipment for polypropylene yarn is added over the next two years. Yarn is woven into various fabrics on jacquard, dobby or velvet weaving equipment. Once the weaving is completed, the fabric can be printed or finished using a variety of processes. Culp purchases a significant amount of greige goods (unfinished, uncolored base fabrics) from other suppliers to be printed at the Company's plants, but has increased its internal production capability for jacquard greige goods. The acquisition of Rayonese in fiscal 1995 increased the Company's capacity to produce its own jacquard greige goods. Culp has installed additional airjet weaving machines at Rayonese to significantly increase its capacity for jacquard greige goods.

During the fourth quarter of fiscal 1997, the Company installed its first flock coating line to produce flock greige goods to be used primarily as the base cloth for wet and heat-transfer-printed flock products. Flock fabrics are produced by the application of very short nylon fibers onto a poly/cotton woven base fabric to create a velvet effect. During the flock coating process, the fibers are bonded onto the base fabric with an adhesive substance by utilizing an electrostatic charging procedure which causes the fibers to vertically align with the base fabric.

Tufted velvet fabrics are produced by tufting machines which insert an acrylic or polypropylene yarn through a polyester woven base fabric creating loop pile surface material which is then sheared to create a velvet surface. Tufted velvet fabrics are typically lower-cost fabrics utilized in the Company's lower-priced product mix.

The Company's printing operations include pigment and heat-transfer methods, as well as wet printing. The Company also produces its own printed heat-transfer paper, another component of vertical integration. Wet printing is the most recent addition to the Company's printing capabilities, and the Company purchased a plant in Lumberton, North Carolina in January 1997 to approximately double its wet-printing capacity.

#### PRODUCT DESIGN AND STYLING

Although design trends within the Company's markets are generally not subject to radical change, the introduction of new fabrics and designs is an important aspect of Culp's service to its customers. Accordingly, Culp's success is largely dependent on the Company's ability to market fabrics with appealing designs and patterns. Culp has a staff of over 50 designers involved in the design and development of new patterns and styles, including designers with experience in designing products for specific international markets. Culp uses CAD systems in the development of new fabrics which assists the Company in providing a very flexible design program. These systems have enabled the Company's designers to experiment with new ideas and involve customers more actively in the process. The use of CAD systems also has supported the Company's emphasis on integrating manufacturing considerations into the early phase of a new design. The completion of a new design center in fiscal 1998 will enable most of the Company's designers to be located in the same facility to facilitate the sharing of design ideas and CAD and other technologies. The new design center should enhance the Company's merchandising and marketing efforts by providing an environment in which customers can be shown new products as well as participate in product development initiatives.

The process of developing new designs involves maintaining an awareness of broad fashion and color trends both in the United States and internationally. These concepts are blended with input from the Company's customers to develop new fabric designs and styles. Most of these designs are introduced by Culp at major trade conferences that occur twice a year in the United States (January and July) and annually in several major international markets.

#### DISTRIBUTION

The majority of the Company's products are shipped directly from its manufacturing facilities. This "direct ship" program is primarily utilized by large manufacturers. Generally, small and medium-size residential furniture manufacturers use one of the Company's three regional distribution facilities which have been strategically positioned in areas which have a high concentration of residential furniture manufacturers - High Point, North Carolina, Los Angeles, California and Tupelo, Mississippi. In addition, the Company maintains an inventory of upholstery fabric at a warehouse in Grand Rapids, Michigan to supply large commercial furniture manufacturers in that area on a "just in time" basis. The Company closely monitors demand in each distribution territory to decide which patterns and styles to hold in inventory. These products are available on demand by customers and are usually shipped within 48 hours of receipt of an order. Substantially all of the Company's shipments of mattress ticking are made from its manufacturing facilities in Stokesdale, North Carolina and St. Jerome, Quebec, Canada.

In international markets, Culp sells primarily to distributors that maintain inventories of upholstery fabrics for resale to furniture manufacturers. The Company plans to explore the establishment of distribution facilities in certain areas outside the United States to support increasing international sales.

#### SOURCES AND AVAILABILITY OF RAW MATERIALS

Raw materials account for more than half of the Company's total production costs. The Company purchases various types of synthetic and natural yarns (polypropylene, polyester, acrylic, nylon, rayon and cotton), various types of greige goods (poly/cotton wovens and flocks, polyester wovens, poly/rayon and poly/cotton jacquard wovens, polyester knits, poly/cotton sheeting and non-wovens), polypropylene resins, nylon flock fibers, rayon staple, latex adhesives, dyes and chemicals from a variety of suppliers. The Company has made a significant investment in becoming more vertically integrated and producing more of its jacquard greige goods, polypropylene yarns, package dyed yarns and printed heat-transfer paper internally. As a result, a larger portion of its raw materials are comprised of more basic commodities such as rayon staple, undyed yarns, polypropylene resin chips, certain polyester warp yarns, unprinted heat-transfer paper and unflocked poly/cotton base fabric. Most of the Company's raw materials are available from more than one primary source, and prices of such materials fluctuate depending upon current supply and demand conditions and the general rate of inflation. Many of the Company's basic raw materials are petrochemical products or are produced from such products, and therefore the Company's raw material costs are particularly sensitive to changes in petrochemical prices. Generally, the Company has not had significant difficulty in obtaining raw materials.

The Company currently relies on one supplier for most of its flock greige goods. Due to the limited supply of flock greige goods, there can be no assurance that the Company will be able to obtain sufficient quantities of flock greige goods at economical prices if its existing supply is interrupted. In addition, although the Company began operating its own flock coating manufacturing line to produce flock greige goods during the fourth quarter of fiscal 1997, the manufacturing process for this fabric differs substantially from the weaving and other processes used in producing the Company's other fabrics. Accordingly, unforeseen technological difficulties or other matters could materially delay the Company's production of flock greige goods.

#### COMPETITION

The Company believes its principal upholstery fabrics competitors are the Burlington House Fabrics division of Burlington Industries, Inc., Joan Fabrics Corporation, Malden Mills, Inc., the Mastercraft division of Collins & Aikman Company, Microfibres, Inc., and Quaker Fabric Corporation. Conversely, the mattress ticking market is concentrated in a few relatively large suppliers. The Company believes its principal mattress ticking competitors are Bekaert Textiles B.V., Blumenthal Print Works, Inc., Burlington House Fabrics division of Burlington Industries, Inc. and Tietex, Inc. Although the Company believes it is the largest supplier of furniture upholstery fabrics and a leading supplier of mattress ticking to the bedding industry, some of the Company's competitors are larger overall and have greater financial resources than the Company. Competition for the Company's products is based primarily on price, design, quality, timing of delivery and service.

#### ENVIRONMENTAL AND OTHER REGULATIONS

The Company is subject to various federal and state laws and regulations, including the Occupational Safety and Health Act and federal and state environmental laws, as well as similar laws

governing its Rayonese facility in Canada. The Company periodically reviews its compliance with such laws and regulations in an attempt to minimize the risk of material violations.

The Company's operations involve a variety of materials and processes that are subject to environmental regulation. Under current law, environmental liability can arise from previously owned properties, leased properties and properties owned by third parties, as well as from properties currently owned and leased by the Company. Environmental liabilities can also be asserted by adjacent landowners or other third parties in toxic tort litigation.

In addition, under the Comprehensive Environmental Response, Compensation, and Liability Act of 1980, as amended ("CERCLA"), and analogous state statutes, liability can be imposed for the disposal of waste at sites targeted for cleanup by federal and state regulatory authorities. Liability under CERCLA is strict as well as joint and several. The Company has accrued reserves for environmental matters based on information presently available. Based on this information and the Company's established reserves, the Company does not believe that environmental matters will have a material adverse effect on either the Company's financial condition or results of operations. However, there can be no assurance that the costs associated with environmental matters will not increase in the future.

In its pre-acquisition examination of its new Lumberton facility, the Company discovered certain chlorinated solvents in the soil and groundwater which are believed to have originated from an adjacent property. The Company and the then owner of the Lumberton facility agreed to exclude the area of the property known to be affected from the property that the Company acquired. The Company has not been and believes that it will not be deemed a responsible party with respect to such known contamination and accordingly that such contamination will not have a material adverse effect on the Company's operations or financial condition, although there can be no assurance that other portions of the Lumberton property may not become affected in the future or that other environmental issues may not arise.

In 1992, the Company discovered soil and groundwater contamination at its Stokesdale, North Carolina facility, which had been purchased in 1986 pursuant to an agreement in which the seller of the facility indemnified the Company against environmental contamination on the property. The Company has taken action to remediate the contamination of this facility and reached a monetary settlement in 1995 with the former owner of the property under the former owner's indemnification obligations to the Company. In addition, the United States Environmental Protection Agency has obtained a judgment against the owner and lessor of the Company's plant in West Hazelton, Pennsylvania relating to remediation of soil and groundwater contamination at the West Hazelton facility. No claim has been asserted against the Company in connection with the judgment or the contamination at the West Hazelton facility, and the Company is fully indemnified against any such claims by the owner of that facility and the related corporation from which the Company purchased the assets located at the facility.

#### EMPLOYEES

As of April 27, 1997, the Company had 3,146 employees. All of the hourly employees at the Company's facility in West Hazelton, Pennsylvania and all of the hourly employees at the Rayonese facility in Canada (approximately 15% of the Company's workforce) are represented by a union. The collective bargaining agreement with respect to the hourly employees at the Pennsylvania plant expires in 1999. Additionally, the collective bargaining agreement with respect to the Rayonese hourly employees expires in

1999. The Company is not aware of any efforts to organize any more of its employees and believes its relations with its employees are good.

CUSTOMERS AND SALES

Culp's size, broad product line, diverse manufacturing base and effective distribution system enable it to market products to over 2,000 customers. Major customers are leading manufacturers of upholstered furniture, including Bassett, Furniture Brands International (Broyhill, Thomasville and Lane), Lifestyles International (Berklene, Universal, Benchcraft, Drexel, Henredon and others), Flexsteel, La-Z-Boy and LADD (Clayton Marcus, Barclay, Pennsylvania House and American Drew). Representative customers for the Company's fabrics for commercial furniture include Herman Miller, HON Industries and Steelcase. In the mattress ticking area, Culp's customer base includes leading bedding manufacturers such as Sealy, Serta, Simmons and Spring Air. Culp's customers also include many small and medium-size furniture and bedding manufacturers. In international markets, Culp sells upholstery fabrics primarily to distributors that maintain inventories for resale to furniture manufacturers.

The following table sets forth the Company's net sales by geographic area by amount and percentage of total net sales for the three most recent fiscal years.

NET SALES BY GEOGRAPHIC AREA  
(dollars in thousands)

	FISCAL 1997		FISCAL 1996		FISCAL 1995	
	-----	-----	-----	-----	-----	-----
United States.....	\$297,308	74.5%	\$274,270	78.0%	\$250,055	81.2%
North America (excluding U.S.).....	27,479	6.9	23,528	6.7	16,707	5.4
Europe.....	25,245	6.3	18,927	5.4	19,177	6.2
Middle East.....	23,505	5.9	15,609	4.4	6,081	2.0
Asia and Pacific Rim.....	19,646	4.9	12,124	3.4	8,969	2.9
South America.....	2,604	0.7	2,753	0.8	3,749	1.2
All other areas.....	3,092	0.8	4,456	1.3	3,288	1.1
Subtotal.....	101,571	25.5	77,397	22.0	57,971	18.8
Total.....	\$398,879	100.0%	\$351,667	100.0%	\$308,026	100.0%
	=====	=====	=====	=====	=====	=====

BACKLOG

Because a large portion of the Company's customers have an opportunity to cancel orders, it is difficult to predict the amount of the backlog that is "firm." Many customers may cancel orders before goods are placed into production, and some may cancel at a later time. In addition, the Company markets a significant portion of its sales through its Regional Warehouse System from in-stock order positions. On April 27, 1997, the portion of the backlog with confirmed shipping dates prior to June 2, 1997 was \$30.3 million, and on April 28, 1996, the portion of the backlog with confirmed shipping dates prior to June 3, 1996 was \$34.5 million.

ITEM 2. PROPERTIES

The Company's headquarters are located in High Point, North Carolina, and the Company currently operates eleven (11) manufacturing facilities and three (3) regional distribution facilities. The Company has an agreement to warehouse inventory at a regional distribution facility in Grand Rapids, Michigan operated by a third party. The following is a summary of the Company's principal administrative, manufacturing and distribution facilities. The manufacturing facilities are organized by business unit.

LOCATION -----	PRINCIPAL USE -----	APPROX. TOTAL AREA (SQ. FT.) -----	EXPIRATION OF LEASE (1) -----
o HEADQUARTERS AND DISTRIBUTIONS CENTERS:			
High Point, North Carolina	Corporate headquarters	33,000	2015
High Point, North Carolina	Regional distribution	65,000	2008
Los Angeles, California (3)	Regional distribution	45,000	1997
Tupelo, Mississippi	Regional distribution	35,000	2002
o CULP TEXTURES:			
Graham, North Carolina (2)	Manufacturing	341,000	N/A
Burlington, North Carolina (2)	Manufacturing and distribution	302,000	N/A
Pageland, South Carolina (2)	Manufacturing	96,000	N/A
o ROSSVILLE/CHROMATEX:			
Rossville, Georgia (4)	Manufacturing and distribution	396,000	1998
West Hazelton, Pennsylvania	Manufacturing	110,000	2013
West Hazelton, Pennsylvania	Manufacturing and distribution	100,000	2008
o VELVETS/PRINTS:			
Burlington, North Carolina	Manufacturing and distribution	275,000	2021
Lumberton, North Carolina (2)	Manufacturing	107,000	N/A
Anderson, South Carolina (2)	Manufacturing	99,000	N/A
o CULP HOME FASHIONS:			
Stokesdale, North Carolina (2)	Manufacturing and distribution	140,000	N/A
St. Jerome, Quebec, Canada (2)	Manufacturing and distribution	202,000	N/A

(1) Includes all options to renew

(2) Owned by the Company

(3) The Company has a lease which expires in 2007 (including all options to renew) for a 35,000 square foot building in Los Angeles, California, and will be used as a regional distribution facility.

(4) The Company has a lease which expires in 2018 (including all options to renew) for a 290,000 square foot facility in Chattanooga, Tennessee and will be used as a manufacturing and distribution facility.

### ITEM 3. LEGAL PROCEEDINGS

There are no legal proceedings to which the Company, or its subsidiaries, is a party or of which any of their property is the subject that are required to be disclosed under this item.

### ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

There were no matters submitted to a vote of shareholders during the fourth quarter ended April 27, 1997.

### PART II

### ITEM 5. MARKET FOR THE REGISTRANT'S COMMON STOCK AND RELATED STOCKHOLDER MATTERS

Information with respect to the market for the Company's common stock and related shareholder matters is included in the Company's Annual Report to Shareholders for the year ended April 27, 1997, in the Consolidated Statements of Shareholders' Equity (dividend information), in the Selected Quarterly Data under the caption "Stock Data," in the Selected Annual Data under the caption "Stock Data," in the Corporate Directory, under the caption "Stock Listing" on the back cover page, which information is herein incorporated by reference.

### ITEM 6. SELECTED FINANCIAL DATA

This information is included in the Company's above referenced Annual Report to Shareholders, under the caption "Selected Annual Data," and is herein incorporated by reference.

### ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Management's Discussion and Analysis of Financial Condition and Results of Operations is included in the Company's above referenced Annual Report to Shareholders under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations," and is herein incorporated by reference.

### ITEM 8. CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The consolidated financial statements and supplementary data are included in the Company's above referenced Annual Report to Shareholders, and are herein incorporated by reference. Item 14 of this report contains specific page number references to the consolidated financial statements and supplementary data included in the Annual Report.

EXCEPT FOR SUCH PORTIONS OF THE COMPANY'S ANNUAL REPORT TO SHAREHOLDERS FOR THE YEAR ENDED APRIL 27, 1997 THAT ARE EXPRESSLY INCORPORATED BY REFERENCE INTO THIS REPORT, SUCH REPORT IS NOT TO BE DEEMED FILED AS PART OF THIS FILING.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS  
ON ACCOUNTING AND FINANCIAL DISCLOSURE

During the two years ended April 27, 1997 and any subsequent interim periods, there were no changes of accountants and/or disagreements on any matters of accounting principles or practices or financial statement disclosures.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Information with respect to executive officers and directors of the Company is included in the Company's definitive Proxy Statement to be filed pursuant to Regulation 14A of the Securities and Exchange Commission, under the caption "Nominees, Directors and Executive Officers" and "Reports Of Securities Ownership," which information is herein incorporated by reference.

ITEM 11. EXECUTIVE COMPENSATION

Information with respect to executive compensation is included in the Company's definitive Proxy Statement to be filed pursuant to Regulation 14A of the Securities and Exchange Commission, under the caption "Executive Compensation," which information is herein incorporated by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL  
OWNERS AND MANAGEMENT

Information with respect to the security ownership of certain beneficial owners and management is included in the Company's definitive Proxy Statement to be filed pursuant to Regulation 14A of the Securities and Exchange Commission, under the caption "Voting Securities," which information is herein incorporated by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Information with respect to certain relationships and related transactions is included in the Company's definitive Proxy Statement to be filed pursuant to Regulation 14A of the Securities and Exchange Commission, under the subcaption "Certain Relationships and Related Transactions," which information is herein incorporated by reference.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES  
AND REPORTS ON FORM 8-K

A) DOCUMENTS FILED AS PART OF THIS REPORT:

1. CONSOLIDATED FINANCIAL STATEMENTS

The following consolidated financial statements of Culp, Inc. and subsidiary from the Company's Annual Report to Shareholders for the year ended April 27, 1997, are incorporated by reference into this report.

Item	Page of Annual Report to Shareholders [Exhibit 13(a)]
Consolidated Balance sheets - April 27, 1997 and April 28, 1996	12
Consolidated Statements of Income - for the years ended April 27, 1997, April 28, 1996 and April 30, 1995	13
Consolidated Statements of Shareholders' Equity - for the years ended April 27, 1997, April 28, 1996 and April 30, 1995	14
Consolidated Statements of Cash Flows - for the years ended April 27, 1997, April 28, 1996 and April 30, 1995	15
Consolidated Notes to Financial Statements	16
Report of Independent Auditors	24

2. FINANCIAL STATEMENT SCHEDULES

All financial statement schedules are omitted because they are not applicable, or not required, or because the required information is included in the consolidated financial statements or notes thereto.

3. EXHIBITS

The following exhibits are attached at the end of this report, or incorporated by reference herein. Management contracts, compensatory plans, and arrangements are marked with an asterisk (\*).

- 3(i) Articles of Incorporation of the Company, as amended, were filed as Exhibit 3(i) to the Company's Form 10-Q for the quarter ended January 29, 1995, filed March 15, 1995, and are incorporated herein by reference.
- 3(ii) Restated and Amended Bylaws of the Company, as amended, were filed as Exhibit 3(b) to the Company's Form 10-K for the year ended April 28, 1991, filed July 25, 1991, and are incorporated herein by reference.
- 4(a) Form of Common Stock Certificate of the Company was filed as Exhibit 4(a) to Amendment No. 1 to the Company's registration statement No. 2-85174, filed on August 30, 1983, and is incorporated herein by reference.
- 10(a) Loan Agreement dated December 1, 1988 with Chesterfield County, South Carolina relating to Series 1988 Industrial Revenue Bonds in the principal amount of \$3,377,000 was filed as Exhibit 10(n) to the Company's Form 10-K for the year ended April 29, 1989, and is incorporated herein by reference.
- 10(b) Loan Agreement dated November 1, 1988 with the Alamance County Industrial Facilities and Pollution Control Financing Authority relating to Series A and B Industrial Revenue Refunding Bonds in the principal amount of \$7,900,000, was filed as exhibit 10(o) to the Company's Form 10-K for the year ended April 29, 1990, and is incorporated herein by reference.
- 10(c) Loan Agreement dated January, 1990 with the Guilford County Industrial Facilities and Pollution Control Financing Authority, North Carolina, relating to Series 1989 Industrial Revenue Bonds in the principal amount of \$4,500,000, was filed as Exhibit 10(d) to the Company's Form 10-K for the year ended April 19, 1990, filed on July 15, 1990, and is incorporated herein by reference.
- 10(d) Loan Agreement dated as of December 1, 1993 between Anderson County, South Carolina and the Company relating to \$6,580,000 Anderson County, South Carolina Industrial Revenue Bonds (Culp, Inc. Project) Series 1993, was filed as Exhibit 10(o) to the Company's Form 10-Q for the quarter ended January 30, 1994, filed March 16, 1994, and is incorporated herein by reference.

- 10(e) Severance Protection Agreement, dated September 21, 1989, was filed as Exhibit 10(f) to the Company's Form 10-K for the year ended April 29, 1990, filed on July 25 1990, and is incorporated herein by reference. (\*)
- 10(f) Lease Agreement, dated January 19, 1990, with Phillips Interests, Inc. was filed as Exhibit 10(g) to the Company's Form 10-K for the year ended April 29, 1990, filed on July 25, 1990, and is incorporated herein by reference.
- 10(g) Management Incentive Plan of the Company, dated August 1986 and amended July 1989, filed as Exhibit 10(o) to the Company's Form 10-K for the year ended May 3, 1992, filed on August 4, 1992, and is incorporated herein by reference. (\*)
- 10(h) Lease Agreement, dated September 6, 1988, with Partnership 74 was filed as Exhibit 10(h) to the Company's Form 10-K for the year ended April 28, 1991, filed on July 25, 1990, and is incorporated herein by reference.
- 10(i) Amendment and Restatement of the Employees's Retirement Builder Plan of the Company dated May 1, 1981 with amendments dated January 1, 1990 and January 8, 1990 were filed as Exhibit 10(p) to the Company's Form 10-K for the year ended May 3, 1992, filed on August 4, 1992, and is incorporated herein by reference. (\*)
- 10(j) First Amendment of Lease Agreement dated July 27, 1992 with Partnership 74 Associates was filed as Exhibit 10(n) to the Company's Form 10-K for the year ended May 2, 1993, filed on July 29, 1993, and is incorporated herein by reference.
- 10(k) Second Amendment of Lease Agreement dated April 16, 1993, with Partnership 52 Associates was filed as Exhibit 10(l) to the Company's Form 10-K for the year ended May 2, 1993, filed on July 29, 1993, and is incorporated herein by reference.
- 10(l) 1993 Stock Option Plan was filed as Exhibit 10(o) to the Company's Form 10-K for the year ended May 2, 1993, filed on July 29, 1993, and is incorporated herein by reference. (\*)
- 10(m) First Amendment to Loan Agreement dated as of December 1, 1993 by and between The Guilford County Industrial Facilities and Pollution Control Financing Authority and the Company was filed as Exhibit 10(p) to the Company's Form 10-Q, filed on March 15, 1994, and is incorporated herein by reference.

- 10(n) First Amendment to Loan Agreement dated as of December 16, 1993 by and between The Alamance County Industrial Facilities and Pollution Control Financing Authority and the Company was filed as Exhibit 10(q) to the Company's Form 10-Q, filed on March 15, 1994, and is incorporated herein by reference.
- 10(o) First Amendment to Loan Agreement dated as of December 16, 1993 by and between Chesterfield County, South Carolina and the Company was filed as Exhibit 10(r) to the Company's Form 10-Q, filed on March 15, 1994, and is incorporated herein by reference.
- 10(p) Amendment to Lease dated as of November 4, 1994, by and between the Company and RDC, Inc. was filed as Exhibit 10(w) to the Company's Form 10-Q, for the quarter ended January 29, 1995, filed on March 15, 1995, and is incorporated herein by reference.
- 10(q) Amendment to Lease Agreement dated as of December 14, 1994, by and between the Company and Rossville Investments, Inc. (formerly known as A & E Leasing, Inc.) was filed as Exhibit 10(y) to the Company's Form 10-Q, for the quarter ended January 29, 1995, filed on March 15, 1995, and is incorporated herein by reference.
- 10(r) Interest Rate Swap Agreement between Company and First Union National Bank of North Carolina dated April 17, 1995, was filed as Exhibit 10(aa) to the Company's Form 10-K for the year ended April 28, 1996, filed on July 26, 1995, and is incorporated herein by reference.
- 10(s) Performance-Based Stock Option Plan, dated June 21, 1994, was filed as Exhibit 10(bb) to the Company's Form 10-K for the year ended April 28, 1996, filed on July 26, 1995, and is incorporated herein by reference. (\*)
- 10(t) Interest Rate Swap Agreement between Company and First Union National Bank of North Carolina, dated May 31, 1995 was filed as exhibit 10(w) to the Company's Form 10-Q for the quarter ended July 30, 1995, filed on September 12, 1995, and is incorporated herein by reference.
- 10(u) Interest Rate Swap Agreement between Company and First Union National Bank of North Carolina, dated July 7, 1995 was filed as exhibit 10(x) to the Company's Form 10-Q for the quarter ended July 30, 1995, filed on September 12, 1995, and is incorporated herein by reference.
- 10(v) Second Amendment of Lease Agreement dated June 15, 1994 with Partnership 74 Associates was filed as Exhibit 10(v) to the Company's Form 10-Q for the quarter ended October 29, 1995, filed on December 12, 1995, and is incorporated herein by reference.

- 10(w) Lease Agreement dated November 1, 1993 by and between the Company and Chromatex, Inc. was filed as Exhibit 10(w) to the Company's Form 10-Q for the quarter ended October 29, 1995, filed on December 12, 1995, and is incorporated herein by reference.
- 10(x) Lease Agreement dated November 1, 1993 by and between the Company and Chromatex Properties, Inc. was filed as Exhibit 10(x) to the Company's Form 10-Q for the quarter ended October 29, 1995, filed on December 12, 1995, and is incorporated herein by reference.
- 10(y) Amendment to Lease Agreement dated May 1, 1994 by and between the Company and Chromatex Properties, Inc. was filed as Exhibit 10(y) to the Company's Form 10-Q for the quarter ended October 29, 1995, filed on December 12, 1995, and is incorporated herein by reference.
- 10(z) Canada-Quebec Subsidiary Agreement on Industrial Development (1991), dated January 4, 1995, was filed as Exhibit 10(z) to the Company's Form 10-Q for the quarter ended October 29, 1995, filed on December 12, 1995, and is incorporated herein by reference.
- 10(aa) Loan Agreement between Chesterfield County, South Carolina and the Company dated as of April 1, 1996 relating to Tax Exempt Adjustable Mode Industrial Development Bonds (Culp, Inc. Project) Series 1996 in the aggregate principal amount of \$6,000,000 was filed as Exhibit 10(aa) to the Company's Form 10-K for the year ended April 28, 1996, and is incorporated herein by reference.
- 10(bb) Loan Agreement between the Alamance County Industrial Facilities and Pollution Control Financing Authority, North Carolina and the Company, dated December 1, 1996, relating to Tax Exempt Adjustable Mode Industrial Development Revenue Bonds, (Culp, Inc. Project Series 1996) in the aggregate amount of \$6,000,000 was filed as Exhibit 10(cc) to the Company's Form 10-Q for the quarter ended January 26, 1997, and is incorporated herein by reference.
- 10(cc) Loan Agreement between Luzerne County, Pennsylvania and the Company, dated as of December 1, 1996, relating to Tax-Exempt Adjustable Mode Industrial Development Revenue Bonds (Culp, Inc. Project) Series 1996 in the aggregate principal amount of \$3,500,000 was filed as Exhibit 10(dd) to the Company's Form 10-Q for the quarter ended January 26, 1997, and is incorporated herein by reference.
- 10(dd) Second Amendment to Lease Agreement between Chromatex Properties, Inc. and the Company, dated April 17, 1997.

- 10(ee) Lease Agreement between Joseph E. Proctor (doing business as JEPCO) and the Company, dated April 21, 1997.
- 10(ff) \$125,000,000 Revolving Loan Facility dated April 23, 1997 by and among the Company and Wachovia Bank of Georgia, N.A., as agent, and First Union National Bank of North Carolina, as documentation agent.
- 10(gg) Revolving Line of Credit for \$4,000,000 dated April 23, 1997 by and between the Company and Wachovia Bank of North Carolina, N.A.
- 10(hh) Reimbursement and Security Agreement between Culp, Inc. and Wachovia Bank of North Carolina, N.A., dated as of April 1, 1997, relating to \$3,337,000 Principal Amount, Chesterfield County, South Carolina Industrial Revenue Bonds (Culp, Inc. Project) Series 1988.
- Additionally, there are Reimbursement and Security Agreements between Culp, Inc. and Wachovia Bank of North Carolina, N.A., dated as of April 1, 1997 in the following amounts and with the following facilities:
- \$7,900,000 Principal Amount, Alamance County Industrial Facilities and Pollution Control Financing Authority Industrial Revenue Refunding Bonds (Culp, Inc. Project) Series A and B.
- \$4,500,000 Principal Amount, Guilford County Industrial Facilities and Pollution Control Financing Authority Industrial Development Revenue Bonds (Culp, Inc. Project) Series 1989.
- \$6,580,000 Principal Amount, Anderson County South Carolina Industrial Revenue Bonds (Culp, Inc. Project) Series 1993.
- \$6,000,000 Principal Amount, Chesterfield County, South Carolina Tax-Exempt Adjustable Mode Industrial Development Revenue Bonds (Culp, Inc. Project) Series 1996.
- \$6,000,000 Principal Amount, The Alamance County Industrial Facilities and Pollution Control Financing Authority Tax-exempt Adjustable Mode Industrial Development Revenue Bonds (Culp, Inc. Project) Series 1996.
- \$3,500,000 Principal Amount, Luzerne County Industrial Development Authority Tax-Exempt Adjustable Mode Industrial Development Revenue Bonds (Culp, Inc. Project) Series 1996.
- 13(a) Copy of the Company's 1997 Annual Report to Shareholders, for the year ended April 27, 1997, furnished for information only except with respect to those portions incorporated by reference into this report.

- 22 List of subsidiaries of the Company.
- 24(a) Consent of Independent Public Auditors in connection with the registration statements of Culp, Inc. on Form S-8 (File Nos. 33-13310, 33-37027, 33-80206, 33-62843, and 333-27519), dated March 20, 1987, September 18, 1990, June 13, 1994, September 22, 1995, and May 21, 1997.
- 25(a) Power of Attorney of Harry R. Culp, dated June 2, 1997
- 25(b) Power of Attorney of Howard L. Dunn, Jr., dated June 20, 1997
- 25(c) Power of Attorney of Baxter P. Freeze., dated June 3, 1997
- 25(d) Power of Attorney of Earl M. Honeycutt, dated June 2, 1997.
- 25(e) Power of Attorney of Patrick H. Norton, dated June 16, 1997.
- 25(f) Power of Attorney of Earl N. Phillips, Jr., dated June 1, 1997
- 25(g) Power of Attorney of Bland W. Worley., dated June 4, 1997.
- 27 Financial Data Schedule

B) REPORTS ON FORM 8-K:

The Company filed the following report on Form 8-K during the quarter ended April 27, 1997:

- (1) Form 8-K dated February 4, 1997, included under Item 5, Other Events, included the Company's press release for quarterly earnings and the Financial Information Release relating to certain financial information for the quarter ended January 26, 1997.

C) EXHIBITS:

The exhibits to this Form 10-K are filed at the end of this Form 10-K immediately preceded by an index. A list of the exhibits begins on page 28 under the subheading "Exhibits Index".

D) FINANCIAL STATEMENT SCHEDULES:

See Item 14(a) (2)

SIGNATURES

Pursuant to the requirements of Section 13 of the Securities Exchange Act of 1934, CULP, INC. has caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on the 25th day of July, 1997.

CULP, INC.

By /s/ Robert G. Culp, III  
Robert G. Culp, III  
(Chairman and Chief Executive Officer)

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

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated on the

- -----

/s/ Robert G. Culp, III Robert G. Culp, III (Chairman of the Board of Directors)	/s/ Franklin N. Saxon Franklin N. Saxon (Director)
/s/ Earl N. Phillips, Jr.* Earl N. Phillips, Jr. (Director)	/s/ Harry R. Culp * Harry R. Culp (Director)
/s/ Howard L. Dunn, Jr.* Howard L. Dunn, Jr. (Director)	/s/ Baxter P. Freeze * Baxter P. Freeze (Director)
/s/ Earl M. Honeycutt* Earl M. Honeycutt (Director)	/s/ Bland W. Worley * Bland W. Worley (Director)
/s/ Patrick H. Norton* Patrick H. Norton (Director)	

\* By Franklin N. Saxon, Attorney-in-Fact, pursuant to Powers of Attorney filed with the Securities and Exchange Commission.

EXHIBITS INDEX

EXHIBIT NO.	EXHIBIT
10(dd)	Second Amendment to Lease Agreement between Chromatex Properties, Inc. and the Company, dated April 17, 1997.
10(ee)	Lease Agreement between Joseph E. Proctor (doing business as JEPCO) and the Company, dated April 21, 1997.
10(ff)	\$125,000,000 Revolving Loan Facility dated April 23, 1997 by and among the Company and Wachovia Bank of Georgia, N.A., as agent, and First Union National Bank of North Carolina, as documentation agent.
10(gg)	Revolving Line of Credit for \$4,000,000 dated April 23, 1997 by and between the Company and Wachovia Bank of North Carolina, N.A.
10(hh)	Reimbursement and Security Agreement between Culp, Inc. and Wachovia Bank of North Carolina, N.A., dated as of April 1, 1997, relating to \$3,337,000 Principal Amount, Chesterfield County, South Carolina Industrial Revenue Bonds (Culp, Inc. Project) Series 1988.
	Additionally, there are Reimbursement and Security Agreements between Culp, Inc. and Wachovia Bank of North Carolina, N.A., dated as of April 1, 1997 in the following amounts and with the following facilities:
	\$7,900,000 Principal Amount, Alamance County Industrial Facilities and Pollution Control Financing Authority Industrial Revenue Refunding Bonds (Culp, Inc. Project) Series A and B.
	\$4,500,000 Principal Amount, Guilford County Industrial Facilities and Pollution Control Financing Authority Industrial Development Revenue Bonds (Culp, Inc. Project) Series 1989.
	\$6,580,000 Principal Amount, Anderson County South Carolina Industrial Revenue Bonds (Culp, Inc. Project) Series 1993.
	\$6,000,000 Principal Amount, Chesterfield County, South Carolina Tax-Exempt Adjustable Mode Industrial Development Revenue Bonds (Culp, Inc. Project) Series 1996.
	\$6,000,000 Principal Amount, The Alamance County Industrial Facilities and Pollution Control Financing Authority Tax-exempt Adjustable Mode Industrial Development Revenue Bonds (Culp, Inc. Project) Series 1996.
	\$3,500,000 Principal Amount, Luzerne County Industrial Development Authority Tax-Exempt Adjustable Mode Industrial Development Revenue Bonds (Culp, Inc. Project) Series 1996.
13(a)	Copy of the Company's 1997 Annual Report to Shareholders, for the year ended April 27, 1997, furnished for information only except with respect to those portions incorporated by reference into this report.
22	List of subsidiaries of the Company.
24(a)	Consent of Independent Public Auditors in connection with the registration statements of Culp, Inc. on Form S-8 (File Nos. 33-13310, 33-37027, 33-80206, 33-62843, and 333-27519), dated March 20, 1987, September 18, 1990, June 13, 1994, September 22, 1995, and May 21, 1997.
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25(d)	Power of Attorney of Earl M. Honeycutt, dated June 3, 1997.
25(e)	Power of Attorney of Patrick H. Norton, dated June 2, 1997.
25(f)	Power of Attorney of Earl N. Phillips, Jr., dated June 1, 1997
25(g)	Power of Attorney of Bland W. Worley, dated June 4, 1997.

SECOND AMENDMENT TO LEASE AGREEMENT

THIS SECOND AMENDMENT TO LEASE AGREEMENT, is hereby made by and between CHROMATEX PROPERTIES, INC., a corporation organized and existing under the laws of the State of Pennsylvania, hereinafter referred to as the "Lessor" and CULP, INC., a corporation organized and existing under the laws of the State of North Carolina, hereinafter referred to as the "Lessee".

W I T N E S S E T H:

THAT WHEREAS, Lessor and Lessee entered into a Lease dated November 1, 1993, herein referred to as the "Lease Agreement"; and

WHEREAS, the Lease Agreement was amended effective May 1, 1994; and

WHEREAS, Lessor will make certain improvements to the Premises which have been requested by Lessee; and

WHEREAS, Lessee agrees to pay additional rent and also agrees to exercise the first five year option included in Paragraph 1 of the Lease Agreement; and

WHEREAS, Lessor and Lessee desire to enter into this Second Amendment to the Lease Agreement.

NOW, THEREFORE, for and in consideration of the premises and for other good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, the parties do hereby agree as follows:

-1-

1. Lessor will expand the Premises at Lessor's expense in accordance with the proposal dated March 26, 1997 by Hazle Builders, Inc.

2. The term of the Lease Agreement is hereby extended for an additional five (5) years with such extension to cover the period from November 1, 1998 through October 31, 2003. This extension shall eliminate the first five (5) year option for Lessee to renew the Lease.

3. Lessee shall continue to have two options to extend the Lease Agreement for five (5) years each as provided in the Lease Agreement dated November 1, 1993. Provided, however, that the rent shall be computed for such option periods as provided in the Lease Agreement and based on a base period rental.

4. Paragraph 2 of the Lease Agreement is hereby amended to read as follows:

2. Lessee shall continue to pay rental of Seventeen Thousand Eight Hundred Thirty-three and 67/100 Dollars (\$17,833.67) a month through June 30, 1997 with the last installment of Seventeen Thousand Eight Hundred Thirty-three and 67/100 Dollars (\$17,833.67) being due on June 1, 1997. Beginning with the rental payment due on July 1, 1997 through the rental payment due on October 1, 1998, Lessee shall pay Lessor a rental of Nineteen Thousand Eight Hundred Eight and 67/100 Dollars (\$19,808.67) per month. For the rental payments due on November 1, 1998 through payment due on October 1, 2003, Lessee shall pay Lessor rental payments of Eighteen Thousand Sixteen and 67/100 Dollars (\$18,016.67) per month.

-2-

5. All other terms of the Lease Agreement shall remain the same.

IN WITNESS WHEREOF, the parties hereto have executed this Second Amendment to the Lease Agreement to be effective as of the 17th day of April, 1997.

CHROMATEX PROPERTIES, INC.

s/s By: Ronald W. Satterfield  
Executive Vice President

LESSOR

CULP, INC.

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

LESSEE



## LEASE AGREEMENT

THIS LEASE AGREEMENT ("Lease") is made and entered into as of April 21, 1997 by and between JOSEPH E. PROCTOR (the "Landlord"), a resident of Hamilton County, Tennessee doing business as "JEPSCO Industrial Warehouses," and CULP INC., a North Carolina corporation (the "Tenant").

### B A C K G R O U N D

I. Landlord is the owner of that certain approximately 42.39 acre parcel of land (the "Land") located at the northeastern intersection of Hamill Road and Carondalet Avenue in Chattanooga, Hamilton County, Tennessee and more particularly described in Exhibit A attached hereto and made a part hereof.

B. An approximately 14.7 acre portion of the Land is more particularly described in Exhibit A-1 attached hereto (the "Leased Land"). Located on the Land are: a building containing approximately 75,000 sq.ft. ("Building 1"), a building containing approximately 62,500 sq.ft. ("Building 2"), a building containing approximately 153,000 sq.ft. ("Building 3"), and related improvements. The locations of Building 1, Building 2, and Building 3 on the Leased Land are generally shown in Exhibit B attached hereto and made a part hereof. In addition, Landlord will construct on the Land a building containing approximately 27,500 sq.ft. ("Office Building") at a location reasonably acceptable to Tenant (all such buildings are collectively referred to herein as the "Buildings"). The Leased Land, the Buildings, and the related improvements are collectively referred to herein as the "Premises."

C Landlord has agreed to lease the Premises to Tenant, and Tenant has agreed to lease the Premises from Landlord, upon all of the terms set forth in this Lease.

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are acknowledged, Landlord and Tenant hereby agree, for themselves and their respective heirs, devisees, personal representatives, and successors and assigns, as follows:

1. PREMISES LEASED. Landlord hereby leases to Tenant, and Tenant leases from Landlord, the Premises, on the terms and conditions set forth in this Lease. Landlord covenants, represents and warrants that the Premises will be constructed and upfitted in accordance with the specifications set forth in Exhibit C attached hereto and made a part hereof.

2. TERM OF LEASE. The initial term of this Lease shall be for a period of Ten (10) years, commencing on May 1, 1998 (the "Commencement Date") and terminating at midnight on April 30, 2008

("Initial Term").

At the end of the Initial Term, Tenant is hereby granted two (2) successive options to extend the Term of this Lease for additional periods of five (5) years each (each, a "Renewal Period"), provided that Tenant gives Landlord written notice of its exercise of the option at least ninety (90) days prior to the end of the Initial Term. If Tenant properly exercises the option(s) for the Renewal Period(s), all terms and conditions of this Lease shall continue in full force and effect. All references to the "Term" of this Lease shall, unless the context shall clearly indicate a different meaning, be deemed to constitute a reference to the properly exercised Renewal Period(s).

3. RENT. Tenant shall pay Landlord for the Premises annual rent in the amount of Eight Hundred Sixty-Eight Thousand Eight Hundred Dollars (\$868,800.00), payable in equal monthly installments of Seventy-Two Thousand Four Hundred Dollars (\$72,400.00) in advance on the first day of each calendar month during the Term.

If the Term commences on a day other than the first day of a calendar month, rent for the first partial month shall be prorated on a daily basis and paid on the date of commencement. Payments of rent pursuant to this Section 3 shall be by check mailed or delivered to Landlord at the address for notices set forth in Section 21 below.

Notwithstanding Landlord's delivery of the Premises to Tenant pursuant to Section 5 below, Tenant's obligation to pay rent hereunder shall not commence until the Commencement Date.

4. USE OF PREMISES. The Premises may be used by Tenant for manufacturing, industrial, warehousing, and ancillary uses. Tenant shall comply with all applicable laws, ordinances, rules and regulations of local, state and federal governments, and any other public authority having jurisdiction over the Premises.

5. POSSESSION. Landlord shall deliver possession of the Premises to Tenant based on the following schedule:

Building	On or Before
Building 1	December 1, 1997
Building 2	December 1, 1997
Building 3	October 1, 1997
Office Building	January 1, 1998

Landlord shall deliver possession any and all remaining portions of the Premises on or before January 1, 1998.

Notwithstanding the schedule set forth in this Section 5,

Landlord agrees that upon the execution of this Lease, Tenant shall have access to the Premises (including the Buildings) in order to install such electrical and plumbing systems (including piping) and equipment that Tenant shall require; provided, however, that Tenant shall not unreasonably disturb existing tenants, if any, in any Building; provided, further, that Tenant shall not unreasonably disturb the construction and upfitting to be performed by Landlord in accordance with the specifications set forth in Exhibit C attached hereto.

6. ALTERATIONS AND IMPROVEMENTS. Tenant may make alterations or improvements in or to the Premises only with the Landlord's consent, which shall not be unreasonably withheld or delayed. Tenant agrees not to permit any mechanic's or materialman's lien to be filed against the Premises for work claimed to have been done for, or materials claimed to have been furnished to, Tenant, and if any such lien is filed, it shall be promptly discharged by Tenant.

7. FIXTURES AND PERSONAL PROPERTY. All trade fixtures, equipment or other personal property installed in or attached to the Premises by or at the expense of Tenant shall be and remain the property of Tenant, and Tenant shall have the right to remove the same at any time during the Term; provided, however, that Tenant shall not remove any such fixture or personal property if the removal will cause substantial damage to the Premises; provided, further, that if Tenant is permitted to remove any such fixture or personal property, then Tenant shall repair any damage to the Premises caused by such removal to Landlord's reasonable satisfaction.

8. TAXES. Tenant shall pay prior to delinquency all real estate, personalty and ad valorem taxes and assessments imposed or assessed upon the Premises, including any taxes or assessments imposed or assessed upon Tenant's stock or merchandise, furniture, fixtures, equipment, supplies or other personal property situated within the Premises. Landlord shall deliver to Tenant, within thirty (30) days' of receipt, any real estate tax bills received by Landlord pertaining to the Premises, and Tenant shall pay the taxes as provided above; provided, however, the failure of Landlord to deliver any such tax bill shall not relieve Tenant of the obligation of taxes hereunder. Within thirty (30) days of its payment of all taxes and assessments imposed or assessed upon the Premises, Tenant shall furnish Landlord with evidence of such payment. Notwithstanding the foregoing, Tenant shall not be deemed in default for nonpayment of taxes if it is in good faith contesting the validity or amount thereof in compliance with all applicable laws, and the enforcement of any lien therefor is suspended or stayed during such contest, and Landlord agrees to cooperate with Tenant in any such contest. Taxes for the year in which the Term commences or expires (or otherwise terminates) shall be prorated.

Notwithstanding Landlord's delivery of the Premises to Tenant pursuant to Section 5 above, Tenant's obligation to pay taxes hereunder shall not commence until the Commencement Date.

9. MAINTENANCE AND REPAIR. Landlord shall maintain and repair the structural portions of the Buildings (including foundations, roofs and exterior walls), except for any damage due to Tenant's misconduct or negligence. Tenant shall maintain and repair all other portions of the Premises, except for ordinary wear and tear and damage due to casualties, and except for any damage due to Landlord's misconduct or negligence. Landlord agrees to cooperate with Tenant to exercise any rights which Landlord may have with respect to any warranties, guaranties, and similar rights relating to any portion of the Premises (e.g. HVAC systems). Landlord shall be responsible for any structural alteration of the Premises required to comply with legal requirements, and Tenant shall be responsible for any non-structural alteration for this purpose.

10. UTILITIES. Tenant shall pay all charges for utilities used on the Premises, including but not limited to electricity, gas, water, sewer, air conditioning and heat.

11. INSURANCE. Tenant shall, during the Term, obtain and maintain in force the following policies of insurance:

(a) Casualty insurance on the Buildings covering all casualties included under standard insurance industry practices within the classification "Fire and Lightning, Extended Coverage, Vandalism and Malicious Mischief" in an amount equal to not less than one hundred percent (100%) of the replacement value of each Building (including the fixtures). Notwithstanding Landlord's delivery of the Premises to Tenant pursuant to Section 5 above, Tenant's obligation under this Section 11(a) shall not commence until the Commencement Date;

(b) Casualty insurance on Tenant's property (including fixtures, leasehold improvements and equipment) located in the Premises; and

(c) Comprehensive public liability insurance covering death, bodily injury and property damage in the amount of at least Two Million and No/100 Dollars (\$2,000,000.00) per occurrence/aggregate. Tenant's liability insurance shall name Landlord as an additional insured and shall include contractual liability consistent with standard ISO provisions. Tenant's obligation under this Section 11(b) shall commence upon its taking possession of any Building under Section 5 above.

12. TENANT DEFAULT. If Tenant continues in default in the payment of rent or other sum of money becoming due under this

Lease for a period of fifteen (15) days after written notice of such default has been given to Tenant, or if Tenant defaults in the performance of any other of the terms, conditions or covenants contained in this Lease (including but not limited to the obligation to pay taxes and to maintain insurance) and does not remedy such default within twenty (20) days after written notice of such default has been given to Tenant (or such longer period of time, not to exceed sixty (60) days, as may be reasonably necessary to cure such breach if such breach is not susceptible of being cured within twenty (20) days; provided, however, that Tenant shall act diligently and in good faith to cure such breach), or if Tenant becomes bankrupt or insolvent, or files any debtor proceedings, or files in any court pursuant to any statute, either of the United States or any State a petition in bankruptcy or insolvency or for reorganization, or files or has filed against it a petition for the appointment of a receiver or trustee for all or substantially all of the assets of Tenant and such petition is not vacated or set aside within sixty (60) days, or if Tenant makes an assignment for the benefit of creditors, or petitions for or enters into an arrangement, then in any event Landlord shall have the right to terminate and cancel this Lease. In the event of any termination by Landlord, whether before or after reentry, Landlord may recover from Tenant damages permitted under applicable law and pursuant to Tenant's obligations hereunder. Landlord will make reasonable efforts to mitigate damages.

13. LANDLORD DEFAULT. In the event of a breach of an obligation, representation, warranty or covenant of Landlord under this Lease, which breach has not been cured within twenty (20) days (or such longer period of time, not to exceed sixty (60) days, as may be reasonably necessary to cure such breach if such breach is not susceptible of being cured within twenty (20) days; provided, however, that Landlord shall act diligently and in good faith to cure such breach) after notice from Tenant to Landlord, Tenant shall have the right, at its election then or thereafter in addition to and not in lieu of any other remedy Tenant may have hereunder, or at law or in equity, to (a) cure of such breach and offset the cost against rent due; (b) sue for and receive any damages sustained by Tenant as a result of said breach by Landlord; or (c) terminate this Lease.

14. DAMAGE BY CASUALTY OR FIRE. Tenant shall promptly notify Landlord of any damage to the Premises caused by fire or other casualty.

(a) If any Building is rendered substantially untenable by fire or other casualty, either Landlord or Tenant may elect, by giving the other party written notice within thirty (30) days of the fire or casualty, to terminate this Lease with respect to the damaged Building(s) as of the date of the casualty.

(b) If (i) any Building is damaged by fire or other casualty but is not rendered substantially untenable, or (ii) any Building is damaged by fire or other casualty and is rendered substantially untenable, but this Lease is not terminated pursuant to subsection (a) above, then Landlord shall, upon receipt of the insurance proceeds, promptly and diligently repair and restore the damaged portions (other than any leasehold improvements and personal property installed by Tenant), to substantially the same condition as existed immediately prior to the casualty. Tenant shall disburse the insurance proceeds to Landlord as the restoration work progresses, upon the written request of Landlord accompanied by such affidavits, invoices and lien waivers as would be required by a prudent construction lender. Upon completion of the restoration work, and the receipt by Tenant of a certificate of substantial completion signed by Landlord and the supervising architect, and certificates of occupancy issued by the appropriate governmental authorities, the remainder of the insurance proceeds shall be disbursed to Tenant. Rent shall abate during any such period of damage or repair. Notwithstanding the foregoing, if the damage occurs during the last twelve (12) months of the Term, then either party hereto shall have the right to terminate this Lease with respect to the damaged Building(s) as of the date of the casualty by giving written notice of termination to the other party within thirty (30) days after the fire or casualty.

15. CONDEMNATION.

(a) In this Lease, the following terms shall have the meanings set forth herein:

(i) "Condemnation" shall mean the actual or constructive taking by a governmental or quasi-governmental authority by means of eminent domain, condemnation, or deed or agreement in lieu thereof, or otherwise.

(ii) "Building Space" shall mean space in a Building.

(iii) "Non-Building Space" shall mean space other than Building Space.

(iv) "Major Condemnation" shall mean (A) the Condemnation of any part of the Building Space IF AND ONLY IF Tenant reasonably determines that such Condemnation will materially affect Tenant's operations at the Premises, or (B) a Condemnation of the Non-Building Space which either denies Tenant direct access to all state maintained roads adjacent to the Premises for more than thirty (30) days or

reduces the number of parking spaces in the Premises to ten percent (10%) less than the number of spaces required at the time of issuance of the building permit for construction of the Building Improvements.

(v) "Minor Condemnation" shall mean any Condemnation other than a Major Condemnation.

(b) If, at any time during the Term, a Major Condemnation shall occur, Tenant shall have the option to cancel this Lease upon written notice to Landlord within sixty (60) days after the occurrence of the Major Condemnation, and upon such notification this Lease shall terminate and expire, and rent and all charges due under this Lease shall be apportioned and paid to the later of (i) the date of termination or (ii) the last day of occupancy by Tenant.

(c) In the event of the occurrence of a Minor Condemnation or a major Condemnation not resulting in a cancellation of this Lease, rent and all charges due under this Lease shall be reduced (i) pro rata based on the square footage of space taken (in the event of Condemnation of Building Space) or (ii) pro rata based on the area of Land taken (in the event of Condemnation of Non-Building Space IF AND ONLY IF Tenant reasonably determines that such Condemnation will materially affect Tenant's operations at the Premises).

(d) The proceeds of any condemnation award for the Premises shall be the property of Landlord, but the proceeds of any condemnation award for the leasehold interest and the improvements located on the Premises that have been installed by Tenant shall be the property of Tenant. Landlord shall have no interest in any award to Tenant for relocation expenses or for the taking of Tenant's fixtures or other personal property within the Premises.

(e) In the event of a Condemnation not resulting in the termination of this Lease, Landlord shall proceed with reasonable diligence to repair and restore the Premises as nearly as possible to its condition immediately prior to the Condemnation. Rent shall abate during any such period of repair and restoration on a pro rata basis as set forth in subsection (c) above.

16. SURRENDER OF PREMISES. Tenant shall, upon the expiration or other termination of the Term, surrender the Premises to Landlord in good order, condition and state of repair, excepting ordinary wear and tear; and damage due to fire or other casualty.

17. WAIVER. The failure of either party to exercise any of

its rights or to insist upon the strict performance of any of the terms of this Lease shall not constitute a waiver by such party, and the exercise by either party of any right expressly provided in this Lease shall not be a waiver of any other right of that party.

18. ASSIGNMENT, MORTGAGE, AND SUBLETTING. Tenant may not assign this Lease or sublet the Premises or any part thereof except with the prior consent of Landlord, which consent shall not be unreasonably withheld or delayed; provided, that, Landlord may require the proposed assignee to execute a written agreement to evidence its assumption of Tenant's obligations hereunder. In the event of any assignment, Tenant shall not be relieved of its obligations hereunder unless Landlord's consent so stated.

19. WARRANTIES AND QUIET ENJOYMENT. Landlord represents and warrants that he owns the Premises in fee simple, that he has the right to enter into this Lease of the Premises, that Tenant's anticipated uses of the Premises as set forth in Section 4 above is permitted under applicable laws and private restrictions, if any, and that upon Tenant paying the rent and other amounts provided in this Lease and observing and performing the terms, covenants, and conditions hereof, Tenant may have quiet and uninterrupted enjoyment and possession of the Premises during the Term.

20. INDEMNIFICATION; WAIVER OF SUBROGATION.

(a) Tenant agrees to pay and to protect, defend, indemnify, and hold harmless Landlord from and against all liability, damages, and costs (including but not limited to reasonable attorney's fees actually incurred) from causes of action, suits, claims, demands, and judgments arising out of Tenant's actions or negligence in connection with its occupancy of the Premises.

(b) Notwithstanding anything else to the contrary contained in this Lease, Tenant shall not be responsible or liable to Landlord for any event, act or omission to the extent covered by insurance required to be obtained and actually maintained by Tenant with respect to the Premises and its use and occupancy thereof or the proceeds of any other insurance obtained and maintained by Tenant with respect to the Premises and its use and occupancy thereof.

21. NOTICES. All notices required or permitted to be given by any party hereto upon any other party shall be deemed given if such notice is personally delivered or deposited in the United States mail, registered or certified mail, return receipt requested, postage prepaid, and addressed as follows:

To Landlord: Mr. Joseph E. Proctor  
P.O. Box 72702

42nd and Devine  
Chattanooga, Tennessee 37407

with a  
copy to: Fred Hanzelik, Esq.  
Hanzelik and Associates  
Chattanooga Bank Building, Suite 500  
737 Market Street  
Chattanooga, Tennessee 37402

To Tenant: Culp, Inc.  
P.O. Box 2686  
101 South Main Street  
High Point, North Carolina 27261-2686  
Attn: Mr. Franklin N. Saxon

with a  
copy to: Robinson, Bradshaw & Hinson, P.A.  
1900 Independence Center  
101 North Tryon Street  
Charlotte, North Carolina 28246  
Attn: Henry H. Ralston, Esq.

Either party may change its address by giving the other party written notice of the new address in the manner specified above not less than fifteen (15) days before the effective date of the change.

22. SECURITY DEPOSIT. As security for the performance of its obligations under this Lease, Tenant, upon its execution of this Lease, has paid to Landlord a security deposit ("Security Deposit") in the amount of Seventy-Five Thousand Dollars (\$75,000.00). The Security Deposit may be applied by Landlord to cure any default (beyond any applicable cure period) of Tenant under this Lease, and upon notice by Landlord of such application, Tenant shall replenish the Security Deposit in full by promptly paying to Landlord the amount so applied. Within forty-five (45) days after the termination of this Lease (other than a wrongful termination by Tenant), Landlord shall return to Tenant the balance, if any, of the Security Deposit.

23. HOLDING OVER. If Tenant retains possession of the Premises or any part thereof after the expiration or other termination of this Lease, Tenant's holding over shall constitute a renewal of this Lease for a period of one (1) year on the same terms and conditions hereof.

24. EARLY TERMINATION. Tenant acknowledges that Landlord has or will have expended significant effort and expenses to induce Tenant to enter into this Lease for the Premises, and both Landlord and Tenant contemplate that Tenant will lease the Premises for at least ten (10) years. In the event that this Lease for the Premises shall be terminated for any reason (except due to Landlord's default hereunder) prior to the expiration of the Initial Term, Tenant agrees to pay to Landlord an early

termination fee calculated in accordance with the following formula:

Number of months remaining in the Initial Term	X	One Million Dollars (\$1,000,000.00)
----- 120 (12 months per year X 10 years of Initial Term)		

25. SEVERABILITY. If any of the terms and conditions of this Lease, or the application thereof, shall to any extent be held invalid or unenforceable, the remaining terms and conditions of this Lease, shall not be affected thereby, and shall continue to be binding upon the parties hereto.

26. RIGHT OF FIRST REFUSAL. An approximately 2.8 acre portion of the Land (the "Option Land") is more particularly described in Exhibit A-2 attached hereto and is marked in blue on Exhibit B attached hereto. If, at any time during the Term, Landlord constructs one or more buildings on the Option Land, and intends to make an offer to lease such premises to a third party, Landlord shall first give Tenant written notice of the square footage, availability date and terms of the offer Landlord intends to make. Tenant shall have thirty (30) days after receipt of any such notice to elect to lease all or any portion of such space on the terms offered. If Tenant rejects any such offer, or fails to respond to any such offer within said thirty (30) day period, Landlord shall be free to lease the offered space upon the same terms and conditions as those contained in Landlord's notice. If Landlord changes the terms and conditions on which Landlord is offering any such space, Landlord shall resubmit such offer to Tenant, which shall have thirty (30) days in which to accept any new offer. If Tenant accepts any such offer, the space offered shall be added to the Premises at the rental set forth in Landlord's offer on the same terms and conditions set forth in Landlord's offer. In the event Tenant leases such space, Tenant's obligation to pay rent on such space shall commence upon delivery of said space finished as specified in Landlord's offer.

27. MEMORANDUM OF LEASE. Upon either party's request, Landlord and Tenant shall execute a memorandum of this Lease in the form attached hereto as Exhibit D to be recorded in the Hamilton County Register's Office.

28. GOVERNING LAW. This Lease shall be governed by and construed in accordance with the laws of the State of Tennessee.

29. ATTORNEY'S FEES. If either Landlord or Tenant shall engage legal counsel for the enforcement of any of the terms of this Lease, the defaulting party shall be responsible for and shall promptly pay to the prevailing party reasonable attorney's fees and other expenses, including without limitation, court costs and fees, actually incurred by the prevailing party as a result of the default.

30. MODIFICATION. This Lease sets forth the promises, agreements, conditions and understandings between Landlord and Tenant relative to the Premises. No subsequent alterations, amendments, charges or additions to this Lease shall be effective against either party unless reduced to writing and executed by Landlord and Tenant.

[Balance of page left intentionally blank.]

IN WITNESS WHEREOF, the parties hereto have cause this Lease to be duly executed as of the date first above written.

LANDLORD: \_\_\_\_\_  
JOSEPH E. PROCTOR

TENANT: CULP, INC., a North Carolina corporation

By: \_\_\_\_\_  
Its: \_\_\_\_\_

Exhibit A  
to Lease Agreement

Legal Description of Land

All that certain parcel of land located in Hamilton County, Tennessee and more particularly described as follows:

BEING all of Lot No. 1 as shown on that Corrective Plat Part of East End Land Company's Addition No. 1 as recorded in Plat Book 46 at Page 174 of the Hamilton County Register's Office; and

BEING all of Tract 1 and Tract 2 as shown on that map of Mercer Reynolds Resubdivision of the Old East End Land Co. Add. as recorded in Plat Book 29 at Page 25 of the Hamilton County Register's Office.

\$125,000,000

CREDIT AGREEMENT

dated as of

April 23, 1997

among

CULP, INC.

The Banks Listed Herein

WACHOVIA BANK OF GEORGIA, N.A.,  
as Agent

and

FIRST UNION NATIONAL BANK OF NORTH CAROLINA,  
as Documentation Agent

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CREDIT AGREEMENT

AGREEMENT dated as of April 23, 1997 among CULP, INC., the BANKS listed on the signature pages hereof, WACHOVIA BANK OF GEORGIA, N.A., as Agent and FIRST UNION NATIONAL BANK OF NORTH CAROLINA, as Documentation Agent.

The parties hereto agree as follows:

ARTICLE I

DEFINITIONS

SECTION 1.01. Definitions. The terms as defined in this Section 1.01 shall, for all purposes of this Agreement and any amendment hereto (except as herein otherwise expressly provided or unless the context otherwise requires), have the meanings set forth herein:

"Acquisition" means the acquisition by the Borrower or any of its Subsidiaries of all or substantially all of the assets or stock of any Person.

"Adjusted London Interbank Offered Rate" has the meaning set forth in Section 2.06(c).

"Affiliate" of any relevant Person means (i) any 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. As used herein, the term "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.

"Agent" means Wachovia Bank of Georgia, N.A., a national banking association organized under the laws of the United States of America, in its capacity as agent for the Banks hereunder, and its successors and permitted assigns in such capacity.

"Agent's Letter Agreement" means that certain letter agreement, dated as of December 13, 1996, between the Borrower and the Agent relating to the structure of the Loans, and certain fees from time to time payable by the Borrower to the Agent, together with all amendments and supplements thereto.

"Agreement" means this Credit Agreement, together with all amendments and supplements hereto.

"Applicable Margin" has the meaning set forth in Section 2.06(a).

"Assignee" has the meaning set forth in Section 9.08(c).

"Assignment and Acceptance" means an Assignment and Acceptance executed in accordance with Section 9.08(c) in the form attached hereto as Exhibit D.

"Authority" has the meaning set forth in Section 8.02.

"Bank" means each bank listed on the signature pages hereof as having a Commitment, and its successors and assigns.

"Base Rate" means for any Base Rate Loan for any day, the rate per annum equal to the higher as of such day of (i) the Prime Rate, and (ii) one-half of one percent above the Federal Funds Rate. For purposes of determining the Base Rate or the Federal Funds Rate for any day, changes in the Prime Rate shall be effective on the date of each such change.

"Base Rate Loan" means a Loan which bears or is to bear interest at a rate based upon the Base Rate, and is to be made as a Base Rate Loan pursuant to the applicable Notice of Borrowing, Section 2.02(f), or Article VIII, as applicable.

"Restricted Investments" means "restricted investments" consisting of bond proceeds held in escrow by the bond trustee in connection with industrial development revenue bonds.

"Borrower" means Culp, Inc., a North Carolina corporation, and its successors and permitted assigns.

"Borrowing" means a borrowing hereunder consisting of Loans made to the Borrower (i) at the same time by all of the

Banks, in the case of a Syndicated Borrowing, or (ii) separately by one or more Banks, in the case of a Money Market Borrowing, in each case pursuant to Article II. A Borrowing is a "Base Rate Borrowing" if such Loans are Base Rate Loans or a "Euro-Dollar Borrowing" if such Loans are Euro-Dollar Loans. A Syndicated Borrowing is a "Syndicated Dollar Borrowing" if it is a Base Rate Borrowing or a Euro-Dollar Borrowing and a "Foreign Currency Borrowing" if such Loans are Foreign Currency Loans. A Borrowing is a "Money Market Borrowing" if such Loans are made pursuant to Section 2.03 or a "Syndicated Borrowing" if such Loans are made pursuant to Section 2.01.

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

"CERCLA" means the Comprehensive Environmental Response Compensation and Liability Act, 42 U.S.C. ss. 9601 et. seq. and its implementing regulations and amendments.

"CERCLIS" means the Comprehensive Environmental Response Compensation and Liability Inventory System established pursuant to CERCLA.

"Change of Law" shall have the meaning set forth in Section 8.02.

"Chattanooga Sale/Leaseback Transaction" means a transaction whereby the Borrower would: (i) convey to The Industrial Development Board of the City of Chattanooga (the "Issuer) certain items of machinery, equipment and related personal property owned (or to be owned) by the Borrower in connection with the business currently conducted at its Rossville, Georgia plant (the "Project"); (ii) lease back the Project from the Issuer for payments in a nominal amount in lieu of ad valorem taxes for a period ending December 31, 2000; (iii) have the right to terminate the lease at any time upon written notice; (iv) have the option to purchase the Project upon any lease termination (whether at maturity or upon early termination by the Borrower) for a purchase price of \$1; and (v) limit the Project to assets with a cost basis not to exceed \$20,000,000 in the aggregate.

"Closing Certificate" has the meaning set forth in Section 3.01(e).

"Closing Date" means April 23, 1997.

"Code" means the Internal Revenue Code of 1986, as amended, or any successor Federal tax code.

"Commitment" means, with respect to each Bank, (i) the amount set forth opposite the name of such Bank on the signature pages hereof, and (ii) as to any Bank which enters into any Assignment and Acceptance (whether as transferor Bank or as Assignee thereunder), the amount of such Bank's Commitment after giving effect to such Assignment and Acceptance, in each case as such amount may be reduced from time to time pursuant to Sections 2.08 and 2.09.

"Commitment Reduction Date" means each of April 23, 1998, April 23, 1999, April 23, 2000 and April 23, 2001.

"Compliance Certificate" has the meaning set forth in Section 5.01(c).

"Consolidated Net Interest Expense" for any period means interest, whether expensed or capitalized, in respect of Debt of the Borrower or any of its Consolidated Subsidiaries outstanding during such period, net of any interest income attributable to Restricted Investments.

"Consolidated Net Income" means, for any period, the Net Income of the 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 the Borrower or any Subsidiary in the unremitted earnings of any Person that is not a Subsidiary.

"Consolidated Subsidiary" means at any date any Subsidiary or other entity the accounts of which, in accordance with GAAP, would be consolidated with those of the Borrower in its consolidated financial statements as of such date.

"Consolidated Total Assets" means, at any time, the total assets of the Borrower and its Consolidated Subsidiaries, determined on a consolidated basis, as set forth or reflected on the most recent consolidated balance sheet of the Borrower and its Consolidated Subsidiaries, prepared in accordance with GAAP.

"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 the Borrower, are treated as a single employer under Section 414 of the Code.

"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.

"Debt" of any Person means at any date, without duplication, (i) all obligations of such Person for borrowed money, (ii) all obligations of such Person evidenced by bonds, debentures, notes or other similar instruments, (iii) all obligations of such Person to pay the deferred purchase price of property or services, except trade accounts payable arising in the ordinary course of business, (iv) all obligations of such Person as lessee under capital leases, (v) all obligations of such Person to reimburse any bank or other Person in respect of amounts payable under a banker's acceptance, (vi) all Redeemable Preferred Stock of such Person (in the event such Person is a corporation), (vii) all obligations of such Person to reimburse any bank or other Person in respect of amounts paid or to be paid under a letter of credit or similar instrument, (viii) all Debt of others secured by a Lien on any asset of such Person, whether or not such Debt is assumed by such Person, (ix) all obligations of such Person with respect to interest rate protection agreements, foreign currency exchange agreements or other hedging arrangements (valued as the termination value thereof computed in accordance with a method approved by the International Swap Dealers Association and agreed to by such Person in the applicable hedging agreement, if any), and (x) all Debt of others Guaranteed by such Person.

"Debt/EBITDA Ratio" means at any time the ratio of (i) Total Debt to (ii) EBITDA.

"Default" means any condition or event which constitutes an Event of Default or which with the giving of notice or lapse of time or both would, unless cured or waived, become an Event of Default.

"Default Rate" means, with respect to any Loan, on any day, the sum of 2% plus the then highest interest rate (including the Applicable Margin) which may be applicable to any Loans

hereunder (irrespective of whether any such type of Loans are actually outstanding hereunder).

"Dollar Equivalent" means the Dollar equivalent of the amount of a Foreign Currency Loan, determined by the Agent on the basis of its spot rate for the purchase of the appropriate Foreign Currency with Dollars.

"Dollars" or "\$" means dollars in lawful currency of the United States of America.

"Domestic Business Day" means any day except a Saturday, Sunday or other day on which commercial banks in Georgia are authorized by law to close.

"EBIT" means at any time the sum of the following, determined on a consolidated basis for the Borrower and its Consolidated Subsidiaries, at the end of each Fiscal Quarter, for the Fiscal Quarter just ended and the 3 immediately preceding Fiscal Quarters: (i) Consolidated Net Income; plus (ii) Consolidated Net Interest Expense; plus (iii) taxes on income.

"EBITDA" means at any time the sum of the following, determined on a consolidated basis for the Borrower and its Consolidated Subsidiaries, at the end of each Fiscal Quarter, for the Fiscal Quarter just ended and the 3 immediately preceding Fiscal Quarters (and with respect to any Acquisition which is made during such 4 Fiscal Quarter Period, the Consolidated Subsidiary acquired in such Acquisition shall be included as if it had been a Consolidated Subsidiary prior to the commencement of such 4 Fiscal Quarter Period): (i) EBIT; plus (ii) depreciation; plus (iii) amortization; plus (iv) other non-cash charges.

"Environmental Authority" means any foreign, federal, state, local or regional government that exercises any form of jurisdiction or authority under any Environmental Requirement.

"Environmental Authorizations" means all licenses, permits, orders, approvals, notices, registrations or other legal prerequisites for conducting the business of the Borrower or any Subsidiary required by any Environmental Requirement.

"Environmental Judgments and Orders" means all judgments, decrees or orders arising from or in any way associated with any Environmental Requirements, whether or not

entered upon consent or written agreements with an Environmental Authority or other entity arising from or in any way associated with any Environmental Requirement, whether or not incorporated in a judgment, decree or order.

"Environmental Liabilities" means any liabilities, whether accrued, contingent or otherwise, arising from and in any way associated with any Environmental Requirements.

"Environmental Notices" means notice from any Environmental Authority or by any other person or entity, of possible or alleged noncompliance with or liability under any Environmental Requirement, including without limitation any complaints, citations, demands or requests from any Environmental Authority or from any other person or entity for correction of any, violation of any Environmental Requirement or any investigations concerning any violation of any Environmental Requirement.

"Environmental Proceedings" means any judicial or administrative proceedings arising from or in any way associated with any Environmental Requirement.

"Environmental Releases" means releases as defined in CERCLA or under any applicable state or local environmental law or regulation.

"Environmental Requirements" means any legal requirement relating to health, safety or the environment and applicable to the Borrower, any Subsidiary or the Properties, including but not limited to any such requirement under CERCLA or similar state legislation and all federal, state and local laws, ordinances, regulations, orders, writs, decrees and common law.

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended from time to time, or any successor law. Any reference to any provision of ERISA shall also be deemed to be a reference to any successor provision or provisions thereof.

"Euro-Dollar Business Day" means any Domestic Business Day on which dealings in Dollar deposits are carried out in the London interbank market.

"Euro-Dollar Loan" means a Loan which bears or is to bear interest at a rate based upon the London Interbank Offered

Rate, and to be made as a Euro-Dollar Loan pursuant to the applicable Notice of Borrowing.

"Euro-Dollar Reserve Percentage" has the meaning set forth in Section 2.06(c).

"Event of Default" has the meaning set forth in Section 6.01.

"Federal Funds Rate" means, for any day, the rate per annum (rounded upward, if necessary, to the next higher 1/100th of 1%) equal to the weighted average of the rates on overnight Federal funds transactions with members of the Federal Reserve System arranged by Federal funds brokers on such day, as published by the Federal Reserve Bank of New York on the Domestic Business Day next succeeding such day, provided that (i) if the day for which such rate is to be determined is not a Domestic Business Day, the Federal Funds Rate for such day shall be such rate on such transactions on the next preceding Domestic Business Day as so published on the next succeeding Domestic Business Day, and (ii) if such rate is not so published for any day, the Federal Funds Rate for such day shall be the average rate charged to the Agent on such day on such transactions, as determined by the Agent.

"Fiscal Month" means any fiscal month of the Borrower.

"Fiscal Quarter" means any fiscal quarter of the Borrower.

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

"Fixed Rate Borrowing" means a Euro-Dollar Borrowing, a Money Market Borrowing or a Foreign Currency Borrowing, or any or all of them, as the context shall require.

"Fixed Rate Loans" means Euro-Dollar Loans, Money Market Loans, Foreign Currency Loans or any or all of them, as the context shall require.

"Foreign Currencies" means, individually and collectively, as the context shall require, each of the following, if offered and subject to availability: (i) British pounds sterling, French francs, Canadian dollars, Federal Republic of Germany deutschemarks, Italian lira and Japanese yen;

and (ii) at the option of the Banks, any other currency which is freely transferable and convertible into Dollars; provided, however, that no such other currency under this clause (ii) shall be included as a Foreign Currency hereunder, or included in a Notice of Borrowing, unless (x) a Borrower has first submitted a request to the Agent and the Banks that it be so included, and (y) the Agent and the Banks, in their sole discretion, have agreed to such request.

"Foreign Currency Borrowing" has the meaning set forth in the definition of "Borrowing".

"Foreign Currency Business Day" shall mean any Domestic Business Day, excluding one on which trading is not carried on by and between banks in deposits of the applicable Foreign Currency in the applicable interbank market for such Foreign Currency.

"Foreign Currency Loan" means a Loan to be made in a Foreign Currency pursuant to the applicable Notice of Borrowing.

"Foreign Currency Loan Notes" means promissory notes of the Borrower, substantially in the form of Exhibit A-2, evidencing the obligation of the Borrower to repay the Foreign Currency Loans, together with all amendments, consolidations, modifications, renewals and supplements thereto.

"GAAP" means generally accepted accounting principles applied on a basis consistent with those which, in accordance with Section 1.02, are to be used in making the calculations for purposes of determining compliance with the terms of this Agreement.

"Guarantee" by any Person means any obligation, contingent or otherwise, of such Person directly or indirectly guaranteeing any Debt or other obligation of any other Person and, without limiting the generality of the foregoing, any obligation, direct or indirect, contingent or otherwise, of such Person (i) to secure, purchase or pay (or advance or supply funds for the purchase or payment of) such Debt or other obligation (whether arising by virtue of partnership arrangements, by agreement to keep-well, to purchase assets, goods, securities or services, to provide collateral security, to take-or-pay, or to maintain financial statement conditions or otherwise) or (ii) entered into for the purpose of assuring in any other manner the obligee of such Debt or other obligation of the payment thereof or to protect such obligee against loss in respect thereof (in

whole or in part), provided that the term Guarantee shall not include endorsements for collection or deposit in the ordinary course of business. The term "Guarantee" used as a verb has a corresponding meaning.

"Hazardous Materials" includes, without limitation, (a) solid or hazardous waste, as defined in the Resource Conservation and Recovery Act of 1980, 42 U.S.C. ss. 6901 et seq. and its implementing regulations and amendments, or in any applicable state or local law or regulation, (b) "hazardous substance", "pollutant", or "contaminant" as defined in CERCLA, or in any applicable state or local law or regulation, (c) gasoline, or any other petroleum product or by-product, including, crude oil or any fraction thereof (d) toxic substances, as defined in the Toxic Substances Control Act of 1976, or in any applicable state or local law or regulation or (e) insecticides, fungicides, or rodenticides, as defined in the Federal Insecticide, Fungicide, and Rodenticide Act of 1975, or in any applicable state or local law or regulation, as each such Act, statute or regulation may be amended from time to time.

"IBOR" has the meaning set forth in Section 2.05(e).

"Interest Period" means: (1) with respect to each Euro-Dollar Borrowing and Foreign Currency Borrowing, subject to paragraph (c) below, the period commencing on the date of such Borrowing and ending on the numerically corresponding day in the first, second, third or sixth month thereafter, as the Borrower may elect in the applicable Notice of Borrowing; provided that:

(a) any Interest Period which would otherwise end on a day which is not a Euro-Dollar Business Day or Foreign Currency Business Day, as the case may be, shall be extended to the next succeeding Euro-Dollar Business Day or Foreign Currency Business Day, as the case may be, unless such Euro-Dollar Business Day or Foreign Currency Business Day, as the case may be, falls in another calendar month, in which case such Interest Period shall, subject to paragraph (c) below end on the next preceding Euro-Dollar Business Day or Foreign Currency Business Day, as the case may be;

(b) any Interest Period which begins on the last Euro-Dollar Business Day or Foreign Currency Business Day, as the case may be, of a calendar month (or on a day for which there is no numerically corresponding day in the appropriate subsequent calendar month) shall end on the last

Euro-Dollar Business Day or Foreign Currency Business Day, as the case may be, of the appropriate subsequent calendar month; and

(c) no Interest Period may be selected which begins before the Termination Date and would otherwise end after the Termination Date.

(2) With respect to each Base Rate Borrowing, the period commencing on the date of such Borrowing and ending 30 days thereafter; provided that:

(a) any Interest Period which would otherwise end on a day which is not a Domestic Business Day shall be extended to the next succeeding Domestic Business Day; and

(b) no Interest Period which begins before the Termination Date and would otherwise end after the Termination Date may be selected.

(3) With respect to each Money Market Borrowing, the period commencing on the date of such Borrowing and ending on the Stated Maturity Date or such other date or dates as may be specified in the applicable Money Market Quote; provided that:

(a) any Interest Period (subject to clause (b) below) which would otherwise end on a day which is not a Domestic Business Day shall be extended to the next succeeding Domestic Business Day; and

(b) no Interest Period may be selected which begins before the Termination Date and would otherwise end after the Termination Date.

"Investment" means any investment in any Person, whether by means of purchase or acquisition of obligations or securities of such Person, capital contribution to such Person, loan or advance to such Person, making of a time deposit with such Person, Guarantee or assumption of any obligation of such Person or otherwise; provided, however, that the term Investment shall not include an Acquisition.

"Joint Venture" means any Person in which the Borrower and one or more other Persons makes an Investment for a limited purpose operation and which does not constitute a Subsidiary.

"Lending Office" means, as to each Bank, its office located at its address set forth on the signature pages hereof (or identified on the signature pages hereof as its Lending Office) or such other office as such Bank may hereafter designate as its Lending Office by notice to the Borrower and the Agent. Each Bank may designate a Lending Office for Syndicated Dollar Loans and a different Lending Office for Foreign Currency Loans, and the term "Lending Office" shall in such case mean either such Lending Office, as the context shall require.

"Lien" means, with respect to any asset, any mortgage, deed to secure debt, deed of trust, lien, pledge, charge, security interest, security title, preferential arrangement which has the practical effect of constituting a security interest or encumbrance, or encumbrance or servitude of any kind in respect of such asset to secure or assure payment of a Debt or a Guarantee, whether by consensual agreement or by operation of statute or other law, or by any agreement, contingent or otherwise, to provide any of the foregoing. For the purposes of this Agreement, the Borrower or any Subsidiary shall be deemed to own subject to a Lien any asset which it has acquired or holds subject to the interest of a vendor or lessor under any conditional sale agreement, capital lease or other title retention agreement relating to such asset.

"Loan" means a Base Rate Loan, Euro-Dollar Loan, Money Market Loan, Syndicated Dollar Loan, Foreign Currency Loan or Syndicated Loan, and "Loans" means Base Rate Loans, Euro-Dollar Loans, Money Market Loans, Syndicated Dollar Loans, Foreign Currency Loans, Syndicated Loans or any or all of them, as the context shall require.

"Loan Documents" means this Agreement, the Notes, any other document evidencing, relating to or securing the Loans, and any other document or instrument delivered from time to time in connection with this Agreement, the Notes or the Loans, as such documents and instruments may be amended or supplemented from time to time.

"London Interbank Offered Rate" has the meaning set forth in Section 2.06(c).

"Margin Stock" means "margin stock" as defined in Regulations G, T, U or X.

"Material Adverse Effect" 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 (a) the financial condition, operations, business or properties of the Borrower and its Consolidated Subsidiaries taken as a whole, (b) the rights and remedies of the Agent or the Banks under the Loan Documents, or the ability of the Borrower to perform its obligations under the Loan Documents to which it is a party, as applicable, or (c) the legality, validity or enforceability of any Loan Document.

"Money Market Borrowing Date" has the meaning specified in Section 2.03.

"Money Market Loan" means a Loan which bears or is to bear interest at a rate determined pursuant to Section 2.03 and to be made as a Money Market Loan pursuant thereto.

"Money Market Loan Notes" means the promissory notes of the Borrower, substantially in the form of Exhibit A-3, evidencing the obligation of the Borrower to repay the Money Market Loans, together with all amendments, consolidations, modifications, renewals and supplements thereto.

"Money Market Quote" has the meaning specified in Section 2.03.

"Money Market Quote Request" has the meaning specified in Section 2.03(b).

"Money Market Rate" has the meaning specified in Section 2.03(c)(ii)(C).

"Moody's" means Moody's Investor Service, Inc.

"Multiemployer Plan" shall have the meaning set forth in Section 4001(a)(3) of ERISA.

"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 GAAP.

"Notes" means the Syndicated Dollar Loan Notes, the Money Market Loan Notes, the Foreign Currency Loan Notes, or any or all of them, as the context shall require.

"Notice of Borrowing" has the meaning set forth in Section 2.02(a).

"Officer's Certificate" has the meaning set forth in Section 3.01(f).

"Participant" has the meaning set forth in Section 9.03(b).

"PBGC" means the Pension Benefit Guaranty Corporation or any entity succeeding to any or all of its functions under ERISA.

"Performance Pricing Determination Date" has the meaning set forth in Section 2.06(a).

"Person" means an individual, a corporation, a partnership, limited liability corporation, 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.

"Plan" means at any time an employee pension benefit plan which is covered by Title IV of ERISA or subject to the minimum funding standards under Section 412 of the Code and is either (i) maintained by a member of the Controlled Group for employees of any member of the Controlled Group or (ii) maintained pursuant to a collective bargaining agreement or any other arrangement under which more than one employer makes contributions and to which a member of the Controlled Group is then making or accruing an obligation to make contributions or has within the preceding 5 plan years made contributions.

"Prime Rate" refers to that interest rate so denominated and set by WBG from time to time as an interest rate basis for borrowings. The Prime Rate is but one of several interest rate bases used by WBG. WBG lends at interest rates above and below the Prime Rate.

"Properties" means all real property owned, leased or otherwise used or occupied by the Borrower or any Subsidiary, wherever located.

"Redeemable Preferred Stock" of any Person means any preferred stock issued by such Person which is at any time prior to the Termination Date either (i) mandatorily redeemable (by sinking fund or similar payments or otherwise) or (ii) redeemable at the option of the holder thereof.

"Refunding Loan" means a new Syndicated Loan made on the day on which an outstanding Syndicated Loan is maturing or a Base Rate Borrowing is being converted to a Fixed Rate Borrowing, if and to the extent that the proceeds thereof are used entirely for the purpose of paying such maturing Loan or Loan being converted, excluding any difference between the amount of such maturing Loan or Loan being converted and any greater amount being borrowed on such day and actually either being made available to the Borrower pursuant to Section 2.02(c) or remitted to the Agent as provided in Section 2.12, in each case as contemplated in Section 2.02(d).

"Regulation D" means Regulation D 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.

"Regulation G" means Regulation G 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.

"Regulation T" means Regulation T 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.

"Regulation U" means Regulation U 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.

"Regulation X" means Regulation 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.

"Required Banks" means at any time Banks having at least 66 2/3% of the aggregate amount of the Commitments or, if

the Commitments are no longer in effect, Banks holding at least 66 2/3% of the aggregate outstanding principal amount of the sum of the (i) Syndicated Loans and (ii) Money Market Loans.

"Reuters Screen" shall mean, when used in connection with any designated page and the London Interbank Offered Rate or IBOR, the display page so designated on the Reuter Monitor Money Rates Service (or such other page as may replace that page on that service for the purpose of displaying rates comparable to the London Interbank Offered Rate or IBOR).

"S&P" means Standard & Poor's Rating Group, a division of McGraw-Hill, Inc.

"Special Purchase Money Liens" means Liens which: (i) are incurred in connection with the purchase of looms; (ii) secure Debt consisting only of the deferred purchase price of such looms, and no other Debt, which deferred purchase price Debt (x) is non-interest bearing and (y) is payable in no more than 2 years from the date of purchase; and (iii) encumber only on the looms so purchased, and not on any other assets.

"Stated Maturity Date" means, with respect to any Money Market Loan, the Stated Maturity Date therefor specified by the Bank in the applicable Money Market Quote.

"Stockholders' Equity" means, at any time, the shareholders' equity of the Borrower and its Consolidated Subsidiaries, as set forth or reflected on the most recent consolidated balance sheet of the Borrower and its Consolidated Subsidiaries prepared in accordance with GAAP, but excluding any Redeemable Preferred Stock of the Borrower or any of its Consolidated Subsidiaries. Shareholders' equity generally would include, but not be limited to (i) the par or stated value of all outstanding Capital Stock, (ii) capital surplus, (iii) retained earnings, and (iv) various deductions such as (A) purchases of treasury stock, (B) valuation allowances, (C) receivables due from an employee stock ownership plan, (D) employee stock ownership plan debt guarantees, and (E) translation adjustments for foreign currency transactions.

"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.

"Syndicated Dollar Loan Notes" means promissory notes of the Borrower, substantially in the form of Exhibit "A-1", evidencing the obligation of the Borrower to repay the Syndicated Dollar Loans, together with all amendments, consolidations, modifications, renewals, and supplements thereto.

"Syndicated Dollar Loan" means a Loan made in Dollars, which shall be either a Base Rate Loan or a Euro-Dollar Loan.

"Syndicated Loans" means Syndicated Dollar Loans and Foreign Currency Loans.

"Taxes" has the meaning set forth in Section 2.12(c).

"Telerate" means, when used in connection with any designated page and IBOR, the display page so designated on the Dow Jones Telerate Service (or such other page as may replace that page on that service for the purpose of displaying rates comparable to IBOR).

"Termination Date" means whichever is applicable of (i) April 22, 2002, (ii) the date the Commitments are terminated pursuant to Section 6.01 following the occurrence of an Event of Default, or (iii) the date the Borrower terminates the Commitments entirely pursuant to Section 2.08.

"Third Parties" means all lessees, sublessees, licensees and other users of the Properties, excluding those users of the Properties in the ordinary course of the Borrower's business and on a temporary basis.

"Total Debt" means at any date, without duplication, the sum of the following, determined on a consolidated basis for the Borrower and its Consolidated Subsidiaries: (i) all obligations for borrowed money; (ii) all obligations as lessee under capital leases; (iii) all obligations with respect to industrial revenue bonds (or letters of credit issued as an enhancement thereto), excluding, however, Restricted Investments; and (iv) all Debt of the types described in clauses (i), (ii) and (iii) of others Guaranteed by the Borrower or any Consolidated Subsidiary.

"Total Capitalization" means at any date the sum of: (i) Stockholders' Equity; plus (ii) Total Debt.

"Transferee" has the meaning set forth in Section 9.08(d).

"Unfunded Vested Liabilities" means, with respect to any Plan at any time, the amount (if any) by which (i) the present value of all vested nonforfeitable benefits under such Plan exceeds (ii) the fair market value of all Plan assets allocable to such benefits, all determined as of the then most recent valuation date for such Plan, but only to the extent that such excess represents a potential liability of a member of the Controlled Group to the PBGC or the Plan under Title IV of ERISA.

"Unused Commitment" means at any date, with respect to any Bank, an amount equal to its Commitment less the aggregate outstanding principal amount of its Syndicated Dollar Loans and Foreign Currency Loans, but not its Money Market Loans.

"WBG" means Wachovia Bank of Georgia, N.A., a national banking association, and its successors.

"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.

SECTION 1.02. Accounting Terms and Determinations. Unless otherwise specified herein, all terms of an accounting character used herein shall be interpreted, all accounting determinations hereunder shall be made, and all financial statements required to be delivered hereunder shall be prepared, in accordance with GAAP, applied on a basis consistent (except for changes concurred in by the Borrower's independent public accountants or otherwise required by a change in GAAP) with the most recent audited consolidated financial statements of the Borrower and its Consolidated Subsidiaries delivered to the Banks unless with respect to any such change concurred in by the Borrower's independent public accountants or required by GAAP, in determining compliance with any of the provisions of this Agreement or any of the other Loan Documents: (i) the Borrower shall have objected to determining such compliance on such basis at the time of delivery of such financial statements, or (ii) the Required Banks shall so object in writing within 30 days after the delivery of such financial statements, in either of which events such calculations shall be made on a basis consistent with those used in the preparation of the latest financial statements as to which such objection shall not have been made (which, if

objection is made in respect of the first financial statements delivered under Section 5.01 hereof, shall mean the financial statements referred to in Section 4.04).

SECTION 1.03. References. Unless otherwise indicated, references in this Agreement to "Articles", "Exhibits", "Schedules", "Sections" and other Subdivisions are references to articles, exhibits, schedules, sections and other subdivisions hereof.

SECTION 1.04. Use of Defined Terms. All terms defined in this Agreement shall have the same defined meanings when used in any Exhibits or Schedules hereto and in any of the other Loan Documents, unless otherwise defined therein or unless the context shall require otherwise.

SECTION 1.05. Terminology; Headings. All personal pronouns used in this Agreement, whether used in the masculine, feminine or neuter gender, shall include all other genders; the singular shall include the plural, and the plural shall include the singular. Titles of Articles and Sections in this Agreement are for convenience only, and neither limit nor amplify the provisions of this Agreement.

## ARTICLE II

### THE CREDITS

SECTION 2.01. Commitments to Lend Syndicated Loans. Each Bank severally agrees, on the terms and conditions set forth herein, to make Loans (which may be, at the option of the Borrower and subject to the terms and conditions hereof, Foreign Currency Loans or Syndicated Dollar Loans, and Syndicated Dollar Loans may be Base Rate Loans or Euro-Dollar Loans) to the Borrower from time to time before the Termination Date; provided that,

(i) immediately after each such Loan is made, the sum of the aggregate outstanding principal amount of the Syndicated Dollar Loans and the Dollar Equivalent of the aggregate principal amount of the Foreign Currency Loans by such Bank shall not exceed the amount of its Commitment, and

(ii) the aggregate outstanding principal amount of all Syndicated Dollar Loans and Money Market Loans of all Banks and the Dollar Equivalent of the aggregate principal amount

of the Foreign Currency Loans of all Banks shall not exceed the aggregate amount of all of the Commitments.

The Dollar Equivalent of each Foreign Currency Loan on the date each Foreign Currency Loan is disbursed pursuant hereto shall be deemed to be the amount of such Foreign Currency Loan outstanding for the purpose of calculating the aggregate outstanding principal amount of the Foreign Currency Loans for purposes of clause (ii) of Section 2.01 and clause (ii) of Section 2.03(a); provided, however, that if at the time of receipt of any Notice of Borrowing or Money Market Quote Request, the aggregate outstanding principal amount of all Syndicated Dollar Loans and Money Market Loans of all Banks and the Dollar Equivalent of the aggregate principal amount of the Foreign Currency Loans of all Banks is equal to or greater than 50% of the aggregate amount of all of the Commitments, then the Dollar Equivalent of each Foreign Currency Loan shall be calculated as of such date, rather than as of the date such Foreign Currency Loans were disbursed, and in the event that, as a result of such calculation, the aggregate outstanding principal amount of all Syndicated Dollar Loans and Money Market Loans of all Banks and the Dollar Equivalent of the aggregate principal amount of the Foreign Currency Loans of all Banks exceeds the aggregate amount of all of the Commitments, then (i) no additional Borrowings shall be permitted and (ii) the Foreign Currency Loans shall be subject to mandatory repayment pursuant to the provisions of Section 2.11(b). Each (x) Base Rate Borrowing under this Section shall be in an aggregate principal amount of \$1,000,000 or any larger integral multiple of \$500,000, and (ii) Euro-Dollar Borrowing or Foreign Currency Borrowing under this Section shall be in an aggregate principal amount of \$ 5,000,000 (or the Dollar Equivalent thereof in any Foreign Currency) or any larger integral multiple of \$1,000,000 (or the Dollar Equivalent thereof in any Foreign Currency) (except that any such Syndicated Borrowing may be in the aggregate amount of the Unused Commitments) and shall be made from the several Banks ratably in proportion to their respective Commitments. Within the foregoing limits, the Borrower may borrow under this Section, repay or, to the extent permitted by Section 2.10, prepay Syndicated Loans and reborrow under this Section at any time before the Termination Date. Notwithstanding the foregoing, if there shall occur on or prior to the date of any Foreign Currency Loan any change in national or international financial, political or economic conditions or currency exchange rates or exchange controls which would in the reasonable opinion of the Agent make it impracticable to make such Foreign Currency Loan, then the Agent

shall forthwith give notice thereof to the Borrower and the Banks, and such Foreign Currency Loan shall be made on such date as Base Rate Loans, unless the Borrower notifies the Agent at least two Domestic Business Days before such date that it elects not to borrow on such date.

SECTION 2.02. Method of Borrowing. (a) The Borrower shall give the Agent notice (a "Notice of Borrowing"), which shall be substantially in the form of Exhibit E, prior to 11:00 A.M. (Atlanta, Georgia time) for Dollar Borrowings, and 9:30 A.M. (Atlanta, Georgia time) for Foreign Currency Borrowings, on the same Domestic Business Day for each Base Rate Borrowing, at least 3 Euro-Dollar Business Days before each Euro-Dollar Borrowing, and at least 3 Foreign Currency Business Days before each Foreign Currency Borrowing, specifying:

(i) the date of such Syndicated Borrowing, which shall be a Domestic Business Day in the case of a Base Rate Borrowing, a Euro-Dollar Business Day in the case of a Euro-Dollar Borrowing, or a Foreign Currency Business Day in the case of a Foreign Currency Borrowing,

(ii) the aggregate amount of such Syndicated Borrowing,

(iii) whether the Syndicated Loans comprising such Borrowing are to be Base Rate Loans, Euro-Dollar Loans or Foreign Currency Loans, and if such Loans are to be Foreign Currency Loans, specifying the Foreign Currency, and

(iv) in the case of a Fixed Rate Borrowing, the duration of the Interest Period applicable thereto, subject to the provisions of the definition of Interest Period; provided, that if one or more Commitment Reduction Dates are scheduled to occur during the Interest Period so selected, and as a result thereof (but for this proviso) the Borrower shall become obligated to prepay or repay all or any portion of the Loans on any of such Commitment Reduction Dates pursuant to Section 2.10, then a portion of such Fixed Rate Borrowing which is equal to the amount of the Loans that would otherwise be so prepaid or repaid on any of such Commitment Reduction Dates either (A) shall have applicable thereto an Interest Period or Interest

Periods, as selected by the Borrower, ending on or before the Commitment Reduction Date on which Loans corresponding in amount to such portion would otherwise be prepaid or repaid, or (B) shall instead be made as a Base Rate Borrowing.

(b) Upon receipt of a Notice of Borrowing, the Agent shall promptly notify each Bank of the contents thereof and of such Bank's ratable share of such Borrowing and such Notice of Borrowing, once received by the Agent, shall not thereafter be revocable by the Borrower.

(c) Not later than 11:00 A.M. (Atlanta, Georgia time) on the date of each Syndicated Borrowing, each Bank shall (except as provided in paragraph (d) of this Section) make available its ratable share of such Syndicated Borrowing, in Federal or other funds immediately available in Atlanta, Georgia, to the Agent at its address referred to in Section 9.01, which funds shall be in Dollars, if such Borrowing is a Dollar Borrowing, and in the applicable Foreign Currency, if such Borrowing is a Foreign Currency Borrowing, determined pursuant to Section 9.01. Unless the Agent determines that any applicable condition specified in Article III has not been satisfied, the Agent will make the funds so received from the Banks available to the Borrower at the Agent's aforesaid address. Unless the Agent receives notice from a Bank, at the Agent's address referred to in or specified pursuant to Section 9.01, no later than 4:00 P.M. (local time at such address) on the Domestic Business Day before the date of a Syndicated Borrowing stating that such Bank will not make a Syndicated Loan in connection with such Syndicated Borrowing, the Agent shall be entitled to assume that such Bank will make a Syndicated Loan in connection with such Syndicated Borrowing and, in reliance on such assumption, the Agent may (but shall not be obligated to) make available such Bank's ratable share of such Syndicated Borrowing to the Borrower for the account of such Bank. If the Agent makes such Bank's ratable share available to the Borrower and such Bank does not in fact make its ratable share of such Syndicated Borrowing available on such date, the Agent shall be entitled to recover such Bank's ratable share from such Bank or the Borrower (and for such purpose shall be entitled to charge such amount to any account of the Borrower maintained with the Agent), together with interest thereon for each day during the period from the date of such Syndicated Borrowing until such sum shall be paid in full at a rate per annum equal to the rate at which the Agent determines that it obtained (or could have obtained) overnight Federal funds to cover such amount for

each such day during such period, provided that (i) any such payment by the Borrower of such Bank's ratable share and interest thereon shall be without prejudice to any rights that the Borrower may have against such Bank and (ii) until such Bank has paid its ratable share of such Syndicated Borrowing, together with interest pursuant to the foregoing, it will have no interest in or rights with respect to such Syndicated Borrowing for any purpose hereunder. If the Agent does not exercise its option to advance funds for the account of such Bank, it shall forthwith notify the Borrower of such decision.

(d) If any Bank makes a new Syndicated Loan hereunder on a day on which the Borrower is to repay all or any part of an outstanding Syndicated Loan from such Bank, such Bank shall apply the proceeds of its new Syndicated Loan to make such repayment as a Refunding Loan and only an amount equal to the difference (if any) between the amount being borrowed and the amount of such Refunding Loan shall be made available by such Bank to the Agent as provided in paragraph (c) of this Section, or remitted by the Borrower to the Agent as provided in Section 2.12, as the case may be; provided, however, that if the Syndicated Loan which is to be repaid is a Foreign Currency Loan, the foregoing provisions shall apply only if the new Syndicated Loan is to be made in the same Foreign Currency.

(e) Notwithstanding anything to the contrary contained in this Agreement, no Fixed Rate Borrowing may be made if there shall have occurred a Default or an Event of Default, which Default or Event of Default shall not have been cured or waived, and all Refunding Loans shall be made as Base Rate Loans (but shall bear interest at the Default Rate, if applicable).

(f) In the event that a Notice of Borrowing fails to specify whether the Syndicated Loans comprising such Borrowing are to be Base Rate Loans, Euro-Dollar Loans or Foreign Currency Loans, such Syndicated Loans shall be made as Base Rate Loans. If the Borrower is otherwise entitled under this Agreement to repay any Syndicated Loans maturing at the end of an Interest Period applicable thereto with the proceeds of a new Syndicated Borrowing, and the Borrower fails to repay such Syndicated Loans using its own moneys and fails to give a Notice of Borrowing in connection with such new Borrowing, a new Syndicated Borrowing shall be deemed to be made on the date such Syndicated Loans mature in an amount equal to the principal amount of the Syndicated Loans so maturing, and the Syndicated Loans comprising such new Syndicated Borrowing shall be Base Rate Loans, which

shall be in the Dollar Equivalent of such maturing Loans, if such maturing Loans were Foreign Currency Loans.

(g) Notwithstanding anything to the contrary contained herein, there shall not be more than 8 Fixed Rate Borrowings outstanding at any given time.

SECTION 2.03. Money Market Loans. (a) In addition to making Syndicated Borrowings, the Borrower may, as set forth in this Section 2.03, request the Banks to make offers to make Money Market Borrowings available to the Borrower. The Banks may, but shall have no obligation to, make such offers and the Borrower may, but shall have no obligation to, accept any such offers in the manner set forth in this Section 2.03, provided that:

(i) the number of interest rates applicable to Money Market Loans which may be outstanding at any given time is subject to the provisions of Section 2.02(g);

(ii) the aggregate principal amount of all Money Market Loans, together with the aggregate principal amount of all Syndicated Loans, at any one time outstanding shall not exceed the aggregate amount of the Commitments of all of the Banks at such time; and

(iii) the Money Market Loans of any Bank will be deemed to be usage of the Commitments for the purpose of calculating availability pursuant to Section 2.01(ii) and 2.03(a)(ii), but will not reduce such Bank's obligation to lend its pro rata share of the remaining Unused Commitment.

(b) When the Borrower wishes to request offers to make Money Market Loans, it shall give the Agent (which shall promptly notify the Banks) notice substantially in the form of Exhibit I hereto (a "Money Market Quote Request") so as to be received no later than 10:00 A.M. (Atlanta, Georgia time) at least 1 Domestic Business Day prior to the date of the Money Market Borrowing proposed therein (or such other time and date as the Borrower and the Agent, with the consent of the Required Banks, may agree), specifying:

(i) the proposed date of such Money Market Borrowing, which shall be a Euro-Dollar Business Day (the "Money Market Borrowing Date");

(ii) the maturity date (or dates) (each a "Stated Maturity Date") for repayment of each Money Market Loan to be made as part of such Money Market Borrowing (which Stated Maturity Date shall be that date occurring not less than 7 days but not more than 180 days from the date of such Money Market Borrowing); provided that the Stated Maturity Date for any Money Market Loan may not extend beyond the Termination Date (as in effect on the date of such Money Market Quote Request); and

(iii) the aggregate amount of principal to be requested by the Borrower as a result of such Money Market Borrowing, which shall be at least \$5,000,000 (and in larger integral multiples of \$1,000,000) but shall not cause the limits specified in Section 2.03(a) to be violated.

The Borrower may request offers to make Money Market Loans having up to 2 different Stated Maturity Dates in a single Money Market Quote Request; provided that the request for each separate Stated Maturity Date shall be deemed to be a separate Money Market Quote Request for a separate Money Market Borrowing. Except as otherwise provided in the immediately preceding sentence, after the first Money Market Quote Request has been given hereunder, no Money Market Quote Request shall be given until at least 5 Domestic Business Days after all prior Money Market Quote Requests have been fully processed by the Agent, the Banks and the Borrower pursuant to this Section 2.03.

(c) (i) Each Bank may, but shall have no obligation to, submit a response containing an offer to make a Money Market Loan substantially in the form of Exhibit J hereto (a "Money Market Quote") in response to any Money Market Quote Request; provided that, if the Borrower's request under Section 2.03(b) specified more than 1 Stated Maturity Date, such Bank may, but shall have no obligation to, make a single submission containing a separate offer for each such Stated Maturity Date and each such separate offer shall be deemed to be a separate Money Market Quote. Each Money Market Quote must be submitted to the Agent not later than 10:00 A.M. (Atlanta, Georgia time) on the Money Market Borrowing Date; provided that any Money Market Quote submitted by WBG may be submitted, and may only be submitted, if WBG notifies the Borrower of the terms of the offer contained therein not later than 9:45 A.M. (Atlanta, Georgia time) on the Money Market Borrowing Date (or 15 minutes prior to the time that the other

Banks are required to have submitted their respective Money Market Quotes). Subject to Section 6.01, any Money Market Quote so made shall be irrevocable except with the written consent of the Agent given on the instructions of the Borrower.

(ii) Each Money Market Quote shall specify:

(A) the proposed Money Market Borrowing Date and the Stated Maturity Date therefor;

(B) the principal amounts of the Money Market Loan which the quoting Bank is willing to make for the applicable Money Market Quote, which principal amounts (x) may be greater than or less than the Commitment of the quoting Bank, (y) shall be at least \$5,000,000 or a larger integral multiple of \$1,000,000, and (z) may not exceed the principal amount of the Money Market Borrowing for which offers were requested;

(C) the rate of interest per annum (rounded upwards, if necessary, to the nearest 1/100th of 1%) offered for each such Money Market Loan (such amounts being hereinafter referred to as the "Money Market Rate"); and

(D) the identity of the quoting Bank.

Unless otherwise agreed by the Agent and the Borrower, no Money Market Quote shall contain qualifying, conditional or similar language or propose terms other than or in addition to those set forth in the applicable Money Market Quote Request (other than setting forth the principal amounts of the Money Market Loan which the quoting Bank is willing to make for the applicable Interest Period) and, in particular, no Money Market Quote may be conditioned upon acceptance by the Borrower of all (or some specified minimum) of the principal amount of the Money Market Loan for which such Money Market Quote is being made.

(d) The Agent shall as promptly as practicable after the Money Market Quote is submitted (but in any event not later than 10:30 A.M. (Atlanta, Georgia time)) on the Money Market Borrowing Date, notify the Borrower of the terms (i) of any Money Market Quote submitted by a Bank that is in accordance with Section 2.03(c) and (ii) of any Money Market Quote that amends, modifies or is otherwise inconsistent with a previous Money Market Quote submitted by such Bank with respect to the same

Money Market Quote Request. Any such subsequent Money Market Quote shall be disregarded by the Agent unless such subsequent Money Market Quote is submitted solely to correct a manifest error in such former Money Market Quote. The Agent's notice to the Borrower shall specify (A) the principal amounts of the Money Market Borrowing for which offers have been received and (B) the respective principal amounts and Money Market Rates so offered by each Bank (identifying the Bank that made each Money Market Quote).

(e) Not later than 11:00 A.M. (Atlanta, Georgia time) on the Money Market Borrowing Date, the Borrower shall notify the Agent of its acceptance or nonacceptance of the offers so notified to it pursuant to Section 2.03(d) and the Agent shall promptly notify each Bank which submitted an offer. In the case of acceptance, such notice shall specify the aggregate principal amount of offers (for each Stated Maturity Date) that are accepted. The Borrower may accept any Money Market Quote in whole or in part; provided that:

(i) the aggregate principal amount of each Money Market Borrowing may not exceed the applicable amount set forth in the related Money Market Quote Request;

(ii) the aggregate principal amount of each Money Market Loan comprising a Money Market Borrowing shall be at least \$5,000,000 (and in larger integral multiples of \$1,000,000) but shall not cause the limits specified in Section 2.03(a) to be violated;

(iii) acceptance of offers may only be made in ascending order of Money Market Rates; and

(iv) the Borrower may not accept any offer where the Agent has advised the Borrower that such offer fails to comply with Section 2.03(c)(ii) or otherwise fails to comply with the requirements of this Agreement (including without limitation, Section 2.03(a)).

If offers are made by 2 or more Banks with the same Money Market Rates for a greater aggregate principal amount than the amount in respect of which offers are accepted for the related Stated Maturity Date, the principal amount of Money Market Loans in respect of which such offers are accepted shall be allocated by the Borrower among such Banks as nearly as possible in proportion to the aggregate principal amount of such offers. Determinations

by the Borrower of the amounts of Money Market Loans shall be conclusive in the absence of manifest error.

(f) Any Bank whose offer to make any Money Market Loan has been accepted shall, not later than 12:00 P.M. (Atlanta, Georgia time) on the Money Market Borrowing Date, make the amount of such Money Market Loan allocated to it available to the Agent at its address referred to in Section 9.01 in immediately available funds. The amount so received by the Agent shall, subject to the terms and conditions of this Agreement, be made available to the Borrower on such date by depositing the same, in immediately available funds, not later than 4:00 P.M. (Atlanta, Georgia time), in an account of the Borrower maintained with WBG.

(g) After any Money Market Loan has been funded, the Agent shall notify the Banks of the aggregate principal amount of the Money Market Quotes received and the highest and lowest rates included in such Money Market Quotes.

SECTION 2.04. Notes. (a) The Syndicated Loans of each Bank shall be evidenced by a single Syndicated Dollar Loan Note in an amount equal to the original principal amount of such Bank's Commitment and a single Foreign Currency Loan Note, each payable to the order of such Bank for the account of its Lending Office.

(b) The Money Market Loans made by any Bank to the Borrower shall be evidenced by a single Money Market Loan Note payable to the order of such Bank for the account of its Lending Office in an amount equal to the original principal amount of the aggregate Commitments.

(c) Upon receipt of each Bank's Notes pursuant to Section 3.01, the Agent shall deliver such Notes to such Bank. Each Bank shall record, and prior to any transfer of its Notes shall endorse on the schedules forming a part thereof appropriate notations to evidence, the date, amount and maturity of, and effective interest rate for, each Loan made by it, the date and amount of each payment of principal made by the Borrower with respect thereto, whether such Loan is a Base Rate Loan, Euro-Dollar Loan or Foreign Currency Loan, and if a Foreign Currency Loan, a specification of the Foreign Currency, and such schedules of each such Bank's Notes shall constitute rebuttable presumptive evidence of the principal amounts owing and unpaid on such Bank's Notes; provided that the failure of any Bank to make, or any error in making, any such recordation or endorsement shall

not affect the obligation of the Borrower hereunder or under the Notes or the ability of any Bank to assign its Notes. Each Bank is hereby irrevocably authorized by the Borrower so to endorse its Notes and to attach to and make a part of any Note a continuation of any such schedule as and when required.

SECTION 2.05. Maturity of Loans. (a) Each Loan included in any Borrowing shall mature, and the principal amount thereof shall be due and payable, on the last day of the Interest Period applicable to such Borrowing.

(b) Notwithstanding the foregoing, the outstanding principal amount of the Loans, if any, together with all accrued but unpaid interest thereon, if any, shall be due and payable on the Termination Date.

SECTION 2.06. Interest Rates. (a) "Applicable Margin" means:

(i) for the period commencing on the Closing Date to and including the first Performance Pricing Determination Date, (x) for any Base Rate Loan, 0.00%, and (y) for any Euro-Dollar Loan or Foreign Currency Loan, 0.275%; and

(ii) from and after the first Performance Pricing Determination Date, (x) for any Base Rate Loan, 0.00% and (y) for each Euro-Dollar Loan, the percentage determined on each Performance Pricing Determination Date by reference to the table set forth below as to such type of Loan and the Debt/EBITDA Ratio for the quarterly or annual period ending immediately prior to such Performance Pricing Determination Date.

	Debt/EBITDA Ratio	Applicable
	-----	-----
Margin	< 1.0 to 1.0	0.25%
	> 1.0 to 1.0 but	
	<= 2.0 to 1.0	0.275%
	> 2.0 to 1.0 but	
	<= 2.5 to 1.0	0.30%
	> 2.5 to 1.0 but	
	<= 3.0 to 1.0	0.3625%
	> 3.0 to 1.0	0.55%

In determining interest for purposes of this Section 2.06 and fees for purposes of Section 2.07, the Borrower and the Banks shall refer to the Borrower's most recent consolidated quarterly and annual (as the case may be) financial statements delivered pursuant to Section 5.01(a) or (b), as the case may be. If such financial statements require a change in interest pursuant to this Section 2.06 or fees pursuant to Section 2.07, the Borrower shall deliver to the Agent, along with such financial statements, a notice to that effect, which notice shall set forth in reasonable detail the calculations supporting the required change. The "Performance Pricing Determination Date" is the date which is the last date on which such financial statements are permitted to be delivered pursuant to Section 5.01(a) or (b), as applicable. Any such required change in interest and fees shall become effective on such Performance Pricing Determination Date, and shall be in effect until the next Performance Pricing Determination Date, provided that: (x) for Fixed Rate Loans, changes in interest shall only be effective for Interest Periods commencing on or after the Performance Pricing Determination Date; and (y) no fees or interest shall be decreased pursuant to this Section 2.06 or Section 2.07 if a Default is in existence on the Performance Pricing Determination Date.

(b) Each Base Rate Loan shall bear interest on the outstanding principal amount thereof, for each day from the date such Loan is made until it becomes due, at a rate per annum equal to the Base Rate for such day plus the Applicable Margin. Such interest shall be payable for each Interest Period on the last day thereof. Any overdue principal of and, to the extent

permitted by applicable law, overdue interest on any Base Rate Loan shall bear interest, payable on demand, for each day until paid at a rate per annum equal to the Default Rate.

(c) Each Euro-Dollar Loan shall bear interest on the outstanding principal amount thereof, for the Interest Period applicable thereto, at a rate per annum equal to the sum of the Applicable Margin plus the applicable Adjusted London Interbank Offered Rate for such Interest Period. Such interest shall be payable for each Interest Period on the last day thereof and, if such Interest Period is longer than 3 months, at intervals of 3 months after the first day thereof. Any overdue principal of and, to the extent permitted by law, overdue interest on any Euro-Dollar Loan shall bear interest, payable on demand, for each day until paid at a rate per annum equal to the Default Rate.

The "Adjusted London Interbank Offered Rate" applicable to any Interest Period means a rate per annum equal to the quotient obtained (rounded upwards, if necessary, to the next higher 1/100th of 1%) by dividing (i) the applicable London Interbank Offered Rate for such Interest Period by (ii) 1.00 minus the Euro-Dollar Reserve Percentage.

The "London Interbank Offered Rate" applicable to any Euro-Dollar Loan means for the Interest Period of such Euro-Dollar Loan, the rate per annum determined on the basis of the offered rate for deposits in Dollars of amounts equal or comparable to the principal amount of such Euro-Dollar Loan offered for a term comparable to such Interest Period, which rates appear on the Telerate Page 3750 effective as of 11:00 A.M., London time, 2 Euro-Dollar Business Days prior to the first day of such Interest Period, provided that if no such offered rates appear on such page, the "London Interbank Offered Rate" for such Interest Period will be the arithmetic average (rounded upward, if necessary, to the next higher 1/100th of 1%) of rates quoted by not less than 2 major banks in New York City, selected by the Agent, at approximately 10:00 A.M., New York City time, 2 Euro-Dollar Business Days prior to the first day of such Interest Period, for deposits in Dollars offered to leading European banks for a period comparable to such Interest Period in an amount comparable to the principal amount of such Euro-Dollar Loan.

"Euro-Dollar Reserve Percentage" means for any day that percentage (expressed as a decimal) which is in effect on such day, as prescribed by the Board of Governors of the Federal Reserve System (or any successor) for determining the maximum

reserve requirement for a member bank of the Federal Reserve System in respect of "Eurocurrency liabilities" (or in respect of any other category of liabilities which includes deposits by reference to which the interest rate on Euro-Dollar Loans is determined or any category of extensions of credit or other assets which includes loans by a non-United States office of any Bank to United States residents). The Adjusted London Interbank Offered Rate shall be adjusted automatically on and as of the effective date of any change in the Euro-Dollar Reserve Percentage.

(d) Each Money Market Loan shall bear interest on the outstanding principal amount thereof, for each day from the date such Money Market Loan is made until it becomes due, at a rate per annum equal to the applicable Money Market Rate set forth in the relevant Money Market Quote. Such interest shall be payable on the Stated Maturity Date thereof, and, if the Stated Maturity Date occurs more than 90 days after the date of the relevant Money Market Loan, at intervals of 90 days after the first day thereof. Any overdue principal of and, to the extent permitted by law, overdue interest on any Money Market Loan shall bear interest, payable on demand, for each day until paid at a rate per annum equal to the Default Rate.

(e) Each Foreign Currency Loan shall bear interest on the outstanding principal amount thereof, for the Interest Period applicable thereto, at a rate per annum equal to the sum of the Applicable Margin plus the applicable Adjusted IBOR Rate for such Interest Period. Such interest shall be payable for each Interest Period on the last day thereof and, if such Interest Period is longer than 3 months, at intervals of 3 months after the first day thereof. Any overdue principal of and, to the extent permitted by law, overdue interest on any Foreign Currency Loan shall bear interest, payable on demand, for each day until paid at a rate per annum equal to the Default Rate.

"Adjusted IBOR Rate" means, with respect to each Interest Period for a Foreign Currency Loan, the sum of (i) the rate obtained by dividing (A) IBOR for such Interest Period by (B) a percentage equal to 1 minus the then stated maximum rate (stated as a decimal) of all reserve requirements (including, without limitation, any marginal, emergency, supplemental, special or other reserves) applicable to any member bank of the Federal Reserve System as defined in Regulation D (or against any successor category of liabilities as defined in Regulation D), plus (ii) if the relevant Foreign Currency Loan is in British

pounds sterling, a percentage sufficient to compensate the Banks for the cost of complying with any reserves, liquidity and/or special deposit requirements of the Bank of England directly or indirectly affecting the maintenance or funding of such Foreign Currency Loan.

"IBOR" means, for any Interest Period, with respect to Foreign Currency Loans, the offered rate for deposits in the applicable Foreign Currency, for a period comparable to the Interest Period and in an amount comparable to the amount of such Foreign Currency Loan appearing on Telerate Page 3750, or, if it is unavailable on Telerate, on the Reuters Screen Page FRBD, FRBE, FRBF or FRBG, as applicable, or, if it is unavailable on either Telerate or the Reuters Screen, then such rate shall be determined by the Agent from any other interest rate reporting service of recognized standing designated in writing by the Agent to the Borrower, as of 11:00 A.M. (London, England time) on the day that is two Business Days prior to the first day of the Interest Period.

(f) The Agent shall determine each interest rate applicable to the Loans hereunder. The Agent shall give prompt notice to the Borrower and the Banks by telecopier of each rate of interest so determined, and its determination thereof shall be conclusive in the absence of manifest error.

(g) After the occurrence and during the continuance of an Event of Default, the principal amount of the Loans (and, to the extent permitted by applicable law, all accrued interest thereon) may, at the election of the Required Banks, bear interest at the Default Rate.

SECTION 2.07. Fees. (a) The Borrower shall pay to the Agent, for the ratable account of each Bank, a facility fee, calculated in the manner provided in the last paragraph of Section 2.06(a)(ii), on the aggregate amount of such Bank's Commitment (without taking into account the amount of the outstanding Loans made by such Bank), at a rate per annum equal to: (i) for the period commencing on the Closing Date to and including the first Performance Pricing Determination Date, 0.125%; and (ii) from and after the first Performance Pricing Determination Date, the percentage determined on each Performance Pricing Determination Date by reference to the table set forth below and the Debt/EBITDA Ratio for the quarterly or annual period ending immediately prior to such Performance Pricing Determination Date:

Debt/EBITDA Ratio	Facility Fee
< 1.0 to 1.0	0.10%
> 1.0 to 1.0 but <= 2.0 to 1.0	0.125%
> 2.0 to 1.0 but <= 2.5 to 1.0	0.15%
> 2.5 to 1.0 but <= 3.0 to 1.0	0.1875%
> 3.0 to 1.0	0.25%

Such facility fees shall accrue from and including the Closing Date to (but excluding the Termination Date) and shall be payable on each March 31, June 30, September 30 and December 31 and on the Termination Date.

(c) The Borrower shall pay to the Agent, for the account and sole benefit of the Agent, such fees and other amounts at such times as set forth in the Agent's Letter Agreement.

SECTION 2.08. Optional Termination or Reduction of Commitments. The Borrower may, upon at least 3 Domestic Business Days' notice to the Agent, terminate at any time, or proportionately reduce the Unused Commitments from time to time by an aggregate amount of at least \$5,000,000 or any larger integral multiple of \$1,000,000. If the Commitments are terminated in their entirety, all accrued fees (as provided under Section 2.07) shall be due and payable on the effective date of such termination.

SECTION 2.09. Mandatory Reduction and Termination of Commitments. (a) The Commitments shall terminate on the Termination Date and any Loans then outstanding (together with accrued interest thereon) shall be due and payable on such date.

(b) The aggregate amount of the Commitments shall be reduced by \$5,000,000 on each Commitment Reduction Date. Each such reduction shall be applied to reduce the Commitments of the several Banks ratably. No optional reduction of the Commitments

pursuant to Section 2.08 shall reduce the amount of any subsequent mandatory reduction pursuant to this Section 2.09(b).

SECTION 2.10. Optional Prepayments. (a) The Borrower may, upon at least 1 Domestic Business Day's notice to the Agent, prepay any Base Rate Borrowing in whole at any time, or from time to time in part in amounts aggregating at least \$1,000,000 or any larger integral multiple of \$500,000, by paying the principal amount to be prepaid together with accrued interest thereon to the date of prepayment. Each such optional prepayment shall be applied to prepay ratably the Base Rate Loans of the several Banks included in such Base Rate Borrowing.

(b) Except as provided in Section 8.02, the Borrower may not prepay all or any portion of the principal amount of any Fixed Rate Loan prior to the maturity thereof.

(c) Upon receipt of a notice of prepayment pursuant to this Section 2.10, the Agent shall promptly notify each Bank of the contents thereof and of such Bank's ratable share of such prepayment and such notice, once received by the Agent, shall not thereafter be revocable by the Borrower.

SECTION 2.11. Mandatory Prepayments. (a) On each date on which the Commitments are reduced pursuant to Section 2.08 or Section 2.09, the Borrower shall repay or prepay such principal amount of the outstanding Loans, if any (together with interest accrued thereon and any amount due under Section 8.05(a)), as may be necessary so that after such payment the aggregate unpaid principal amount of the Loans does not exceed the aggregate amount of the Commitments as then reduced.

(b) If the Agent determines at any time (either on its own initiative or at the instance of any Bank) that the aggregate principal amount of the Foreign Currency Loans outstanding (after converting each Foreign Currency Loan to its Dollar Equivalent on the date of calculation) at any time exceeds 105% of the aggregate amount of all of the Commitments less the outstanding aggregate amount of all Syndicated Dollar Loans, then upon 5 Foreign Currency Business Days' written notice from the Agent, the Borrower shall prepay an aggregate principal amount of Foreign Currency Loans sufficient to bring the aggregate of the Foreign Currency Loans outstanding within the aggregate amount of all of the Commitments less the outstanding aggregate amount of all Syndicated Dollar Loans. Nothing in the foregoing shall

require the Agent to make any such calculation unless expressly requested to do so by the Required Banks.

(c) Each such payment or prepayment under paragraph (a) or (b) above shall be applied ratably to the Loans of the Banks outstanding on the date of payment or prepayment in the following order of priority: (i) first, to Base Rate Loans; (ii) secondly, to Euro-Dollar Loans; and (iii) lastly, to Money Market Loans.

SECTION 2.12. General Provisions as to Payments. (a) The Borrower shall make each payment of principal of, and interest on, the Loans and of fees hereunder, not later than 11:00 A.M. (Atlanta, Georgia time) on the date when due, in Federal or other funds (subject to paragraph (c) below with respect to Foreign Currency Loans) immediately available in Atlanta, Georgia, to the Agent at its address referred to in Section 9.01. The Agent will promptly distribute to each Bank its ratable share of each such payment received by the Agent for the account of the Banks.

(b) Whenever any payment of principal of, or interest on, the Base Rate Loans or Money Market Loans or of fees hereunder shall be due on a day which is not a Domestic Business Day, the date for payment thereof shall be extended to the next succeeding Domestic Business Day. Whenever any payment of principal of or interest on, the Euro-Dollar Loans or the Foreign Currency Loans shall be due on a day which is not a Euro-Dollar Business Day or Foreign Currency Business Day, as the case may be, the date for payment thereof shall be extended to the next succeeding Euro-Dollar Business Day or Foreign Currency Business Day, as the case may be, unless such Euro-Dollar Business Day or Foreign Currency Business Day, as the case may be, falls in another calendar month, in which case the date for payment thereof shall be the next preceding Euro-Dollar Business Day or Foreign Currency Business Day, as the case may be.

(c) All payments of principal and interest with respect to Foreign Currency Loans shall be made in the Foreign Currency in which the related Foreign Currency Loan was made.

(d) All payments of principal, interest and fees and all other amounts to be made by a Borrower pursuant to this Agreement with respect to any Loan or fee relating thereto shall be paid without deduction for, and free from, any tax, imposts, levies, duties, deductions, or withholdings of any nature now or at anytime hereafter imposed by any governmental authority or by

any taxing authority thereof or therein excluding in the case of each Bank, taxes imposed on or measured by its net income, and franchise taxes imposed on it, by the jurisdiction under the laws of which such Bank is organized or any political subdivision thereof and, in the case of each Bank, taxes imposed on its income, and franchise taxes imposed on it, by the jurisdiction of such Bank's applicable Lending Office or any political subdivision thereof (all such non-excluded taxes, imposts, levies, duties, deductions or withholdings of any nature being "Taxes"). In the event that the Borrower is required by applicable law to make any such withholding or deduction of Taxes with respect to any Loan or fee or other amount, the Borrower shall pay such deduction or withholding to the applicable taxing authority, shall promptly furnish to any Bank in respect of which such deduction or withholding is made all receipts and other documents evidencing such payment and shall pay to such Bank additional amounts as may be necessary in order that the amount received by such Bank after the required withholding or other payment shall equal the amount such Bank would have received had no such withholding or other payment been made. If no withholding or deduction of Taxes are payable in respect to any Loan or fee relating thereto, the Borrower shall furnish any Bank, at such Bank's request, a certificate from each applicable taxing authority or an opinion of counsel acceptable to such Bank, in either case stating that such payments are exempt from or not subject to withholding or deduction of Taxes. If the Borrower fails to provide such original or certified copy of a receipt evidencing payment of Taxes or certificate(s) or opinion of counsel of exemption, the Borrower agrees to compensate such Bank for, and indemnify them with respect to, the tax consequences of the Borrower's failure to provide evidence of tax payments or tax exemption.

Each Bank which is not organized under the laws of the United States or any state thereof agrees, as soon as practicable after receipt by it of a request by the Borrower to do so, to file all appropriate forms and take other appropriate action to obtain a certificate or other appropriate document from the appropriate governmental authority in the jurisdiction imposing the relevant Taxes, establishing that it is entitled to receive payments of principal and interest under this Agreement and the Notes without deduction and free from withholding of any Taxes imposed by such jurisdiction; provided, that, if it is unable, for any reason, to establish such exemption, or to file such forms and, in any event, during such period of time as such request for exemption is pending, the Borrower shall nonetheless

remain obligated under the terms of the immediately preceding paragraph.

In the event any Bank receives a refund of any Taxes paid by the Borrower pursuant to this Section 2.12(d), it will pay to the Borrower the amount of such refund promptly upon receipt thereof; provided, however, if at any time thereafter it is required to return such refund, the Borrower shall promptly repay to it the amount of such refund.

If any Bank determines that it is entitled to a reduction in (and not a complete exemption from) the applicable withholding Tax, such Bank shall notify the Borrower and the Agent, and the Borrower and the Agent may withhold from any interest payment to such Bank an amount equivalent to the applicable reduction in withholding Tax. If any of the forms or other documentation required above are not delivered to the Agent as therein required, then the Borrower and the Agent may withhold from any interest payment to such Bank not providing such forms or other documentation an amount equivalent to the applicable withholding Tax.

Without prejudice to the survival of any other agreement of the Borrower hereunder, the agreements and obligations of the Borrower and the Banks contained in this Section 2.12(d) shall be applicable with respect to any Participant, Assignee or other Transferee, and any calculations required by such provisions (i) shall be made based upon the circumstances of such Participant, Assignee or other Transferee, and (ii) constitute a continuing agreement and shall survive the termination of this Agreement and the payment in full or cancellation of the Notes.

Any of the Agent or any Bank claiming any additional amounts payable pursuant to this Section 2.12(d) shall use reasonable efforts (consistent with legal and regulatory restrictions) to file any certificate or document reasonably requested by the Borrower or to change the jurisdiction of its applicable Lending Office if the making of such filing or change would avoid the need for or reduce the amount of any such additional amounts that may thereafter accrue or avoid the circumstances giving rise to such exercise and would not, in the reasonable determination of the Agent or such Bank, as the case may be, result in any additional costs, expenses or risks or be otherwise disadvantageous to it. Each of the Agent and each Bank agrees to use reasonable efforts to notify the Borrower as

promptly as practicable upon its becoming aware that circumstances exist that would cause the Borrower to become obligated to pay additional amounts to the Agent or such Bank pursuant to this Section 2.12(d).

SECTION 2.13. Computation of Interest and Fees. Interest on Base Rate Loans and Money Market Loans shall be computed on the basis of a year of 360 days and paid for the actual number of days elapsed (including the first day but excluding the last day). Interest on Euro-Dollar Loans and on Foreign Currency Loans shall be computed on the basis of a year of 360 days (except for any Foreign Currency Loans outstanding in British pounds sterling or in Canadian dollars (or, if selected as a Foreign Currency pursuant to clause (ii) of the definition of "Foreign Currency," in Australian dollars, Belgian francs, Irish punts or New Zealand dollars), which shall be computed on the basis of a year of 365 or 366 days, as the case may be) and paid for the actual number of days elapsed, calculated as to each Interest Period from and including the first day thereof to but excluding the last day thereof. Facility fees and any other fees payable hereunder shall be computed on the basis of a year of 360 days and paid for the actual number of days elapsed (including the first day but excluding the last day).

### ARTICLE III

#### CONDITIONS TO BORROWINGS

SECTION 3.01. Conditions to First Borrowing. The obligation of each Bank to make a Loan on the occasion of the first Borrowing is subject to the satisfaction of the conditions set forth in Section 3.02 and receipt by the Agent of the following (as to the documents described in paragraphs (a), (c), (d) and (e) below (in sufficient number of counterparts for delivery of a counterpart to each Bank and retention of one counterpart by the Agent):

(a) from each of the parties hereto of either (i) a duly executed counterpart of this Agreement signed by such party or (ii) a facsimile transmission of such executed counterpart with the original to be sent to the Agent by overnight courier;

(b) a duly executed Syndicated Dollar Loan Note, a duly executed

Foreign Currency Loan Note and a duly executed Money Market Loan Note for the account of each Bank complying with the provisions of Section 2.04;

(c) an opinion (together with any opinions of local counsel relied on therein) of Robinson, Bradshaw & Hinson, counsel for the Borrower, dated as of the Closing Date, substantially in the form of Exhibit B and covering such additional matters relating to the transactions contemplated hereby as the Agent or any Bank may reasonably request;

(d) an opinion of Jones, Day, Reavis & Pogue, special counsel for the Agent, dated as of the Closing Date, substantially in the form of Exhibit C and covering such additional matters relating to the transactions contemplated hereby as the Agent may reasonably request;

(e) a certificate (the "Closing Certificate") substantially in the form of Exhibit G, dated as of the Closing Date, signed by a principal financial officer of the Borrower, to the effect that (i) no Default has occurred and is continuing on the date of the first Borrowing and (ii) the representations and warranties of the Borrower contained in Article IV are true on and as of the date of the first Borrowing hereunder;

(f) A certificate of the Borrower, signed by the Secretary or an Assistant Secretary of the Borrower substantially in the form of Exhibit H (the "Officer's Certificate"), certifying as to the names, true signatures and incumbency of the officer or officers of the Borrower authorized to execute and deliver the Loan Documents, and certified copies of the following items: (i) the Borrower's Certificate of Incorporation, (ii) the Borrower's Bylaws, (iii) a certificate of the Secretary of State of the State of North Carolina as to the existence of the Borrower as a North Carolina corporation, and (iv) the action taken by the Board of Directors of the Borrower authorizing the Borrower's execution, delivery and performance of this Agreement, the Notes and the other Loan Documents to which the Borrower is a party;

(g) receipt of the fees and other amounts payable to the Agent on the Closing Date pursuant to the Agent's Letter Agreement.

In addition, if the Borrower desires funding of a Fixed Rate Loan on the Closing Date, the Agent shall have received, by Friday, April 18, 1997, a funding indemnification letter satisfactory to it, pursuant to which (i) the Agent and the Borrower shall have agreed upon the interest rate, amount of Borrowing and Interest Period for such Fixed Rate Loan, and (ii) the Borrower shall indemnify the Banks from any loss or expense arising from the failure to close on the anticipated Closing Date identified in such letter or the failure to borrow such Fixed Rate Loan on such date.

SECTION 3.02. Conditions to All Borrowings. The obligation of each Bank to make a Syndicated Loan on the occasion of each Borrowing is subject to the satisfaction of the following conditions except as expressly provided in the last sentence of this Section 3.02:

(a) receipt by the Agent of a Notice of Borrowing or notification pursuant to Section 2.03(e) of acceptance of one or more Money Market Quotes, as applicable.

(b) the fact that, immediately before and after such Borrowing, no Default shall have occurred and be continuing;

(c) the fact that the representations and warranties of the Borrower contained in Article IV of this Agreement shall be true on and as of the date of such Borrowing (except for representations and warranties which are made only as of a stated prior date); and

(d) the fact that, immediately after such Borrowing, the conditions set forth in clauses (i) and (ii) of Section 2.01 shall have been satisfied.

Each Syndicated Borrowing and each Money Market Borrowing hereunder shall be deemed to be a representation and warranty by the Borrower on the date of such Borrowing as to the truth and accuracy of the facts specified in paragraphs (b), (c) and (d) of this Section; provided that (i) if such Borrowing is a Syndicated Borrowing which consists solely of a Refunding Loan, such Borrowing shall not be deemed to be such a representation and warranty and (ii) as to the representations contained in clause (iv) of Section 4.02, the Borrower shall be deemed to represent and warrant only that such representations are true and correct in all material respects.

ARTICLE IV

REPRESENTATIONS AND WARRANTIES

The Borrower represents and warrants that:

SECTION 4.01. Corporate Existence and Power. The Borrower is a corporation duly organized, validly existing and in good standing under the laws of the jurisdiction of its incorporation, is duly qualified to transact business in every jurisdiction where, by the nature of its business, such qualification is necessary, except for any jurisdictions in which the failure to become qualified does not have and would not reasonably be expected to cause a Material Adverse Effect, and has all corporate powers and all governmental licenses, authorizations, consents and approvals required to carry on its business as now conducted, except where the failure to have such licenses, authorizations, consents and approvals does not have and would not reasonably be expected to cause a Material Adverse Effect.

SECTION 4.02. Corporate and Governmental Authorization; No Contravention. The execution, delivery and performance by the Borrower of this Agreement, the Notes and the other Loan Documents (i) are within the Borrower's corporate powers, (ii) have been duly authorized by all necessary corporate action on the part of the Borrower, (iii) require no action by or in respect of or filing with, any governmental body, agency or official, (iv) do not contravene, or constitute a default under, any provision of applicable law or regulation or of the certificate of incorporation or by-laws of the Borrower or of any agreement, judgment, injunction, order, decree or other instrument binding upon the Borrower or any of its Subsidiaries, and (v) do not result in the creation or imposition of any Lien on any asset of the Borrower or any of its Subsidiaries.

SECTION 4.03. Binding Effect. This Agreement constitutes a valid and binding agreement of the Borrower enforceable in accordance with its terms, and the Notes and the other Loan Documents, when executed and delivered in accordance with this Agreement, will constitute valid and binding obligations of the Borrower enforceable in accordance with their respective terms, provided that the enforceability hereof and thereof is subject in each case to general principles of equity

and to bankruptcy, insolvency and similar laws affecting the enforcement of creditors' rights generally.

SECTION 4.04. Financial Information. (a) The consolidated balance sheet of the Borrower and its Consolidated Subsidiaries as of April 28, 1996 and the related consolidated statements of income, shareholders' equity and cash flows for the Fiscal Year then ended, reported on by KPMG Peat Marwick LLP, copies of which have been delivered to the Agent, and the unaudited consolidated financial statements of the Borrower for the interim period ended January 26, 1997, copies of which have been delivered to the Agent, fairly present, in conformity with GAAP, the consolidated financial position of the Borrower and its Consolidated Subsidiaries as of such dates and their consolidated results of operations and cash flows for such periods stated.

(b) Since April 28, 1996 there has been no event, act, condition or occurrence having a Material Adverse Effect.

SECTION 4.05. No Litigation. There is no action, suit or proceeding pending, or to the knowledge of the Borrower threatened, against or affecting the Borrower or any of its Subsidiaries before any court or arbitrator or any governmental body, agency or official which could have or reasonably be expected to cause a Material Adverse Effect or which in any manner draws into question the validity of or could impair the ability of the Borrower to perform its obligations under, this Agreement, the Notes or any of the other Loan Documents.

SECTION 4.06. Compliance with ERISA. (a) The Borrower and each member of the Controlled Group have fulfilled their obligations under the minimum funding standards of ERISA and the Code with respect to each Plan and are in compliance in all material respects with the presently applicable provisions of ERISA and the Code, and have not incurred any liability to the PBGC or a Plan under Title IV of ERISA.

(b) Neither the Borrower nor any member of the Controlled Group is or ever has been obligated to contribute to any Multiemployer Plan.

SECTION 4.07. Compliance with Laws; Payment of Taxes. The Borrower and its Subsidiaries are in compliance with all applicable laws, regulations and similar requirements of governmental authorities, except where such compliance is being contested in good faith through appropriate proceedings and

except for any noncompliance that does not have and would not reasonably be expected to cause a Material Adverse Effect. There have been filed on behalf of the Borrower and its Subsidiaries all Federal, state and local income, excise, property and other tax returns which are required to be filed by them and all taxes due pursuant to such returns or pursuant to any assessment received by or on behalf of the Borrower or any Subsidiary have been paid, except where for taxes which are being contested in good faith through appropriate proceedings and except for any failure to file which does not have and would not reasonably be expected to cause a Material Adverse Effect. The charges, accruals and reserves on the books of the Borrower and its Subsidiaries in respect of taxes or other governmental charges are, in the opinion of the Borrower, adequate. United States income tax returns of the Borrower and its Subsidiaries have been examined and closed through the Fiscal Year ended May 2, 1993.

SECTION 4.08. 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 to transact business in every jurisdiction where, by the nature of its business, such qualification is necessary, except for any jurisdictions in which the failure to become qualified does not have and would not reasonably be expected to cause a Material Adverse Effect, and has all corporate powers and all 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 4.08 (and any new Subsidiaries created or acquired after the Closing Date as to which the Agent has been notified in writing) which accurately sets forth each such Subsidiary's complete name and jurisdiction of incorporation.

SECTION 4.09. 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 4.10. 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 4.11. Ownership of Property; Liens. Each of the Borrower and its Consolidated Subsidiaries has title to its properties sufficient for the conduct of its business, and none of such property is subject to any Lien except as permitted in Section 5.17.

SECTION 4.12. No Default. Neither the Borrower nor any of its Consolidated Subsidiaries is in default under or with respect to any agreement, instrument or undertaking to which it is a party or by which it or any of its property is bound which has or would reasonably be expected to cause a Material Adverse Effect. No Default or Event of Default has occurred and is continuing.

SECTION 4.13. Full Disclosure. All factual information heretofore furnished in writing by the Borrower to the Agent or any Bank for purposes of or in connection with this Agreement or any transaction contemplated hereby is, and all such factual information hereafter furnished in writing by the Borrower to the Agent or any Bank will be, true, accurate and complete in every material respect or based on reasonable estimates on the date as of which such information is stated or certified. The Borrower has disclosed to the Banks in writing any and all facts which have or would reasonably be expected to cause a Material Adverse Effect.

SECTION 4.14. Environmental Matters. (a) Neither the Borrower nor any Subsidiary is subject to any Environmental Liability which has or would reasonably be expected to cause a Material Adverse Effect and neither the Borrower nor any Subsidiary has been notified that it has been designated as a potentially responsible party under CERCLA or under any state statute similar to CERCLA. None of the Properties has been identified on any current or proposed National Priorities List under 40 C.F.R. ss. 300. There has been no identification of any of the Properties on any CERCLIS list or any list arising from a state statute similar to CERCLA which has or would reasonably be expected to cause a Material Adverse Effect.

(b) No Hazardous Materials have been or are being used, produced, manufactured, processed, treated, recycled, generated, stored, disposed of, managed or otherwise handled at, or shipped or transported to or from the Properties or are otherwise present at, on, in or under the Properties, or, to the best of the knowledge of the Borrower, at or from any adjacent

site or facility that has or would reasonably be expected to cause a Material Adverse Effect.

(c) The Borrower, and each of its Subsidiaries and Affiliates, has procured all Environmental Authorizations necessary for the conduct of its business, and is in compliance with all Environmental Requirements in connection with the operation of the Properties and the Borrower's, and each of its Subsidiary's and Affiliate's, respective businesses, except for any non-procurement or noncompliance that does not have and would not reasonably be expected to cause a Material Adverse Effect.

SECTION 4.15. Capital Stock. All Capital Stock, debentures, bonds, notes and all other securities of the Borrower and its Subsidiaries presently issued and outstanding are validly and properly issued in accordance with all applicable laws, including but not limited to, the "Blue Sky" laws of all applicable states and the federal securities laws. The issued shares of Capital Stock of the Borrower's Wholly Owned Subsidiaries are owned by the Borrower free and clear of any Lien or adverse claim. At least a majority of the issued shares of capital stock of each of the Borrower's other Subsidiaries (other than Wholly Owned Subsidiaries) is owned by the Borrower free and clear of any Lien or adverse claim.

SECTION 4.16. Margin Stock. Neither the 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 any Loan will be used to purchase or carry any Margin Stock or to extend credit to others for the purpose of purchasing or carrying any Margin Stock, or be used for any purpose which violates, or which is inconsistent with, the provisions of Regulation G, T, U or X.

SECTION 4.17. Insolvency. After giving effect to the execution and delivery of the Loan Documents and the making of the Loans under this Agreement: (i) the Borrower will not (x) be "insolvent," within the meaning of such term as used in O.C.G.A. ss. 18-2-22 or as defined in ss. 101 of the "Bankruptcy Code", or Section 2 of either the "UFTA" or the "UFCA", or as defined or used in any "Other Applicable Law" (as those terms are defined below), or (y) be unable to pay its debts generally as such debts become due within the meaning of Section 548 of the Bankruptcy Code, Section 4 of the UFTA or Section 6 of the UFCA, or (z) have an unreasonably small capital to engage in any business or transaction, whether current or contemplated, within the meaning

of Section 548 of the Bankruptcy Code, Section 4 of the UFTA or Section 5 of the UFCA; and (ii) the obligations of the Borrower under the Loan Documents and with respect to the Loans will not be rendered avoidable under any Other Applicable Law. For purposes of this Section 4.17, "Bankruptcy Code" means Title 11 of the United States Code, "UFTA" means the Uniform Fraudulent Transfer Act, "UFCA" means the Uniform Fraudulent Conveyance Act, and "Other Applicable Law" means any other applicable state law pertaining to fraudulent transfers or acts voidable by creditors, in each case as such law may be amended from time to time.

SECTION 4.18. Insurance. The Borrower and each of its Subsidiaries has (either in the name of the Borrower or in such Subsidiary's own name), with financially sound and reputable insurance companies, insurance in at least such amounts and against at least such risks (including on all its property, and public liability and worker's compensation) as are usually insured against in the same general area by companies of established repute engaged in the same or similar business.

#### ARTICLE V

#### COVENANTS

The Borrower agrees that, so long as any Bank has any Commitment hereunder or any amount payable hereunder or under any Note remains unpaid:

SECTION 5.01. Information. The Borrower will deliver to each of the Banks:

(a) as soon as available and in any event within 90 days after the end of each Fiscal Year, a consolidated (and consolidating, if requested by the Agent) balance sheet of the Borrower and its Consolidated Subsidiaries as of the end of such Fiscal Year and the related consolidated (and consolidating, if requested by the Agent) 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 KPMG Peat Marwick LLP or other independent public accountants of nationally recognized standing, with such certification to be free of exceptions and qualifications not acceptable to the Required Banks;

(b) as soon as available and in any event within 45 days after the end of each of the first 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 the Agent) 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 the Agent) 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, GAAP and consistency by the chief financial officer or the chief accounting officer of the Borrower;

(c) simultaneously 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 F (a "Compliance Certificate"), of the chief financial officer or the chief accounting officer of the Borrower (i) setting forth in reasonable detail the calculations required to establish whether the Borrower was in compliance with the requirements of Sections 5.05, 5.15, 5.16, 5.17, 5.19, 5.20 and 5.21 on the date of such financial statements and (ii) stating whether any Default exists on the date of such certificate and, if any Default then exists, setting forth the details thereof and the action which the Borrower is taking or proposes to take with respect thereto;

(d) simultaneously with the delivery of each set of annual financial statements referred to in paragraph (a) above, a statement of 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 Default existed under Sections 5.05, 5.15, 5.16, 5.19, 5.20 and 5.21 on the date of such financial statements;

(e) within 5 Domestic Business Days after the Borrower becomes aware of the occurrence of any Default or event which has or would reasonably be expected to cause a Material Adverse Effect, a certificate of the chief financial officer or the chief accounting officer of the Borrower setting forth the details thereof and the action

which the Borrower is taking or proposes to take with respect thereto;

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

(g) 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 the Borrower shall have filed with the Securities and Exchange Commission;

(h) if and when any member of the Controlled Group (i) gives or is required to give notice to the PBGC of any "reportable event" (as defined in Section 4043 of ERISA) with respect to any Plan which might constitute grounds for a termination of such Plan under Title IV of ERISA, or knows that the plan administrator of any Plan has given or is required to give notice of any such reportable event, a copy of the notice of such reportable event given or required to be given to the PBGC; (ii) receives notice of complete or partial withdrawal liability under Title IV of ERISA, a copy of such notice; or (iii) receives notice from the PBGC under Title IV of ERISA of an intent to terminate or appoint a trustee to administer any Plan, a copy of such notice; and

(i) from time to time such additional information regarding the financial position or business of the Borrower and its Subsidiaries as the Agent, at the request of any Bank, may reasonably request.

SECTION 5.02. Inspection of Property, Books and Records. The Borrower will (i) keep, and cause each Subsidiary to keep, proper books of record and account in which full, true and correct entries in conformity with GAAP shall be made of all dealings and transactions in relation to its business and activities; and (ii) subject to the next succeeding sentence, permit, and cause each Subsidiary to permit, representatives of any Bank at such Bank's expense prior to the occurrence of a Default and at the Borrower's expense after the occurrence of a Default to visit and inspect any of their respective properties, to examine and make abstracts from any of their respective books

and records and to discuss their respective affairs, finances and accounts with their respective officers, employees and independent public accountants. The Borrower agrees to cooperate and assist in such visits and inspections, in each case at such reasonable times and on reasonable notice and as often as may reasonably be desired.

SECTION 5.03. Maintenance of Existence. The Borrower shall, and shall 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.

SECTION 5.04. Dissolution. Neither the Borrower nor any of its Subsidiaries shall 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 to the extent permitted by Section 5.05, and except that Guilford Printers, Inc. a non-material Subsidiary, may be dissolved at the option of the Borrower.

SECTION 5.05. Consolidations, Mergers and Sales of Assets. The Borrower will not, nor will it permit any Subsidiary to, consolidate or merge with or into, or sell, lease or otherwise transfer all or any substantial part of its assets to, any other Person, or discontinue or eliminate any business line or segment, provided that: (a) the 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) the Borrower is the corporation surviving such merger and (iii) immediately after giving effect to such merger, no Default shall have occurred and be continuing; (b) Subsidiaries of the Borrower may merge with one another; 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 (i) the consummation of the Chattanooga Sale/Leaseback Transaction, or (ii) in addition to the Chattanooga Sale/Leaseback Transaction, 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 (other than the Chattanooga Sale/Leaseback Transaction), during such Fiscal

Quarter and the immediately preceding 3 Fiscal Quarters, contributed more than 10% of EBITDA during the 4 Fiscal Quarters immediately preceding such Fiscal Quarter.

SECTION 5.06. Use of Proceeds. The proceeds of the Loans may be used for general corporate purposes and payment of Debt in existence on the Closing Date. No portion of the proceeds of the Loans 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 Person to be acquired, and the provisions of Section 5.16 would not be violated, (ii) directly or indirectly, for the purpose, whether immediate, incidental or ultimate, of purchasing or carrying any Margin Stock, or (iii) for any purpose in violation of any applicable law or regulation.

SECTION 5.07. Compliance with Laws; Payment of Taxes. The Borrower will, and will cause each of its Subsidiaries and each member of the Controlled Group to, comply with applicable laws (including but not limited to ERISA), regulations and similar requirements of governmental authorities (including but not limited to PBGC), except where the necessity of such compliance is being contested in good faith through appropriate proceedings diligently pursued and except for any noncompliance that does not have and would not reasonably be expected to cause a Material Adverse Effect. The Borrower will, and will cause each of its Subsidiaries to, pay promptly when due all taxes, assessments, governmental charges, claims for labor, supplies, rent and other obligations which, if unpaid, might become a lien against the property of the Borrower or any Subsidiary, except liabilities being contested in good faith and against which, if requested by the Agent, the Borrower will set up reserves in accordance with GAAP and except for any noncompliance that does not have and would not reasonably be expected to cause a Material Adverse Effect.

SECTION 5.08. Insurance. The Borrower will maintain, and will cause each of its Subsidiaries to maintain (either in the name of the Borrower or in such Subsidiary's own name), with financially sound and reputable insurance companies, insurance on all its property in at least such amounts and against at least such risks (including on all its property, and public liability and worker's compensation) as are usually insured against in the

same general area by companies of established reputations engaged in the same or similar business.

SECTION 5.09. Change in Fiscal Year. The Borrower will not change its Fiscal Year without the consent of the Required Banks.

SECTION 5.10. Maintenance of Property. The Borrower shall, and shall cause each Subsidiary to, maintain all of its properties and assets in reasonably good condition, repair and working order, ordinary wear and tear excepted.

SECTION 5.11. Environmental Notices. The Borrower shall furnish to the Banks and the Agent prompt written notice of all Environmental Liabilities, pending, threatened or anticipated Environmental Proceedings, Environmental Notices, Environmental Judgments and Orders, and Environmental Releases at, on, in, under or in any way affecting the Properties, and all facts, events, or conditions that could lead to any of the foregoing, except for any such matters that does not have and would not reasonably be expected to cause a Material Adverse Effect.

SECTION 5.12. Environmental Matters. The Borrower and its Subsidiaries will not, and will use reasonable efforts to cause any Third Party to not, use, produce, manufacture, process, treat, recycle, generate, store, dispose of, manage at, or otherwise handle, or ship or transport to or from the Properties any Hazardous Materials except for any such matters that does not have and would not reasonably be expected to cause a Material Adverse Effect.

SECTION 5.13. Environmental Release. The Borrower agrees that upon the occurrence of an Environmental Release at or on any of the Properties that does not have and would not reasonably be expected to cause a Material Adverse Effect, it will investigate the extent of, and take appropriate remedial action to eliminate, such Environmental Release.

SECTION 5.14. Transactions with Affiliates. Neither the Borrower nor any of its Subsidiaries shall enter into, or be a party to, any transaction with any Affiliate of the Borrower or such Subsidiary (which Affiliate is not the Borrower or a Wholly Owned Subsidiary), except as permitted by law and pursuant to reasonable terms which are fully disclosed to the Agent and the Banks, and are no less favorable to Borrower or such Subsidiary

than would be obtained in a comparable arm's length transaction with a Person which is not an Affiliate.

SECTION 5.15. Loans or Advances. Neither the Borrower nor any of its Subsidiaries shall make loans or advances to any Person except as permitted by Section 5.16 and except: (i) loans and advances made prior to the Closing Date and listed on Schedule 5.15, (ii) loans or advances to employees not exceeding \$5,000,000 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 January 26, 1997; (iii) deposits required by government agencies or public utilities; (iv) loans and advances made after the Closing Date to Rayonese Textile Inc. in an amount which, together with Investments in Rayonese Textile Inc. made after the Closing Date and permitted by clause (vii) of Section 5.16, does not exceed \$25,000,000; and (v) other loans and advances in an amount which, together with Investments permitted by clause (viii) of Section 5.16, does not exceed 10% of Stockholders' Equity; provided that after giving effect to the making of any loans, advances or deposits permitted by this Section, and no Default shall be in existence or be created thereby.

SECTION 5.16. Investments. Neither the Borrower nor any of its Subsidiaries shall make Investments in any Person except as permitted by Section 5.15 and Investments in existence on the Closing Date and listed on Schedule 5.16 and except Investments in (i) direct obligations of the United States Government maturing within one year, (ii) certificates of deposit issued by a commercial bank whose credit is satisfactory to the Agent, (iii) commercial paper rated A1 or the equivalent thereof by S&P or P1 or the equivalent thereof by Moody's and in either case maturing within 6 months after the date of acquisition, (iv) 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, (v) Investments pursuant to its deferred compensation plan, funded with life insurance through a Rabbi Trust; (vi) investments in Joint Ventures in an aggregate amount not exceeding \$25,000,000; (vii) Investments made after the Closing Date 3096726 Canada Inc. and/or in Rayonese Textile Inc. in an aggregate amount which, together with loans and advances to 3096726 Canada Inc. and/or Rayonese Textile Inc. and permitted by clause (iv) of Section 5.16, do not exceed \$25,000,000; and/or (viii) other Investments in an amount which,

together with loans and advances permitted by clause (v) of Section 5.15, does not exceed 10% of Stockholders' Equity; provided, however, immediately after giving effect to the making of any Investment, no Default shall have occurred and be continuing.

SECTION 5.17. Priority Debt. Neither the Borrower nor any Consolidated Subsidiary will create, assume or suffer to exist any Lien on any asset now owned or hereafter acquired by it, and the Borrower shall not permit any Subsidiary to incur any Debt, other than Debt of Subsidiaries existing on the Closing Date and listed on Schedule 5.17, except:

(a) Liens existing on the Closing Date securing Debt outstanding on the date of this Agreement in an aggregate principal amount not exceeding \$11,000,000;

(b) 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;

(c) 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 with or within 18 months after the acquisition or completion of construction thereof;

(d) any Lien on any specific fixed asset of any corporation existing at the time such corporation is merged or consolidated with or into the Borrower or a Consolidated Subsidiary and not created in contemplation of such event;

(e) any Lien existing on any specific fixed asset prior to the acquisition thereof by the Borrower or a Consolidated Subsidiary and not created in contemplation of such acquisition;

(f) Liens securing Debt owing by any Subsidiary to the Borrower;

(g) any Lien arising out of the refinancing, extension, renewal or refunding of any Debt secured by any Lien permitted by any of the foregoing paragraphs of this Section, provided that (i) such Debt is not secured by any

additional assets, and (ii) the amount of such Debt secured by any such Lien is not increased;

(h) Liens incidental to the conduct of its business or the ownership of its assets which (i) do not secure Debt and (ii) 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;

(i) any Lien on Margin Stock;

(j) Debt owing to the Borrower or another Subsidiary;

(k) Special Purchase Money Liens;

(l) Liens not otherwise permitted by the foregoing paragraphs of this Section securing Debt (other than indebtedness represented by the Notes), and Debt of Subsidiaries not otherwise permitted by paragraph (j), in an aggregate principal amount at any time outstanding not to exceed 8% of Stockholders' Equity.

Provided the sum of (A) the aggregate amount of Debt secured by Liens permitted by the foregoing paragraphs (a) through (h) and (l), plus (B) Debt of Subsidiaries permitted by paragraph (l), shall not at any time exceed an aggregate amount equal to 15% of Stockholders' Equity.

SECTION 5.18. Restrictions on Ability of Subsidiaries to Pay Dividends. The Borrower shall not 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 (i) 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) or (ii) make or repay any loans or advances to the Borrower or the parent of such Subsidiary.

SECTION 5.19. Interest Coverage. At the end of each Fiscal Quarter, commencing with the Fiscal Quarter ending January 26, 1997, the ratio of EBIT to Consolidated Net Interest Expense shall not have been less than 2.25 to 1.0.

SECTION 5.20. Ratio of Total Debt to Total Capitalization. The ratio of Total Debt to Total Capitalization will not at the end of each Fiscal Month exceed 0.60 to 1.00.

SECTION 5.21. Debt/EBITDA Ratio. The Debt/EBITDA Ratio will at the end of each Fiscal Month be less than 3.5 to 1.00.

SECTION 5.22. Acquisitions. Neither the Borrower nor any Subsidiary shall make any Acquisitions after the Closing Date, unless (i) the Acquisition is of stock or assets of a Person in substantially similar lines of business to that of the Borrower and its Subsidiaries and (ii) in an aggregate amount which does not exceed \$50,000,000.

## ARTICLE VI

### DEFAULTS

SECTION 6.01. Events of Default. If one or more of the following events ("Events of Default") shall have occurred and be continuing:

(a) the Borrower shall fail to pay when due any principal of any Loan or shall fail to pay any interest on any Loan within 5 Domestic Business Days after such interest shall become due, or shall fail to pay any fee or other amount payable hereunder within 5 Domestic Business Days after such fee or other amount becomes due; or

(b) the Borrower shall fail to observe or perform any covenant contained in Sections 5.01(e), 5.02(ii), 5.03 to 5.06, inclusive, Sections 5.15, 5.16 or 5.18 through 5.22 inclusive; or

(c) the Borrower shall fail to observe or perform any covenant or agreement contained or incorporated by reference in this Agreement (other than those covered by paragraph (a) or (b) above) and such failure shall not have been cured within 30 days after the earlier to occur of (i) written notice thereof has been given to the Borrower by the Agent at the request of any Bank or (ii) the Borrower otherwise becomes aware of any such failure; or

(d) any representation or warranty made by the Borrower in Article IV of this Agreement or any representation, warranty, certification or statement made in any certificate, financial statement or other document delivered pursuant to this Agreement shall prove to have

been incorrect or misleading in any material respect when made (or deemed made); or

(e) the Borrower or any Subsidiary shall fail to make any payment in respect of Debt in an aggregate principal amount outstanding of \$5,000,000 or more (other than the Notes) when due or within any applicable grace period; or

(f) any event or condition shall occur which results in the acceleration of the maturity of Debt in an aggregate principal amount outstanding of \$5,000,000 or more of the Borrower or any Subsidiary (including, without limitation, any required mandatory prepayment or "put" of such Debt to the Borrower or any Subsidiary) or enables (or, with the giving of notice or lapse of time or both, would enable) the holders of such Debt or Commitment or any Person acting on such holders' behalf to accelerate the maturity thereof or terminate any such commitment (including, without limitation, any required mandatory prepayment or "put" of such Debt to the Borrower or any Subsidiary); or

(g) the Borrower or any Subsidiary shall commence a voluntary case or other proceeding seeking liquidation, reorganization or other relief with respect to itself or its debts under any bankruptcy, insolvency or other similar law now or hereafter in effect or seeking the appointment of a trustee, receiver, liquidator, custodian or other similar official of it or any substantial part of its property, or shall consent to any such relief or to the appointment of or taking possession by any such official in an involuntary case or other proceeding commenced against it, or shall make a general assignment for the benefit of creditors, or shall fail generally, or shall admit in writing its inability, to pay its debts as they become due, or shall take any corporate action to authorize any of the foregoing; or

(h) an involuntary case or other proceeding shall be commenced against the Borrower or any Subsidiary seeking liquidation, reorganization or other relief with respect to it or its debts under any bankruptcy, insolvency or other similar law now or hereafter in effect or seeking the appointment of a trustee, receiver, liquidator, custodian or other similar official of it or any substantial part of its property, and such involuntary case or other proceeding shall remain undismissed and unstayed for a period of 60 days; or an order for relief shall be entered against the

Borrower or any Subsidiary under the federal bankruptcy laws as now or hereafter in effect; or

(i) the Borrower or any member of the Controlled Group shall fail to pay when due any material amount which it shall have become liable to pay to the PBGC or to a Plan under Title IV of ERISA; or notice of intent to terminate a Plan or Plans shall be filed under Title IV of ERISA by the Borrower, any member of the Controlled Group, any plan administrator or any combination of the foregoing; or the PBGC shall institute proceedings under Title IV of ERISA to terminate or to cause a trustee to be appointed to administer any such Plan or Plans or a proceeding shall be instituted by a fiduciary of any such Plan or Plans to enforce Section 515 or 4219(c)(5) of ERISA and such proceeding shall not have been dismissed within 30 days thereafter; or a condition shall exist by reason of which the PBGC would be entitled to obtain a decree adjudicating that any such Plan or Plans must be terminated; or the Borrower or any other member of the Controlled Group shall enter into, contribute or be obligated to contribute to, terminate or incur any withdrawal liability with respect to, a Multiemployer Plan; or

(j) one or more judgments or orders for the payment of money in an aggregate amount in excess of \$5,000,000 shall be rendered against the Borrower or any Subsidiary and such judgment or order shall continue unsatisfied and unstayed for a period of 30 days; or

(k) a federal tax lien shall be filed against the Borrower or any Subsidiary under Section 6323 of the Code or a lien of the PBGC shall be filed against the Borrower or any Subsidiary under Section 4068 of ERISA and in either case such lien is for an amount of \$1,000,000 or more and remains undischarged for a period of 25 days after the date of filing; or

(l) (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 Exchange Act of 1934) of 20% or more of the outstanding shares of the voting stock of the Borrower; or (ii) as of any date a majority of the Board of Directors of the Borrower consists of individuals who were not either (A)

directors of the Borrower as of the corresponding date of the previous year, (B) selected or nominated to become directors by the Board of Directors of the Borrower of which a majority consisted of individuals described in clause (A), or (C) selected or nominated to become directors by the Board of Directors of the Borrower of which a majority consisted of individuals described in clause (A) and individuals described in clause (B).

then, and in every such event: (i) any Bank may terminate its obligation to fund a Money Market Loan in connection with any relevant Money Market Quote; and (ii) the Agent shall, if requested by the Required Banks, by notice to the Borrower (x) terminate the Commitments and they shall thereupon terminate, and/or (y) declare the Notes (together with accrued interest thereon), and all other amounts payable hereunder and under the other Loan Documents, to be, and the Notes (together with accrued interest thereon), and all other amounts payable hereunder and under the other Loan Documents shall thereupon become, immediately due and payable without presentment, demand, protest or other notice of any kind, all of which are hereby waived by the Borrower together with interest at the Default Rate accruing on the principal amount thereof from and after the date of such Event of Default; provided that if any Event of Default specified in paragraph (g) or (h) above occurs with respect to the Borrower, without any notice to the Borrower or any other act by the Agent or the Banks, the Commitments shall thereupon terminate and the Notes (together with accrued interest thereon) and all other amounts payable hereunder and under the other Loan Documents shall automatically and without notice become immediately due and payable without presentment, demand, protest or other notice of any kind, all of which are hereby waived by the Borrower together with interest thereon at the Default Rate accruing on the principal amount thereof from and after the date of such Event of Default. Notwithstanding the foregoing, the Agent shall have available to it all other remedies at law or equity, and shall exercise any one or all of them at the request of the Required Banks.

SECTION 6.02. Notice of Default. The Agent shall give notice to the Borrower of any Default under Section 6.01(c) promptly upon being requested to do so by any Bank and shall thereupon notify all the Banks thereof.

ARTICLE VII

THE AGENT

SECTION 7.01. Appointment; Powers and Immunities. Each Bank hereby irrevocably appoints and authorizes the Agent to act as its agent hereunder and under the other Loan Documents with such powers as are specifically delegated to the Agent by the terms hereof and thereof, together with such other powers as are reasonably incidental thereto. The Agent: (a) shall have no duties or responsibilities except as expressly set forth in this Agreement and the other Loan Documents, and shall not by reason of this Agreement or any other Loan Document be a trustee for any Bank; (b) shall not be responsible to the Banks for any recitals, statements, representations or warranties contained in this Agreement or any other Loan Document, or in any certificate or other document referred to or provided for in, or received by any Bank under, this Agreement or any other Loan Document, or for the validity, effectiveness, genuineness, enforceability or sufficiency of this Agreement or any other Loan Document or any other document referred to or provided for herein or therein or for any failure by the Borrower to perform any of its obligations hereunder or thereunder; (c) shall not be required to initiate or conduct any litigation or collection proceedings hereunder or under any other Loan Document except to the extent requested by the Required Banks, and then only on terms and conditions satisfactory to the Agent, and (d) shall not be responsible for any action taken or omitted to be taken by it hereunder or under any other Loan Document or any other document or instrument referred to or provided for herein or therein or in connection herewith or therewith, except for its own gross negligence or wilful misconduct. The Agent may employ agents and attorneys-in-fact and shall not be responsible for the negligence or misconduct of any such agents or attorneys-in-fact selected by it with reasonable care. The provisions of this Article VII are solely for the benefit of the Agent and the Banks, and the Borrower shall not have any rights as a third party beneficiary of any of the provisions hereof. In performing its functions and duties under this Agreement and under the other Loan Documents, the Agent shall act solely as agent of the Banks and does not assume and shall not be deemed to have assumed any obligation towards or relationship of agency or trust with or for the Borrower. The duties of the Agent shall be ministerial and administrative in nature, and the Agent shall not have by reason of this Agreement or any other Loan Document a fiduciary relationship in respect of any Bank.

SECTION 7.02. Reliance by Agent. The Agent shall be entitled to rely upon any certification, notice or other communication (including any thereof by telephone, telecopier, telegram or cable) believed by it to be genuine and correct and to have been signed or sent by or on behalf of the proper Person or Persons, and upon advice and statements of legal counsel, independent accountants or other experts selected by the Agent. As to any matters not expressly provided for by this Agreement or any other Loan Document, the Agent shall in all cases be fully protected in acting, or in refraining from acting, hereunder and thereunder in accordance with instructions signed by the Required Banks, and such instructions of the Required Banks in any action taken or failure to act pursuant thereto shall be binding on all of the Banks.

SECTION 7.03. Defaults. The Agent shall not be deemed to have knowledge of the occurrence of a Default or an Event of Default (other than the nonpayment of principal of or interest on the Loans) unless the Agent has received notice from a Bank or the Borrower specifying such Default or Event of Default and stating that such notice is a "Notice of Default". In the event that the Agent receives such a notice of the occurrence of a Default or an Event of Default, the Agent shall give prompt notice thereof to the Banks. The Agent shall give each Bank prompt notice of each nonpayment of principal of or interest on the Loans whether or not it has received any notice of the occurrence of such nonpayment. The Agent shall (subject to Section 9.06) take such action hereunder with respect to such Default or Event of Default as shall be directed by the Required Banks, provided that, unless and until the Agent shall have received such directions, the Agent may (but shall not be obligated to) take such action, or refrain from taking such action, with respect to such Default or Event of Default as it shall deem advisable in the best interests of the Banks.

SECTION 7.04. Rights of Agent as a Bank and its Affiliates. With respect to the Loans made by the Agent and any Affiliate of the Agent, the Agent in its capacity as a Bank hereunder and any Affiliate of the Agent or such Affiliate (collectively, "Wachovia"), Wachovia in its capacity as a Bank hereunder shall have the same rights and powers hereunder as any other Bank and may exercise the same as though it were not acting as the Agent, and the term "Bank" or "Banks" shall, unless the context otherwise indicates, include Wachovia in its individual capacity and any Affiliate of the Agent in its individual

capacity. The Agent and any Affiliate of the Agent may (without having to account therefor to any Bank) accept deposits from, lend money to and generally engage in any kind of banking, trust or other business with the Borrower (and any of the Borrower's Affiliates) as if the Bank were not acting as the Agent, and the Agent and any Affiliate of the Agent may accept fees and other consideration from the Borrower (in addition to any agency fees and arrangement fees heretofore agreed to between the Borrower and the Agent) for services in connection with this Agreement or any other Loan Document or otherwise without having to account for the same to the Banks.

SECTION 7.05. Indemnification. Each Bank severally agrees to indemnify the Agent, to the extent the Agent shall not have been reimbursed by the Borrower, ratably in accordance with its Commitment, for any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses (including, without limitation, counsel fees and disbursements) or disbursements of any kind and nature whatsoever which may be imposed on, incurred by or asserted against the Agent in any way relating to or arising out of this Agreement or any other Loan Document or any other documents contemplated by or referred to herein or therein or the transactions contemplated hereby or thereby (excluding, unless an Event of Default has occurred and is continuing, the normal administrative costs and expenses incident to the performance of its agency duties hereunder) or the enforcement of any of the terms hereof or thereof or any such other documents; provided, however that no Bank shall be liable for any of the foregoing to the extent they arise from the gross negligence or wilful misconduct of the Agent. If any indemnity furnished to the Agent for any purpose shall, in the opinion of the Agent, be insufficient or become impaired, the Agent may call for additional indemnity and cease, or not commence, to do the acts indemnified against until such additional indemnity is furnished.

SECTION 7.06 CONSEQUENTIAL DAMAGES. THE AGENT SHALL NOT BE RESPONSIBLE OR LIABLE TO ANY BANK, THE BORROWER OR ANY OTHER PERSON OR ENTITY FOR ANY PUNITIVE, EXEMPLARY OR CONSEQUENTIAL DAMAGES WHICH MAY BE ALLEGED AS A RESULT OF THIS AGREEMENT, THE OTHER LOAN DOCUMENTS OR ANY OF THE TRANSACTIONS CONTEMPLATED HEREBY OR THEREBY.

SECTION 7.07. Payee of Note Treated as Owner. The Agent may deem and treat the payee of any Note as the owner thereof for all purposes hereof unless and until a written notice

of the assignment or transfer thereof shall have been filed with the Agent and the provisions of Section 9.08(c) have been satisfied. Any requests, authority or consent of any Person who at the time of making such request or giving such authority or consent is the holder of any Note shall be conclusive and binding on any subsequent holder, transferee or assignee of that Note or of any Note or Notes issued in exchange therefor or replacement thereof.

SECTION 7.08. Nonreliance on Agent and Other Banks. Each Bank agrees that it has, independently and without reliance on the Agent or any other Bank, and based on such documents and information as it has deemed appropriate, made its own credit analysis of the Borrower and decision to enter into this Agreement and that it will, independently and without reliance upon the Agent or any other Bank, and based on such documents and information as it shall deem appropriate at the time, continue to make its own analysis and decisions in taking or not taking action under this Agreement or any of the other Loan Documents. The Agent shall not be required to keep itself (or any Bank) informed as to the performance or observance by the Borrower of this Agreement or any of the other Loan Documents or any other document referred to or provided for herein or therein or to inspect the properties or books of the Borrower or any other Person. Except for notices, reports and other documents and information expressly required to be furnished to the Banks by the Agent hereunder or under the other Loan Documents, the Agent shall not have any duty or responsibility to provide any Bank with any credit or other information concerning the affairs, financial condition or business of the Borrower or any other Person (or any of their Affiliates) which may come into the possession of the Agent.

SECTION 7.09. Failure to Act. Except for action expressly required of the Agent hereunder or under the other Loan Documents, the Agent shall in all cases be fully justified in failing or refusing to act hereunder and thereunder unless it shall receive further assurances to its satisfaction by the Banks of their indemnification obligations under Section 7.05 against any and all liability and expense which may be incurred by the Agent by reason of taking, continuing to take, or failing to take any such action.

SECTION 7.10. Resignation or Removal of Agent. Subject to the appointment and acceptance of a successor Agent as provided below, the Agent may resign at any time by giving notice

thereof to the Banks and the Borrower and the Agent may be removed at any time with or without cause by the Required Banks. Upon any such resignation or removal, the Required Banks shall have the right to appoint a successor Agent, which, if no Event of Default is in existence, has been approved by the Borrower (which approval shall not be unreasonably withheld or delayed). If no successor Agent shall have been so appointed by the Required Banks and shall have accepted such appointment within 30 days after the retiring Agent's notice of resignation or the Required Banks' removal of the retiring Agent, then the retiring Agent may, on behalf of the Banks and, if no Event of Default is in existence, with the consent of the Borrower (which shall not be unreasonably withheld or delayed), appoint a successor Agent. Any successor Agent shall be a bank which has a combined capital and surplus of at least \$500,000,000. Upon the acceptance of any appointment as Agent hereunder by a successor Agent, such successor Agent shall thereupon succeed to and become vested with all the rights, powers, privileges and duties of the retiring Agent, and the retiring Agent shall be discharged from its duties and obligations hereunder. After any retiring Agent's resignation or removal hereunder as Agent, the provisions of this Article VII shall continue in effect for its benefit in respect of any actions taken or omitted to be taken by it while it was acting as the Agent hereunder.

#### ARTICLE VIII

##### CHANGE IN CIRCUMSTANCES; COMPENSATION

SECTION 8.01. Basis for Determining Interest Rate Inadequate or Unfair. If on or prior to the first day of any Interest Period:

(a) the Agent reasonably determines that deposits in Dollars (in the applicable amounts) are not being offered in the relevant market for such Interest Period, or

(b) the Required Banks advise the Agent that the London Interbank Offered Rate or IBOR, as the case may be, as reasonably determined by the Agent will not adequately and fairly reflect the cost to such Banks of funding the relevant type of Fixed Rate Loans for such Interest Period,

the Agent shall forthwith give notice thereof to the Borrower and the Banks, whereupon until the Agent notifies the Borrower that

the circumstances giving rise to such suspension no longer exist, the obligations of the Banks to make the type of Fixed Rate Loans specified in such notice shall be suspended. Unless the Borrower notifies the Agent at least 2 Domestic Business Days before the date of any Borrowing of such type of Fixed Rate Loans for which a Notice of Borrowing has previously been given that it elects not to borrow on such date, such Borrowing shall instead be made as a Base Rate Borrowing.

SECTION 8.02. Illegality. If, after the date hereof, the adoption of any applicable law, rule or regulation, or any change therein or any existing or future law, rule or regulation, or any change in the interpretation or administration thereof by any governmental authority, central bank or comparable agency charged with the interpretation or administration thereof (any such agency being referred to as an "Authority" and any such event being referred to as a "Change of Law"), or compliance by any Bank (or its Lending Office) with any request or directive (whether or not having the force of law) of any Authority shall make it unlawful or impossible for any Bank (or its Lending Office) to make, maintain or fund its Euro-Dollar Loans or Foreign Currency Loans and such Bank shall so notify the Agent, the Agent shall forthwith give notice thereof to the other Banks and the Borrower, whereupon until such Bank notifies the Borrower and the Agent that the circumstances giving rise to such suspension no longer exist, the obligation of such Bank to make Euro-Dollar Loans or Foreign Currency Loans, as the case may be, shall be suspended. Before giving any notice to the Agent pursuant to this Section, such Bank shall designate a different Lending Office if such designation will avoid the need for giving such notice and will not, in the judgment of such Bank, be otherwise disadvantageous to such Bank. If such Bank shall determine that it may not lawfully continue to maintain and fund any of its outstanding Euro-Dollar Loans or Foreign Currency Loans, as the case may be, to maturity and shall so specify in such notice, the Borrower shall immediately prepay in full the then outstanding principal amount of each Euro-Dollar Loan or Foreign Currency Loans, as the case may be, of such Bank, together with accrued interest thereon any amount due such Bank pursuant to Section 8.05(a). Concurrently with prepaying each such Euro-Dollar Loan or Foreign Currency Loans, as the case may be, the Borrower shall borrow a Base Rate Loan in an equal principal amount from such Bank (on which interest and principal shall be payable contemporaneously with the related Euro-Dollar Loans or Foreign Currency Loans, as the case may be, of the other Banks), and such Bank shall make such a Base Rate Loan.

SECTION 8.03. Increased Cost and Reduced Return. (a) If after the date hereof, a Change of Law or compliance by any Bank (or its Lending Office) with any request or directive (whether or not having the force of law) of any Authority:

(i) shall impose, modify or deem applicable any reserve, special deposit or similar requirement (including, without limitation, any such requirement imposed by the Board of Governors of the Federal Reserve System, but excluding (A) with respect to any Euro-Dollar Loan any such requirement included in an applicable Euro-Dollar Reserve Percentage and (B) with respect to any Foreign Currency Loan any such requirement included in the applicable Adjusted IBOR Rate) against assets of, deposits with or for the account of, or credit extended by, any Bank (or its Lending Office); or

(ii) shall impose on any Bank (or its Lending Office) or on the United States market for certificates of deposit or the London interbank market any other condition affecting its Fixed Rate Loans, its Notes or its obligation to make Fixed Rate Loans;

and the result of any of the foregoing is to increase the cost to such Bank (or its Lending Office) of making or maintaining any Fixed Rate Loan, or to reduce the amount of any sum received or receivable by such Bank (or its Lending Office) under this Agreement or under its Notes with respect thereto, by an amount deemed by such Bank to be material, then, within 15 days after demand by such Bank (with a copy to the Agent), the Borrower shall pay to such Bank such additional amount or amounts as will compensate such Bank for such increased cost or reduction.

(b) If any Bank shall have determined that after the date hereof the adoption of any applicable law, rule or regulation regarding capital adequacy, or any change therein, or any change in the interpretation or administration thereof, or compliance by any Bank (or its Lending Office) with any request or directive regarding capital adequacy (whether or not having the force of law) of any Authority, has or would have the effect of reducing the rate of return on such Bank's capital as a consequence of its obligations hereunder to a level below that which such Bank could have achieved but for such adoption, change or compliance (taking into consideration such Bank's policies with respect to capital adequacy) by an amount deemed by such

Bank to be material, then from time to time, within 15 days after demand by such Bank, the Borrower shall pay to such Bank such additional amount or amounts as will compensate such Bank for such reduction.

(c) Each Bank will promptly notify the Borrower and the Agent of any event of which it has knowledge, occurring after the date hereof, which will entitle such Bank to compensation pursuant to this Section and will designate a different Lending Office if such designation will avoid the need for, or reduce the amount of, such compensation and will not, in the judgment of such Bank, be otherwise disadvantageous to such Bank. A certificate of any Bank claiming compensation under this Section and setting forth the additional amount or amounts to be paid to it hereunder shall be conclusive in the absence of manifest error and provided that it is rendered in good faith. In determining such amount, such Bank may use any reasonable averaging and attribution methods.

(d) The provisions of this Section 8.03 (i) shall be applicable with respect to any Participant, Assignee or other Transferee, and any calculations required by such provisions shall be made based upon the circumstances of such Participant, Assignee or other Transferee and (ii) shall constitute a continuing agreement and shall survive the termination of this Agreement and the payment in full or cancellation of the Notes.

SECTION 8.04. Base Rate Loans or Other Fixed Rate Loans Substituted for Affected Fixed Rate Loans. If (i) the obligation of any Bank to make or maintain any type of Fixed Rate Loans has been suspended pursuant to Section 8.02 or (ii) any Bank has demanded compensation under Section 8.03, and the Borrower shall, by at least 5 Euro-Dollar Business Days' or Foreign Currency Business Days, as applicable, prior notice to such Bank through the Agent, have elected that the provisions of this Section shall apply to such Bank, then, unless and until such Bank notifies the Borrower that the circumstances giving rise to such suspension or demand for compensation no longer apply:

(a) all Loans which would otherwise be made by such Bank as Euro-Dollar Loans or Foreign Currency Loans, as the case may be, shall be made instead either (A) as Base Rate Loans, (B) if such suspension or demand for compensation relates to Euro-Dollar Loans, but not Foreign Currency Loans, as Foreign Currency Loans, or (C) if such demand for compensation relates to Foreign Currency Loans, but not

Euro-Dollar Loans, as Euro-Dollar Loans, as the Borrower may elect in the notice to such Bank through the Agent referred to hereinabove (in all cases interest and principal on such Loans shall be payable contemporaneously with the related Fixed Rate Loans of the other Banks), and

(b) after each of its Euro-Dollar Loans or Foreign Currency Loans, as the case may be, has been repaid, all payments of principal which would otherwise be applied to repay such Fixed Rate Loans shall be applied to repay its Base Rate Loans instead.

SECTION 8.05. Compensation. Upon the request of any Bank, delivered to the Borrower and the Agent, the Borrower shall pay to such Bank such amount or amounts as shall compensate such Bank for any loss, cost or expense incurred by such Bank as a result of:

(a) any payment or prepayment (pursuant to Section 2.10, 2.11, 6.01, 8.02 or otherwise) of a Fixed Rate Loan on a date other than the last day of an Interest Period for such Fixed Rate Loan; or

(b) any failure by the Borrower to prepay a Fixed Rate Loan on the date for such prepayment specified in the relevant notice of prepayment hereunder (if the Agent, acting at the direction of the Required Banks, has agreed to permit any such prepayment); or

(c) any failure by the Borrower to borrow a Fixed Rate Loan on the date for the Fixed Rate Borrowing of which such Fixed Rate Loan is a part specified in the applicable Notice of Borrowing delivered pursuant to Section 2.02 or notification of acceptance of Money Market Quotes pursuant to Section 2.03(e); or

(d) any failure by the Borrower to pay a Foreign Currency Loan in the applicable Foreign Currency;

such compensation to include, without limitation, as applicable: (A) an amount equal to the excess, if any, of (x) the amount of interest which would have accrued on the amount so paid or prepaid or not prepaid or borrowed for the period from the date of such payment, prepayment or failure to prepay or borrow to the last day of the then current Interest Period for such Fixed Rate Loan (or, in the case of a failure to prepay or borrow, the Interest Period for such Fixed Rate Loan which would have

commenced on the date of such failure to prepay or borrow) at the applicable rate of interest for such Fixed Rate Loan provided for herein over (y) the amount of interest (as reasonably determined by such Bank) such Bank would have paid on (i) deposits in Dollars of comparable amounts having terms comparable to such period placed with it by leading banks in the London interbank market (if such Fixed Rate Loan is a Euro-Dollar Loan), or (ii) any deposit in a Foreign Currency of comparable amounts having terms comparable to such period placed with it by lending banks in the applicable interbank market for such Foreign Currency (if such Fixed Rate Loan is a Foreign Currency Loan); or (B) any such loss, cost or expense incurred by such Bank in liquidating or closing out any foreign currency contract undertaken by such Bank in funding or maintaining such Fixed Rate Loan (if such Fixed Rate Loan is a Foreign Currency Loan).

SECTION 8.06. Failure to Pay in Foreign Currency. If the Borrower is unable for any reason to effect payment in a Foreign Currency as required by this Agreement or if the Borrower shall default in the Foreign Currency, each Bank may, through the Agent, require such payment to be made in Dollars in the Dollar Equivalent amount of such payment. In any case in which the Borrower shall make such payment in Dollars, the Borrower agrees to hold the Banks harmless from any loss incurred by the Banks arising from any change in the value of Dollars in relation to such Foreign Currency between the date such payment became due and the date of payment thereof.

SECTION 8.07. Judgment Currency. If for the purpose of obtaining judgment in any court or enforcing any such judgment it is necessary to convert any amount due in any Foreign Currency into any other currency, the rate of exchange used shall be the Agent's spot rate of exchange for the purchase of the Foreign Currency with such other currency at the close of business on the Foreign Currency Business Day preceding the date on which judgment is given or any order for payment is made. The obligation of the relevant Borrower in respect of any amount due from it hereunder shall, notwithstanding any judgment or order for a liquidated sum or sums in respect of amounts due hereunder or under any judgment or order in any other currency or otherwise be discharged only to the extent that on the Foreign Currency Business Day following receipt by the Agent of any payment in a currency other than the relevant Foreign Currency the Agent is able (in accordance with normal banking procedures) to purchase the relevant Foreign Currency with such other currency. If the amount of the relevant Foreign Currency that the Agent is able to

purchase with such other currency is less than the amount due in the relevant Foreign Currency, notwithstanding any judgment or order, the Borrower shall indemnify the Banks for the shortfall.

#### ARTICLE IX

##### MISCELLANEOUS

SECTION 9.01. Notices. All notices, requests and other communications to any party hereunder shall be in writing (including bank wire, telecopier or similar writing) and shall be given to such party at its address or telecopier number set forth on the signature pages hereof or such other address or telecopier number as such party may hereafter specify for the purpose by notice to each other party. Each such notice, request or other communication shall be effective (i) if given by telecopier, when such telecopy is transmitted to the telecopier number specified in this Section and the appropriate confirmation is received, (ii) if given by mail, 72 hours after such communication is deposited in the mails with first class postage prepaid, addressed as aforesaid or (iii) if given by any other means, when delivered at the address specified in this Section.

SECTION 9.02. No Waivers. No failure or delay by the Agent or any Bank in exercising any right, power or privilege hereunder or under any Note or other Loan Document shall operate as a waiver thereof nor shall any single or partial exercise thereof preclude any other or further exercise thereof or the exercise of any other right, power or privilege. The rights and remedies herein provided shall be cumulative and not exclusive of any rights or remedies provided by law.

SECTION 9.03. Expenses; Documentary Taxes. The Borrower shall pay (i) all reasonable out-of-pocket expenses of the Agent, including fees and disbursements of special counsel for the Agent, in connection with the preparation of this Agreement and the other Loan Documents, any waiver or consent hereunder or thereunder or any amendment hereof or thereof or any Default or alleged Default hereunder or thereunder and (ii) if a Default occurs, all reasonable out-of-pocket expenses incurred by the Agent and the Banks, including fees and disbursements of counsel, in connection with such Default and collection and other enforcement proceedings resulting therefrom, including reasonable out-of-pocket expenses incurred in enforcing this Agreement and the other Loan Documents. The Borrower shall

indemnify the Agent and each Bank against any transfer taxes, documentary taxes, assessments or charges made by any Authority by reason of the execution and delivery of this Agreement or the other Loan Documents.

SECTION 9.04. Indemnification. The Borrower shall indemnify the Agent, the Banks and each Affiliate thereof and their respective directors, officers, employees and agents from, and hold each of them harmless against, any and all losses, liabilities, claims or damages to which any of them may become subject, insofar as such losses, liabilities, claims or damages arise out of or result from any actual or proposed use by the Borrower of the proceeds of any extension of credit by any Bank hereunder or breach by the Borrower of this Agreement or any other Loan Document or from any investigation, litigation (including, without limitation, any actions taken by the Agent or any of the Banks to enforce this Agreement or any of the other Loan Documents) or other proceeding (including, without limitation, any threatened investigation or proceeding) relating to the foregoing, and the Borrower shall reimburse the Agent and each Bank, and each Affiliate thereof and their respective directors, officers, employees and agents, upon demand for any expenses (including, without limitation, reasonable legal fees) incurred in connection with any such investigation or proceeding; but excluding any such losses, liabilities, claims, damages or expenses incurred by reason of the gross negligence or wilful misconduct of the Person to be indemnified.

SECTION 9.05 Setoff; Sharing of Setoffs. (a) The Borrower hereby grants to the Agent and each Bank a lien for all indebtedness and obligations owing to them from the Borrower upon all deposits or deposit accounts, of any kind, or any interest in any deposits or deposit accounts thereof, now or hereafter pledged, mortgaged, transferred or assigned to the Agent or any such Bank or otherwise in the possession or control of the Agent or any such Bank for any purpose for the account or benefit of the Borrower and including any balance of any deposit account or of any credit of the Borrower with the Agent or any such Bank, whether now existing or hereafter established hereby authorizing the Agent and each Bank at any time or times during the existence of an Event of Default with or without prior notice to apply such balances or any part thereof to such of the indebtedness and obligations owing by the Borrower to the Banks and/or the Agent then past due and in such amounts as they may elect, and whether or not the collateral, if any, or the responsibility of other Persons primarily, secondarily or otherwise liable may be deemed

adequate. For the purposes of this paragraph, all remittances and property shall be deemed to be in the possession of the Agent or any such Bank as soon as the same may be put in transit to it by mail or carrier or by other bailee.

(b) Each Bank agrees that if it shall, by exercising any right of setoff or counterclaim or resort to collateral security or otherwise, receive payment of a proportion of the aggregate amount of principal and interest owing with respect to the Note held by it which is greater than the proportion received by any other Bank in respect of the aggregate amount of all principal and interest owing with respect to the Note held by such other Bank, the Bank receiving such proportionately greater payment shall purchase such participations in the Notes held by the other Banks owing to such other Banks, and such other adjustments shall be made, as may be required so that all such payments of principal and interest with respect to the Notes held by the Banks owing to such other Banks shall be shared by the Banks pro rata; provided that (i) nothing in this Section shall impair the right of any Bank to exercise any right of setoff or counterclaim it may have and to apply the amount subject to such exercise to the payment of indebtedness of the Borrower other than its indebtedness under the Notes, and (ii) if all or any portion of such payment received by the purchasing Bank is thereafter recovered from such purchasing Bank, such purchase from each other Bank shall be rescinded and such other Bank shall repay to the purchasing Bank the purchase price of such participation to the extent of such recovery together with an amount equal to such other Bank's ratable share (according to the proportion of (x) the amount of such other Bank's required repayment to (y) the total amount so recovered from the purchasing Bank) of any interest or other amount paid or payable by the purchasing Bank in respect of the total amount so recovered. The Borrower agrees, to the fullest extent it may effectively do so under applicable law, that any holder of a participation in a Note, whether or not acquired pursuant to the foregoing arrangements, may exercise rights of setoff or counterclaim and other rights with respect to such participation as fully as if such holder of a participation were a direct creditor of the Borrower in the amount of such participation.

SECTION 9.06. Amendments and Waivers. (a) Any provision of this Agreement, the Notes or any other Loan Documents may be amended or waived if, but only if, such amendment or waiver is in writing and is signed by the Borrower and the Required Banks (and, if the rights or duties of the Agent

are affected thereby, by the Agent); provided that, no such amendment or waiver shall, unless signed by all Banks, (i) change the Commitment of any Bank or subject any Bank to any additional obligation, (ii) change the principal of or rate of interest on any Loan or any fees (other than fees payable to the Agent) hereunder, (iii) change the date fixed for any payment of principal of or interest on any Loan or any fees hereunder, (iv) change the amount of principal, interest or fees due on any date fixed for the payment thereof, (v) change the percentage of the Commitments or of the aggregate unpaid principal amount of the Notes, or the percentage of Banks, which shall be required for the Banks or any of them to take any action under this Section or any other provision of this Agreement, (vi) change the manner of application of any payments made under this Agreement or the Notes, (vii) release or substitute all or any substantial part of the collateral (if any) held as security for the Loans, or (viii) release any Guarantee given to support payment of the Loans.

(b) The Borrower will not solicit, request or negotiate for or with respect to any proposed waiver or amendment of any of the provisions of this Agreement except through the Agent or unless each Bank shall be informed thereof by the Borrower and shall be afforded an opportunity of considering the same and shall be supplied by the Borrower with sufficient information to enable it to make an informed decision with respect thereto. Executed or true and correct copies of any waiver or consent effected pursuant to the provisions of this Agreement shall be delivered by the Borrower to each Bank forthwith following the date on which the same shall have been executed and delivered by the requisite percentage of Banks. The Borrower will not, directly or indirectly, pay or cause to be paid any remuneration, whether by way of supplemental or additional interest, fee or otherwise, to any Bank (in its capacity as such) as consideration for or as an inducement to the entering into by such Bank of any waiver or amendment of any of the terms and provisions of this Agreement unless such remuneration is concurrently paid, on the same terms, ratably to all such Banks.

SECTION 9.07. No Margin Stock Collateral. Each of the Banks represents to the Agent and each of the other Banks that it in good faith is not, directly or indirectly (by negative pledge or otherwise), relying upon any Margin Stock as collateral in the extension or maintenance of the credit provided for in this Agreement.

SECTION 9.08. Successors and Assigns. (a) The provisions of this Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns; provided that the Borrower may not assign or otherwise transfer any of its rights under this Agreement.

(b) Any Bank may at any time sell to one or more Persons (each a "Participant") participating interests in any Loan owing to such Bank, any Note held by such Bank, any Commitment hereunder or any other interest of such Bank hereunder. In the event of any such sale by a Bank of a participating interest to a Participant, such Bank's obligations under this Agreement shall remain unchanged, such Bank shall remain solely responsible for the performance thereof, such Bank shall remain the holder of any such Note for all purposes under this Agreement, and the Borrower and the Agent shall continue to deal solely and directly with such Bank in connection with such Bank's rights and obligations under this Agreement. In no event shall a Bank that sells a participation be obligated to the Participant to take or refrain from taking any action hereunder except that such Bank may agree that it will not (except as provided below), without the consent of the Participant, agree to (i) the change of any date fixed for the payment of principal of or interest on the related loan or loans, (ii) the change of the amount of any principal, interest or fees due on any date fixed for the payment thereof with respect to the related loan or loans, (iii) the change of the principal of the related loan or loans, (iv) any change in the rate at which either interest is payable thereon or (if the Participant is entitled to any part thereof) fee is payable hereunder from the rate at which the Participant is entitled to receive interest or fee (as the case may be) in respect of such participation, (v) the release or substitution of all or any substantial part of the collateral (if any) held as security for the Loans, or (vi) the release of any Guarantee given to support payment of the Loans. Each Bank selling a participating interest in any Loan, Note, Commitment or other interest under this Agreement, other than a Money Market Loan or Money Market Loan Note or participating interest therein, shall, within 10 Domestic Business Days of such sale, provide the Borrower and the Agent with written notification stating that such sale has occurred and identifying the Participant and the interest purchased by such Participant. The Borrower agrees that each Participant shall be entitled to the benefits of Article VIII with respect to its participation in Loans outstanding from time to time.

(c) Any Bank may at any time assign to one or more banks or financial institutions (each an "Assignee") all, or in the case of its Syndicated Loans and Commitments, a proportionate part of all its Syndicated Loans and Commitments, of its rights and obligations under this Agreement, the Notes and the other Loan Documents, and such Assignee shall assume all such rights and obligations, pursuant to an Assignment and Acceptance, executed by such Assignee, such transferor Bank and the Agent (and, in the case of an Assignee that is not then a Bank, subject to clauses (iii) below, by the Borrower); provided that (i) no interest may be sold by a Bank pursuant to this paragraph (c) unless the Assignee shall agree to assume ratably equivalent portions of the transferor Bank's Commitment, (ii) if a Bank is assigning only a portion of its Commitment, then, the amount of the Commitment being assigned (determined as of the effective date of the assignment) shall be in an amount not less than \$10,000,000, (iii) except during the continuance of a Default, no interest may be sold by a Bank pursuant to this paragraph (c) to any Assignee that is not then a Bank (or an Affiliate of a Bank) without the consent of the Borrower and the Agent, which consent shall not be unreasonably withheld, and (iv) a Bank may not have more than 2 Assignees that are not then Banks at any one time. Upon (A) execution of the Assignment and Acceptance by such transferor Bank, such Assignee, the Agent and (if applicable) the Borrower, (B) delivery of an executed copy of the Assignment and Acceptance to the Borrower and the Agent, (C) payment by such Assignee to such transferor Bank of an amount equal to the purchase price agreed between such transferor Bank and such Assignee, and (D) payment of a processing and recordation fee of \$2,500 to the Agent, such Assignee shall for all purposes be a Bank party to this Agreement and shall have all the rights and obligations of a Bank under this Agreement to the same extent as if it were an original party hereto with a Commitment as set forth in such instrument of assumption, and the transferor Bank shall be released from its obligations hereunder to a corresponding extent, and no further consent or action by the Borrower, the Banks or the Agent shall be required. Upon the consummation of any transfer to an Assignee pursuant to this paragraph (c), the transferor Bank, the Agent and the Borrower shall make appropriate arrangements so that, if required, a new Note is issued each of such Assignee and such transferor Bank and such transferor Bank.

(d) Subject to the provisions of Section 9.09, the Borrower authorizes each Bank to disclose to any Participant, Assignee or other transferee (each a "Transferee") and any

prospective Transferee any and all financial information in such Bank's possession concerning the Borrower which has been delivered to such Bank by the Borrower pursuant to this Agreement or which has been delivered to such Bank by the Borrower in connection with such Bank's credit evaluation prior to entering into this Agreement.

(e) No Transferee shall be entitled to receive any greater payment under Section 2.12(d) or Section 8.03 than the transferor Bank would have been entitled to receive with respect to the rights transferred, unless such transfer is made with the Borrower's prior written consent or by reason of the provisions of Section 8.02 or 8.03 requiring such Bank to designate a different Lending Office under certain circumstances or at a time when the circumstances giving rise to such greater payment did not exist.

(f) Anything in this Section 9.08 to the contrary notwithstanding, any Bank may assign and pledge all or any portion of the Loans and/or obligations owing to it to any Federal Reserve Bank or the United States Treasury as collateral security pursuant to Regulation A of the Board of Governors of the Federal Reserve System and any Operating Circular issued by such Federal Reserve Bank, provided that any payment in respect of such assigned Loans and/or obligations made by the Borrower to the assigning and/or pledging Bank in accordance with the terms of this Agreement shall satisfy the Borrower's obligations hereunder in respect of such assigned Loans and/or obligations to the extent of such payment. No such assignment shall release the assigning and/or pledging Bank from its obligations hereunder.

SECTION 9.09. Confidentiality. Each Bank agrees to exercise commercially reasonable efforts to keep any information delivered or made available by the Borrower to it which is clearly indicated to be confidential information, confidential from anyone other than persons employed or retained by such Bank who are or are expected to become engaged in evaluating, approving, structuring or administering the Loans; provided, however that nothing herein shall prevent any Bank from disclosing such information (i) to any other Bank, (ii) upon the order of any court or administrative agency, (iii) upon the request or demand of any regulatory agency or authority having jurisdiction over such Bank, (iv) which has been publicly disclosed, (v) to the extent reasonably required in connection with any litigation to which the Agent, any Bank or their respective Affiliates may be a party, (vi) to the extent

reasonably required in connection with the exercise of any remedy hereunder, (vii) to such Bank's legal counsel and independent auditors and (viii) to any actual or proposed Participant, Assignee or other Transferee of all or part of its rights hereunder which has agreed in writing to be bound by the provisions of this Section 9.09; provided that should disclosure of any such confidential information be required by virtue of clause (ii) of the immediately preceding sentence, to the extent permitted by law, any relevant Bank shall promptly notify the Borrower of same so as to allow the Borrower to seek a protective order or to take any other appropriate action; provided, further, that, no Bank shall be required to delay compliance with any directive to disclose any such information so as to allow the Borrower to effect any such action.

SECTION 9.10. Representation by Banks. Each Bank hereby represents that it is a commercial lender or financial institution which makes loans in the ordinary course of its business and that it will make its Loans hereunder for its own account in the ordinary course of such business; provided, however that, subject to Section 9.08, the disposition of the Note or Notes held by that Bank shall at all times be within its exclusive control.

SECTION 9.11. Obligations Several. The obligations of each Bank hereunder are several, and no Bank shall be responsible for the obligations or commitment of any other Bank hereunder. Nothing contained in this Agreement and no action taken by the Banks pursuant hereto shall be deemed to constitute the Banks to be a partnership, an association, a joint venture or any other kind of entity. The amounts payable at any time hereunder to each Bank shall be a separate and independent debt, and each Bank shall be entitled to protect and enforce its rights arising out of this Agreement or any other Loan Document and it shall not be necessary for any other Bank to be joined as an additional party in any proceeding for such purpose.

SECTION 9.12. Georgia Law. This Agreement and each Note shall be construed in accordance with and governed by the law of the State of Georgia.

SECTION 9.13. Severability. In case any one or more of the provisions contained in this Agreement, the Notes or any of the other Loan Documents should be invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions contained herein and

therein shall not in any way be affected or impaired thereby and shall be enforced to the greatest extent permitted by law.

SECTION 9.14. Interest. In no event shall the amount of interest, and all charges, amounts or fees contracted for, charged or collected pursuant to this Agreement, the Notes or the other Loan Documents and deemed to be interest under applicable law (collectively, "Interest") exceed the highest rate of interest allowed by applicable law (the "Maximum Rate"), and in the event any such payment is inadvertently received by any Bank, then the excess sum (the "Excess") shall be credited as a payment of principal, unless the Borrower shall notify such Bank in writing that it elects to have the Excess returned forthwith. It is the express intent hereof that the Borrower not pay and the Banks not receive, directly or indirectly in any manner whatsoever, interest in excess of that which may legally be paid by the Borrower under applicable law. The right to accelerate maturity of any of the Loans does not include the right to accelerate any interest that has not otherwise accrued on the date of such acceleration, and the Agent and the Banks do not intend to collect any unearned interest in the event of any such acceleration. All monies paid to the Agent or the Banks hereunder or under any of the Notes or the other Loan Documents, whether at maturity or by prepayment, shall be subject to rebate of unearned interest as and to the extent required by applicable law. By the execution of this Agreement, the Borrower covenants, to the fullest extent permitted by law, that (i) the credit or return of any Excess shall constitute the acceptance by the Borrower of such Excess, and (ii) the Borrower shall not seek or pursue any other remedy, legal or equitable, against the Agent or any Bank, based in whole or in part upon contracting for charging or receiving any Interest in excess of the Maximum Rate. For the purpose of determining whether or not any Excess has been contracted for, charged or received by the Agent or any Bank, all interest at any time contracted for, charged or received from the Borrower in connection with this Agreement, the Notes or any of the other Loan Documents shall, to the extent permitted by applicable law, be amortized, prorated, allocated and spread in equal parts throughout the full term of the Commitments. The Borrower, the Agent and each Bank shall, to the maximum extent permitted under applicable law, (i) characterize any non-principal payment as an expense, fee or premium rather than as Interest and (ii) exclude voluntary prepayments and the effects thereof. The provisions of this Section shall be deemed to be incorporated into each Note and each of the other Loan Documents (whether or not any provision of this Section is

referred to therein). All such Loan Documents and communications relating to any Interest owed by the Borrower and all figures set forth therein shall, for the sole purpose of computing the extent of obligations hereunder and under the Notes and the other Loan Documents be automatically recomputed by the Borrower, and by any court considering the same, to give effect to the adjustments or credits required by this Section.

SECTION 9.15. Interpretation. No provision of this Agreement or any of the other Loan Documents shall be construed against or interpreted to the disadvantage of any party hereto by any court or other governmental or judicial authority by reason of such party having or being deemed to have structured or dictated such provision.

SECTION 9.16. Waiver of Jury Trial; Consent to Jurisdiction. The Borrower (a) and each of the Banks and the Agent irrevocably waives, to the fullest extent permitted by law, any and all right to trial by jury in any legal proceeding arising out of this Agreement, any of the other Loan Documents, or any of the transactions contemplated hereby or thereby, (b) submits to the nonexclusive personal jurisdiction in the State of Georgia, the courts thereof and the United States District Courts sitting therein, for the enforcement of this Agreement, the Notes and the other Loan Documents, (c) waives any and all personal rights under the law of any jurisdiction to object on any basis (including, without limitation, inconvenience of forum) to jurisdiction or venue within the State of Georgia for the purpose of litigation to enforce this Agreement, the Notes or the other Loan Documents, and (d) agrees that service of process may be made upon it in the manner prescribed in Section 9.01 for the giving of notice to the Borrower. Nothing herein contained, however, shall prevent the Agent from bringing any action or exercising any rights against any security and against the Borrower personally, and against any assets of the Borrower, within any other state or jurisdiction.

SECTION 9.17. Counterparts. This Agreement may be signed in any number of counterparts, each of which shall be an original, with the same effect as if the signatures thereto and hereto were upon the same instrument.

SECTION 9.18. Source of Funds -- ERISA. Each of the Banks hereby severally (and not jointly) represents to the Borrower that no part of the funds to be used by such Bank to fund the Loans hereunder from time to time constitutes (i) assets

allocated to any separate account maintained by such Bank in which any employee benefit plan (or its related trust) has any interest nor (ii) any other assets of any employee benefit plan. As used in this Section, the terms "employee benefit plan" and "separate account" shall have the respective meanings assigned to such terms in Section 3 of ERISA.

SECTION 9.19. Replacement of Banks. The Borrower may, at any time and so long as no Default or Event of Default has then occurred and is continuing, replace any Bank that has requested additional amounts from the Borrower under Section 2.12(d) or 8.03, or who has caused a suspension of its obligation to make Euro-Dollar Loans or Foreign Currency Loans pursuant to Section 8.02, by written notice to such Bank and the Agent given not more than thirty (30) days after any such event and identifying one or more Persons each of which shall be reasonably acceptable to the Agent (each, a "Replacement Bank," and collectively, the "Replacement Banks") to replace such Bank (the "Replaced Bank"), provided that (i) the notice from the Borrower to the Replaced Bank and the Agent provided for hereinabove shall specify an effective date for such replacement (the "Replacement Effective Date"), which shall be at least 5 Business Days after such notice is given, (ii) as of the relevant Replacement Effective Date, each Replacement Bank shall enter into an Assignment and Acceptance with the Replaced Bank pursuant to Section 9.08 pursuant to which such Replacement Banks collectively shall acquire, in such proportion among them as they may agree with the Borrower and the Agent, all (but not less than all) of the Commitments and outstanding Loans of the Replaced Bank, and, in connection therewith, shall pay to the Replaced Bank, as the purchase price in respect thereof, an amount equal to the sum as of the Replacement Effective Date (without duplication) of (y) the unpaid principal amount of, and all accrued but unpaid interest on all outstanding Loans of the Replaced Bank and (z) the Replaced Bank's ratable share of all accrued but unpaid fees owing to the Replaced Bank hereunder, and (iii) all other obligations of the Borrower owing to the Replaced Bank under this Agreement (other than those specifically described in clause (ii) above in respect of which the assignment purchase price has been, or is concurrently being, paid), as a result of the actions required to be taken under this Section, shall be paid in full by the Borrower to the Replaced Bank on or prior to the Replacement Effective Date.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed, under seal, by their respective authorized officers as of the day and year first above written.

CULP, INC.

(SEAL)

By: \_\_\_\_\_  
Title:

Culp, Inc.  
101 South Main Street  
High Point, North Carolina  
27261-2686

Attention: Franklin N. Saxon  
Vice President and  
Chief Financial Officer]  
Telecopier number: 910-887-7089  
Confirmation number: 910-888-6266

WACHOVIA BANK OF GEORGIA, N.A.,  
as Agent (SEAL)

By: \_\_\_\_\_  
Title:

Lending Office  
Wachovia Bank of Georgia, N.A.  
191 Peachtree Street, N.E.  
Atlanta, Georgia 30303-1757  
Attention: Syndications Group  
Telecopier number: 404-332-4005  
Confirmation number: 404-332-6971

COMMITMENTS

WACHOVIA BANK OF NORTH  
CAROLINA, N.A.,  
as a Bank

(SEAL)

\$42,000,000

By: \_\_\_\_\_  
Title:

Lending Office  
Wachovia Bank of North  
Carolina, N.A.  
200 North Main Street  
High Point, North Carolina 27261  
Attention: Peter T. Callahan  
Telecopier number: 910-887-7550  
Confirmation number: 910-887-7641

FIRST UNION NATIONAL BANK OF  
NORTH CAROLINA, as Documentation  
Agent

(SEAL)

\$38,000,000

By: \_\_\_\_\_  
Title:

Lending Office  
First Union National Bank of  
North Carolina  
150 Fayetteville Street Mall  
6th Floor  
Raleigh, North Carolina 27601  
Attention: Mendal Lay  
Telecopier number: 919-829-6067  
Confirmation number: 919-829-6064

\$15,000,000

SUNTRUST BANK, ATLANTA

(SEAL)

By: \_\_\_\_\_  
Title:

By: \_\_\_\_\_  
Title:

Lending Office  
SunTrust Bank, Atlanta  
25 Park Place  
23rd Floor  
Atlanta, Georgia 30303  
Attention: Jeff Drucker  
Telecopier number: 404-588-8833  
Confirmation number: 404-230-1403

\$15,000,000

COOPERATIEVE CENTRALE RAIFFEISEN-BOERENLEEN (SEAL)

By: \_\_\_\_\_  
Title:

By: \_\_\_\_\_  
Title:

Lending Office  
Rabobank Nederland, New York Branch  
245 Park Avenue  
New York, New York 10167  
Attention: Customer Service  
Department  
Telecopier number: 212-916-7930  
Confirmation number: 212-916-7928

with a copy to:

Rabobank Nederland  
One Atlantic Center, Suite 3450  
Atlanta, Georgia 30309-3400  
Attention: Theodore W. Cox  
Telecopier number: 404-877-9150

Confirmation number: 404-877-9109

\$15,000,000

ABN AMRO BANK, N.V., ATLANTA  
AGENCY

(SEAL)

By: \_\_\_\_\_  
Title:

By: \_\_\_\_\_  
Title:

Lending Office  
ABN AMRO Bank, N.V., Atlanta Agency  
One Ravinia Drive, Suite 1200  
Atlanta, Georgia 30346  
Attention: Mark Clegg  
Telecopier number: 770-399-7397  
Confirmation number: 770-399-7399

TOTAL COMMITMENTS:

\$125,000,000

## FORM OF SYNDICATED DOLLAR LOAN NOTE

Atlanta, Georgia  
 April 23, 1997

For value received, CULP, INC., a North Carolina corporation (the "Borrower"), promises to pay to the order of \_\_\_\_\_, a \_\_\_\_\_ (the "Bank"), for the account of its Lending Office, the principal sum of \_\_\_\_\_ AND NO/100 DOLLARS (\$\_\_\_\_\_), or such lesser amount as shall equal the unpaid principal amount of each Loan made by the Bank to the Borrower pursuant to the Credit Agreement referred to below, on the dates and in the amounts provided in the Credit Agreement. The Borrower promises to pay interest on the unpaid principal amount of this Syndicated Dollar Loan Note on the dates and at the rate or rates provided for Syndicated Dollar Loans in the Credit Agreement. Interest on any overdue principal of and, to the extent permitted by law, overdue interest on the principal amount hereof shall bear interest at the Default Rate, as provided for in the Credit Agreement. All such payments of principal and interest shall be made in lawful money of the United States in Federal or other immediately available funds at the office of Wachovia Bank of Georgia, N.A., 191 Peachtree Street, N.E., Atlanta, Georgia 30303-1757, or such other address as may be specified from time to time pursuant to the Credit Agreement.

All Loans made by the Bank, the respective maturities thereof, the interest rates from time to time applicable thereto, and all repayments of the principal thereof shall be recorded by the Bank and, prior to any transfer hereof, endorsed by the Bank on the schedule attached hereto, or on a continuation of such schedule attached to and made a part hereof; provided that the failure of the Bank to make any such recordation or endorsement shall not affect the obligations of the Borrower hereunder or under the Credit Agreement.

This Syndicated Dollar Loan Note is one of the Syndicated Dollar Loan Notes referred to in the Credit Agreement dated as of April 23, 1997 among the Borrower, the Banks listed on the signature pages thereof, Wachovia Bank of Georgia, N.A.,

as Agent and First Union National Bank of North Carolina, as Documentation Agent (as the same may be amended and modified from time to time, the "Credit Agreement"). Terms defined in the Credit Agreement are used herein with the same meanings. Reference is made to the Credit Agreement for provisions for the optional and mandatory prepayment and the repayment hereof and the acceleration of the maturity hereof, as well as the obligation of the Borrower to pay all costs of collection, including reasonable attorneys fees, in the event this Syndicated Loan Note is collected by law or through an attorney at law.

The Borrower hereby waives presentment, demand, protest, notice of demand, protest and nonpayment and any other notice required by law relative hereto, except to the extent as otherwise may be expressly provided for in the Credit Agreement.

IN WITNESS WHEREOF, the Borrower has caused this Syndicated Dollar Loan Note to be duly executed, under seal, by its duly authorized officer as of the day and year first above written.

CULP, INC.

(SEAL)

By: \_\_\_\_\_  
Title:

Syndicated Dollar Loan Note (cont'd)

LOANS AND PAYMENTS OF PRINCIPAL

Date	Base Rate or Euro- Dollar Loan	Amount of Loan	Amount of Principal Repaid	Maturity Date	Notation Made By
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## FORM OF FOREIGN CURRENCY LOAN NOTE

Atlanta, Georgia  
April 23, 1997

For value received, CULP, INC., a North Carolina corporation (the "Borrower"), promises to pay to the order of \_\_\_\_\_, a \_\_\_\_\_ (the "Bank"), for the account of its Lending Office, the outstanding principal amount of the Foreign Currency Loans made by the Bank to the Borrower as Foreign Currency Loans pursuant to the Credit Agreement referred to below, on the dates and in the amounts provided in the Credit Agreement. The Borrower promises to pay interest on the unpaid principal amount of this Note on the dates and at the rate or rates provided for Foreign Currency Loans in the Credit Agreement. Interest on any overdue principal of and, to the extent permitted by law, overdue interest on the principal amount hereof shall bear interest at the Default Rate, as provided for in the Credit Agreement. All such payments of principal and interest shall be made in lawful money of the applicable Foreign Currency in immediately available funds at the office of Wachovia Bank of Georgia, N.A., 191 Peachtree Street, N.E., Atlanta, Georgia 30303-1757, or such other address as may be specified from time to time pursuant to the Credit Agreement.

All Foreign Currency Loans made by the Bank, the respective maturities thereof, the interest rates from time to time applicable thereto, and all repayments of the principal thereof shall be recorded by the Bank and, prior to any transfer hereof, endorsed by the Bank on the schedule attached hereto, or on a continuation of such schedule attached to and made a part hereof; provided that the failure of the Bank to make any such recordation or endorsement shall not affect the obligations of the Borrower hereunder or under the Credit Agreement.

This Note is one of the Foreign Currency Loan Notes referred to in the Credit Agreement dated as of April 23, 1997 among the Borrower, the Banks listed on the signature pages thereof, Wachovia Bank of Georgia, N.A., as Agent and First Union National Bank of North Carolina, as Documentation Agent (as the same may be amended and modified from time to time, the "Credit

Agreement"). Terms defined in the Credit Agreement are used herein with the same meanings. Reference is made to the Credit Agreement for provisions for the optional and mandatory prepayment and the repayment hereof and the acceleration of the maturity hereof, as well as the obligation of the Borrower to pay all costs of collection, including reasonable attorneys fees, in the event this Syndicated Loan Note is collected by law or through an attorney at law.

The Borrower hereby waives presentment, demand, protest, notice of demand, protest and nonpayment and any other notice required by law relative hereto, except to the extent as otherwise may be expressly provided for in the Credit Agreement.

IN WITNESS WHEREOF, the Borrower has caused this Foreign Currency Loan Note to be duly executed, under seal, by its duly authorized officer as of the day and year first above written.

CULP, INC. (SEAL)

By: \_\_\_\_\_  
Title:

Foreign Currency Loan Note (cont'd)

SCHEDULE OF LOANS AND PAYMENTS OF PRINCIPAL  
TO

NOTE OF CULP, INC.  
DATED April 23, 1997

Date	Principal Amount of Loan and Currency	Maturity of Interest Period	Principal Amount Paid	Unpaid Balance
-----				

## MONEY MARKET LOAN NOTE

As of April 23, 1997

For value received, CULP, INC., a North Carolina corporation (the "Borrower"), promises to pay to the order of , a \_\_\_\_\_ (the "Bank"), for the account of its Lending Office, the principal sum of ONE HUNDRED TWENTY-FIVE MILLION AND NO/100 DOLLARS (\$125,000,000) or such lesser amount as shall equal the unpaid principal amount of each Money Market Loan made by the Bank to the Borrower pursuant to the Credit Agreement referred to below, on the dates and in the amounts provided in the Credit Agreement. The Borrower promises to pay interest on the unpaid principal amount of this Money Market Loan Note on the dates and at the rate or rates provided for in the Credit Agreement referred to below. Interest on any overdue principal of and, to the extent permitted by law, overdue interest on the principal amount hereof shall bear interest at the Default Rate, as provided for in the Credit Agreement. All such payments of principal and interest shall be made in lawful money of the United States in Federal or other immediately available funds at the office of Wachovia Bank of Georgia, N.A., 191 Peachtree Street, N.E., Atlanta, Georgia 30303-1757, or such other address as may be specified from time to time pursuant to the Credit Agreement.

All Money Market Loans made by the Bank, the respective maturities thereof, the interest rates from time to time applicable thereto, and all repayments of the principal thereof shall be recorded by the Bank and, prior to any transfer hereof, endorsed by the Bank on the schedule attached hereto, or on a continuation of such schedule attached to and made a part hereof; provided that the failure of the Bank to make any such recordation or endorsement shall not affect the obligations of the Borrower hereunder or under the Credit Agreement.

This Money Market Loan Note is one of the Money Market Loan Notes referred to in the Credit Agreement dated as of April 23, 1997 among the Borrower, the Banks listed on the signature pages thereof, Wachovia Bank of Georgia, N.A., as Agent and First Union National Bank of North Carolina, as Documentation Agent (as the same may be amended and modified from time to time, the

"Credit Agreement"). Terms defined in the Credit Agreement are used herein with the same meanings. Reference is made to the Credit Agreement for provisions for the optional and mandatory prepayment and the repayment hereof and the acceleration of the maturity hereof, as well as the obligation of the Borrower to pay all costs of collection, including reasonable attorneys fees, in the event this Syndicated Loan Note is collected by law or through an attorney at law.

The Borrower hereby waives presentment, demand, protest, notice of demand, protest and nonpayment and any other notice required by law relative hereto, except to the extent as otherwise may be expressly provided for in the Credit Agreement.

IN WITNESS WHEREOF, the Borrower has caused this Money Market Loan Note to be duly executed, under seal, by its duly authorized officer as of the day and year first above written.

CULP, INC.

(SEAL)

By: \_\_\_\_\_  
Title:





OPINION OF  
COUNSEL FOR THE BORROWER

[Dated as provided in Section 3.01 of the Credit Agreement]

To the Banks and the Agent  
Referred to Below  
c/o Wachovia Bank of Georgia, N.A.,  
as Agent  
191 Peachtree Street, N.E.  
Atlanta, Georgia 30303-1757  
Attn: Syndications Group

Dear Sirs:

We have acted as counsel for Culp, Inc., a North Carolina corporation (the "Borrower") in connection with the Credit Agreement (the "Credit Agreement") dated as of April 23, 1997, among the Borrower, the banks listed on the signature pages thereof, Wachovia Bank of Georgia, N.A., as Agent and First Union National Bank of North Carolina, as Documentation Agent. Terms defined in the Credit Agreement are used herein as therein defined.

We have examined originals or copies, certified or otherwise identified to our satisfaction, of such documents, corporate records, certificates of public officials and other instruments and have conducted such other investigations of fact and law as we have deemed necessary or advisable for purposes of this opinion. We have assumed for purposes of our opinions set forth below that the execution and delivery of the Credit Agreement by each Bank and by the Agent have been duly authorized by each Bank and by the Agent.

Upon the basis of the foregoing, we are of the opinion that:

1. The Borrower is a corporation duly incorporated, validly existing and in good standing under the laws of North Carolina and has all corporate powers required to carry on its business as now conducted.

2. The execution, delivery and performance by the Borrower of the Credit Agreement and the Notes (i) are within the Borrower's corporate powers, (ii) have been duly authorized by all necessary corporate action, (iii) require no action by or in respect of, or filing with, any governmental body, agency or official, (iv) do not contravene, or constitute a default under, any provision of applicable law or regulation or of the certificate of incorporation or by-laws of the Borrower or of any agreement, judgment, injunction, order, decree or other instrument which to our knowledge is binding upon the Borrower and (v) to our knowledge, except as provided in the Credit Agreement, do not result in the creation or imposition of any Lien on any asset of the Borrower or any of its Subsidiaries.

3. The Credit Agreement constitutes a valid and binding agreement of the Borrower, enforceable against the Borrower in accordance with its terms, and the Notes constitute valid and binding obligations of the Borrower, enforceable in accordance with their respective terms, except as such enforceability may be limited by: (i) bankruptcy, insolvency or similar laws affecting the enforcement of creditors' rights generally and (ii) general principles of equity.

4. To our knowledge, there is no action, suit or proceeding pending, or threatened, against or affecting the Borrower or any of its Subsidiaries before any court or arbitrator or any governmental body, agency or official in which there is a reasonable possibility of an adverse decision which could materially adversely affect the business, consolidated financial position or consolidated results of operations of the Borrower and its Consolidated Subsidiaries, considered as a whole, or which in any manner questions the validity or enforceability of the Credit Agreement or any Note.

5. 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, and has all corporate powers and all material governmental licenses, authorizations,

consents and approvals required to carry on its business as now conducted.

6. Neither the Borrower nor any of its Subsidiaries is an "investment company" within the meaning of the Investment Company Act of 1940, as amended.

7. 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.

8. We are qualified to practice in the State of North Carolina and do not purport to be experts on any laws other than the laws of the United States and the State of North Carolina and this opinion is rendered only with respect to such laws. We have made no independent investigation of the laws of any other jurisdiction.

This opinion is delivered to you in connection with the transaction referenced above and may only be relied upon by you, any Assignee, Participant or other Transferee under the Credit Agreement, and Jones, Day, Reavis & Pogue without our prior written consent.

Very truly yours,

OPINION OF  
JONES, DAY, REAVIS & POGUE, SPECIAL COUNSEL  
FOR THE AGENT

[Dated as provided in Section 3.01 of the Credit Agreement]

To the Banks and the Agent  
Referred to Below  
c/o Wachovia Bank of Georgia, N.A.,  
as Agent  
191 Peachtree Street, N.E.  
Atlanta, Georgia 30303-1757  
Attn: Syndications Group

Dear Sirs:

We have participated in the preparation of the Credit Agreement (the "Credit Agreement") dated as of April 23, 1997, among Culp, Inc., a North Carolina corporation (the "Borrower"), the banks listed on the signature pages thereof (the "Banks"), Wachovia Bank of Georgia, N.A., as Agent (the "Agent") and First Union National Bank of North Carolina, as Documentation Agent, and have acted as special counsel for the Agent for the purpose of rendering this opinion pursuant to Section 3.01(d) of the Credit Agreement. Terms defined in the Credit Agreement are used herein as therein defined.

This opinion letter is limited by, and is in accordance with, the January 1, 1992 edition of the Interpretive Standards applicable to Legal Opinions to Third Parties in Corporate Transactions adopted by the Legal Opinion Committee of the Corporate and Banking Law Section of the State Bar of Georgia which Interpretive Standards are incorporated herein by this reference.

We have examined originals or copies, certified or otherwise identified to our satisfaction, of such documents, corporate records, certificates of public officials and other instruments and have conducted such other investigations of fact and law as we have deemed necessary or advisable for purposes of this opinion.

Upon the basis of the foregoing, and assuming the due authorization, execution and delivery of the Credit Agreement and each of the Notes by or on behalf of the Borrower, we are of the opinion that the Credit Agreement constitutes a valid and binding agreement of the Borrower and each Note constitutes valid and binding obligations of the Borrower, in each case enforceable in accordance with its terms except as: (i) the enforceability thereof may be affected by bankruptcy, insolvency, reorganization, fraudulent conveyance, voidable preference, moratorium or similar laws applicable to creditors' rights or the collection of debtors' obligations generally; (ii) rights of acceleration and the availability of equitable remedies may be limited by equitable principles of general applicability; and (iii) the enforceability of certain of the remedial, waiver and other provisions of the Credit Agreement and the Notes may be further limited by the laws of the State of Georgia; provided, however, such additional laws do not, in our opinion, substantially interfere with the practical realization of the benefits expressed in the Credit Agreement and the Notes, except for the economic consequences of any procedural delay which may result from such laws.

In giving the foregoing opinion, we express no opinion as to the effect (if any) of any law of any jurisdiction except the State of Georgia. We express no opinion as to the effect of the compliance or noncompliance of the Agent or any of the Banks with any state or federal laws or regulations applicable to the Agent or any of the Banks by reason of the legal or regulatory status or the nature of the business of the Agent or any of the Banks.

This opinion is delivered to you in connection with the transaction referenced above and may only be relied upon by you and any Assignee, Participant or other Transferee under the Credit Agreement without our prior written consent.

Very truly yours,

ASSIGNMENT AND ACCEPTANCE  
Dated \_\_\_\_\_, \_\_\_\_\_

Reference is made to the Credit Agreement dated as of April 23, 1997 (together with all amendments and modifications thereto, the "Credit Agreement") among Culp, Inc., a North Carolina corporation (the "Borrower"), the Banks (as defined in the Credit Agreement), Wachovia Bank of Georgia, N.A., as Agent (the "Agent") and First Union National Bank of North Carolina, as Documentation Agent. Terms defined in the Credit Agreement are used herein with the same meaning.

\_\_\_\_\_ (the "Assignor")  
and \_\_\_\_\_ (the "Assignee") agree as follows:

1. The Assignor hereby sells and assigns to the Assignee, without recourse to the Assignor, and the Assignee hereby purchases and assumes from the Assignor, a % interest in and to all of the Assignor's rights and obligations under the Credit Agreement as of the Effective Date (as defined below) (including, without limitation, a \_\_\_\_\_% interest (which on the Effective Date hereof is \$\_\_\_\_\_)) in the Assignor's Commitment and a interest (which on the Effective Date hereof is \$\_\_\_\_\_)) in the Syndicated Loans [and Money Market Loans] owing to the Assignor and a % interest in the Note[s] held by the Assignor (which on the Effective Date hereof is \$\_\_\_\_\_).

2. The Assignor (i) makes no representation or warranty and assumes no responsibility with respect to any statements, warranties or representations made in or in connection with the Credit Agreement or the execution, legality, validity, enforceability, genuineness, sufficiency or value of the Credit Agreement or any other instrument or document furnished pursuant thereto, other than that it is the legal and beneficial owner of the interest being assigned by it hereunder, that such interest is free and clear of any adverse claim and that as of the date hereof its Commitment (without giving effect to assignments thereof which have not yet become effective) is \$\_\_\_\_\_ and the aggregate outstanding principal amount of Syndicated Loans [and Money Market Loans] owing to it (without giving effect to assignments thereof which have not yet become effective) is \$ \_\_\_\_\_;

(ii) makes no representation or warranty and assumes no responsibility with respect to the financial condition of the Borrower or the performance or observance by the Borrower of any of its obligations under the Credit Agreement or any other instrument or document furnished pursuant thereto; and (iii) attaches the Note[s] referred to in paragraph 1 above and requests that the Agent exchange such Note[s] for [(x)] a new Syndicated Dollar Loan Note dated \_\_\_\_\_, \_\_\_\_\_ in the principal amount of \$ \_\_\_\_\_, a new Foreign Currency Loan Note dated \_\_\_\_\_, \_\_\_\_\_ in the principal amount of \$ \_\_\_\_\_ and a new Money Market Loan Note in the principal amount of \$ \_\_\_\_\_, each payable to the order of the Assignee [and (y) a new Syndicated Dollar Loan Note dated \_\_\_\_\_, \_\_\_\_\_ in the principal amount of \$ \_\_\_\_\_, a new Foreign Currency Loan Note dated \_\_\_\_\_, \_\_\_\_\_ in the principal amount of \$ \_\_\_\_\_ and a new Money Market Loan Note in the principal amount of \$ \_\_\_\_\_, each payable to the order of the Assignor].

3. The Assignee (i) confirms that it has received a copy of the Credit Agreement, together with copies of the financial statements referred to in Section 4.04(a) thereof (or any more recent financial statements of the Borrower delivered pursuant to Section 5.01(a) or (b) thereof) and such other documents and information as it has deemed appropriate to make its own credit analysis and decision to enter into this Assignment and Acceptance; (ii) agrees that it will, independently and without reliance upon the Agent, the Assignor or any other Bank and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under the Credit Agreement; (iii) confirms that it is a bank or financial institution; (iv) appoints and authorizes the Agent to take such action as agent on its behalf and to exercise such powers under the Credit Agreement as are delegated to the Agent by the terms thereof, together with such powers as are reasonably incidental thereto; (v) agrees that it will perform in accordance with their terms all of the obligations which by the terms of the Credit Agreement are required to be performed by it as a Bank; (vi) specifies as its Lending Office (and address for notices) the office set forth beneath its name on the signature pages hereof, (vii) represents and warrants that the execution, delivery and performance of this Assignment and Acceptance are within its corporate powers and have been duly authorized by all necessary corporate action (viii) makes the representation and warranty contained in Section 9.18 of the Credit Agreement [, and (ix) attaches the forms prescribed by the Internal Revenue Service of the United States certifying as to the Assignee's status for

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purposes of determining exemption from United States withholding taxes with respect to all payments to be made to the Assignee under the Credit Agreement and the Notes or such other documents as are necessary to indicate that all such payments are subject to such taxes at a rate reduced by an applicable tax treaty].

4. The Effective Date for this Assignment and Acceptance shall be \_\_\_\_\_, \_\_\_\_\_ (the "Effective Date"). Following the execution of this Assignment and Acceptance, it will be delivered to the Agent for execution and acceptance by the Agent and to the Borrower for execution by the Borrower.

5. Upon such execution and acceptance by the Agent [and execution by the Borrower] [IF REQUIRED BY THE CREDIT AGREEMENT], from and after the Effective Date, (i) the Assignee shall be a party to the Credit Agreement and, to the extent rights and obligations have been transferred to it by this Assignment and Acceptance, have the rights and obligations of a Bank thereunder and (ii) the Assignor shall, to the extent its rights and obligations have been transferred to the Assignee by this Assignment and Acceptance, relinquish its rights (other than under Sections 8.03, 9.03 and 9.04 of the Credit Agreement) and be released from its obligations under the Credit Agreement.

6. Upon such execution and acceptance by the Agent [and execution by the Borrower] [IF REQUIRED BY THE CREDIT AGREEMENT], from and after the Effective Date, the Agent shall make all payments in respect of the interest assigned hereby to the Assignee. The Assignor and Assignee shall make all appropriate adjustments in payments for periods prior to such acceptance by the Agent directly between themselves.

7. This Assignment and Acceptance shall be governed by, and construed in accordance with, the laws of the State of Georgia.

[NAME OF ASSIGNOR]

By: \_\_\_\_\_  
Title:

[NAME OF ASSIGNEE]

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By: \_\_\_\_\_  
Title:

Lending Office:  
[Address]

WACHOVIA BANK OF GEORGIA, N.A.,  
As Agent

By: \_\_\_\_\_  
Title:

[NAME OF BORROWER]  
IF REQUIRED BY THE CREDIT AGREEMENT.

By: \_\_\_\_\_  
Title:

NOTICE OF BORROWING

\_\_\_\_\_, \_\_\_\_\_  
Wachovia Bank of Georgia, N.A., as Agent  
191 Peachtree Street, N.E.  
Atlanta, Georgia 30303-1757  
Attention: Syndications Group

Re: Credit Agreement (as amended and modified from time to time, the "Credit Agreement") dated as of April 23, 1997 by and among Culp, Inc., the Banks from time to time parties thereto, Wachovia Bank of Georgia, N.A., as Agent and First Union National Bank of North Carolina, as Documentation Agent.

Gentlemen:

Unless otherwise defined herein, capitalized terms used herein shall have the meanings attributable thereto in the Credit Agreement.

This Notice of Borrowing is delivered to you pursuant to Section 2.02 of the Credit Agreement.

The Borrower hereby requests a [Euro-Dollar Borrowing] [Base Rate Borrowing] [Foreign Currency Borrowing in][SPECIFY FOREIGN CURRENCY] in the aggregate principal amount of [the Dollar Equivalent of] \$\_\_\_\_\_ to be made on \_\_\_\_\_, \_\_\_\_\_, and for interest to accrue thereon at the rate established by the Credit Agreement for [Euro-Dollar Loans] [Base Rate Loans] [Foreign Currency Loans]. The duration of the Interest Period with respect thereto shall be [1 month] [2 months] [3 months] [6 months] [30 days] [60 days] [90 days] [120 days].

The Borrower has caused this Notice of Borrowing to be executed and delivered by its duly authorized officer this \_\_\_\_\_ day of \_\_\_\_\_, \_\_\_\_\_.

CULP, INC.

By: \_\_\_\_\_  
Title:

COMPLIANCE CERTIFICATE

Reference is made to the Credit Agreement dated as of April 23, 1997 (as modified and supplemented and in effect from time to time, the "Credit Agreement") among Culp, Inc., as Borrower, the Banks from time to time parties thereto, Wachovia Bank of Georgia, N.A., as Agent and First Union National Bank of North Carolina, as Documentation Agent. Capitalized terms used herein shall have the meanings ascribed thereto in the Credit Agreement.

Pursuant to Section 5.01(c) of the Credit Agreement, \_\_\_\_\_, the duly authorized \_\_\_\_\_ of Culp, Inc., hereby certifies to the Agent and the Banks that the information contained in the Compliance Check List attached hereto is true, accurate and complete as of \_\_\_\_\_, \_\_\_\_\_, and that no Default is in existence on and as of the date hereof.

CULP, INC.

By: \_\_\_\_\_  
Title:

CULP, INC.  
COMPLIANCE CHECK LIST

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1. Consolidations, Mergers and Sales of Assets. (Section 5.05.)

The Borrower will not, nor will it permit any Subsidiary to, consolidate or merge with or into, or sell, lease or otherwise transfer all or any substantial part of its assets to, any other Person, or discontinue or eliminate any business line or segment, provided that (a) the 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) the Borrower is the corporation surviving such merger and (iii) immediately after giving effect to such merger, no Default shall have occurred and be continuing, (b) Subsidiaries of the Borrower may merge with one another, 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 3 Fiscal Quarters, contributed more than 10% of EBITDA during the 4 Fiscal Quarters immediately preceding such Fiscal Quarter.

(a) Value of assets transferred or business lines or segments discontinued	\$ _____
(b) EBITDA - Schedule 1	\$ _____
(c) 10% of (b)	\$ _____

Limitation (a) not to exceed (c)

2. Loans and Advances (Section 5.15)

Neither the Borrower nor any of its Subsidiaries shall make loans or advances to any Person except as permitted by Section 5.16 and except: (i) loans and advances made prior to the Closing Date and listed on Schedule 5.15, (ii) loans or advances to employees not exceeding \$5,000,000 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 January 26, 1997; (iii) deposits required by government agencies or public utilities; (iv) loans and advances made after the Closing Date to 3096726 Canada Inc. and/or Rayonese Textile Inc. in an aggregate amount which, together with Investments in 3096726 Canada Inc. and/ or Rayonese Textile Inc. made after the Closing Date and permitted by clause (vii) of Section 5.16, does not exceed \$25,000,000; and (v) other loans and advances in an amount which, together with Investments permitted by clause (viii) of Section 5.16, does not exceed 10% of Stockholders' Equity; provided that after giving effect to the making of any loans, advances or deposits permitted by this Section, and no Default shall be in existence or be created thereby.

(a) To Employees	\$ _____
Limitation	\$5,000,000

(b) Loans and advances to 3096726 Canada Inc. and/or Rayonese Textile Inc.-- See Paragraph 3(d) below

(c) Other Loans and advances-- See Paragraph 3(i) below

3. Investments (Section 5.16)

Neither the Borrower nor any of its Subsidiaries shall make Investments in any Person except as permitted by Section 5.15 and Investments in existence on the Closing Date and listed on Schedule 5.16 and except Investments in (i) direct obligations of the United States Government maturing within one year, (ii) certificates of deposit issued by a commercial bank whose credit is satisfactory to the Agent, (iii) commercial paper rated A1 or the equivalent thereof by S&P or P1 or the equivalent thereof by Moody's and in either case maturing within 6 months after the date of acquisition, (iv) 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, (v) Investments pursuant to its deferred compensation plan, funded with life insurance through a Rabbi Trust; (vi) investments in Joint Ventures in an aggregate amount not exceeding \$25,000,000; (vii) Investments made after the Closing Date in 3096726 Canada Inc. and/or Rayonese Textile Inc. in an aggregate amount which, together with loans and advances to 3096726 Canada Inc. and/or Rayonese Textile Inc. and permitted by clause (iv) of Section 5.16, do not exceed \$25,000,000; and/or (viii) other Investments in an amount which, together with loans and advances permitted by clause (v) of Section 5.15, does not exceed 10% of Stockholders' Equity; provided, however, immediately after giving effect to the making of any Investment, no Default shall have occurred and be continuing.

(a) Investments in Joint Ventures	\$ _____
Limitation	\$25,000,000
(b) Loans and advances after the Closing Date to 3096726 Canada Inc. and/or Rayonese Textile Inc.	\$ _____
(c) Investments after the Closing Date in 3096726 Canada Inc. and/or Rayonese Textile Inc.	\$ _____
(d) Sum of (b) and (c)	\$ _____
Limitation: (d) may not exceed \$25,000,000	
(e) Loans and advances not permitted by clauses (i) through (iv), inclusive, of ss. 5.15	\$ _____
(f) Investments not permitted by clauses (i) through (vii), inclusive, of ss. 5.16	\$ _____
(g) Sum of (e) and (f)	\$ _____
(h) Stockholders' Equity	\$ _____
(i) 10% of (h)	\$ _____
Limitation: (g) may not exceed (i)	

4. Priority Debt (Section 5.17)

None of the Borrowers' nor any Consolidated Subsidiary's property is subject to any Lien securing Debt, except for:

Description of Lien and Property subject to same	Amount of Debt Secured
a. _____	\$ _____
b. _____	\$ _____
c. _____	\$ _____
d. _____	\$ _____
e. _____	\$ _____
f. _____	\$ _____
Total	\$ _____ =====

- (a) Liens not permitted by Sections 5.17(a) through (h), inclusive \$ \_\_\_\_\_
- (b) Debt of Subsidiaries not permitted by Section 5.17(j) \$ \_\_\_\_\_
- (c) Sum of (a) and (b) \$ \_\_\_\_\_
- (d) Stockholders' Equity \$ \_\_\_\_\_ ]
- (e) Debt secured by Liens permitted by Sections 5.17(a) through (h), inclusive \$ \_\_\_\_\_
- (f) Sum of (c) and (e) \$ \_\_\_\_\_
- (g) 8% of (c) \$ \_\_\_\_\_
- (h) 15% of (f) \$ \_\_\_\_\_

Limitations: (c) may not exceed (g)  
(f) may not exceed (h)

5. Interest Coverage (Section 5.19)

At the end of each Fiscal Quarter, commencing with the Fiscal Quarter ending January 26, 1997, the ratio of EBIT to Consolidated Net Interest Expense shall not have been less than 2.25 to 1.0.

(a) EBIT - Schedule 1	\$ _____
(b) Consolidated Net Interest Expense - Schedule 1	\$ _____
(c) Actual ratio of (a) to (b)	____ to 1.0
Minimum ratio	2.25 to 1.0

6. Ratio of Total Debt to Total Capitalization (Section 5.20)

The ratio of Total Debt to Total Capitalization will not at the end of each Fiscal Month exceed 0.60 to 1.00.

(a) Total Debt	\$ _____
(b) Stockholders' Equity	\$ _____
(c) Total Capitalization (sum of (a) and (b))	\$ _____
(d) Actual ratio of (a) to (c)	____ to 1.0
Maximum ratio	0.60 to 1.0

7. Debt/EBITDA Ratio (Section 5.21)

The Debt/EBITDA Ratio will at the end of each Fiscal Month be less than 3.5 to 1.00.

(a) Total Debt	\$ _____
(b) EBITDA - Schedule 1	\$ _____
(c) Actual ratio of (a) to (b)	____ to 1.0
Maximum ratio	< 3.5 to 1.0

EBIT/EBITDA

I. EBIT:

(a) Consolidated Net Income for:

quarter		\$ _____
--- quarter	----	
quarter		\$ _____
--- quarter	----	
quarter		\$ _____
--- quarter	----	
quarter		\$ _____
--- quarter	----	
Total		\$ _____

(b) Consolidated Net Interest Expense (1) for:

quarter		\$ _____
--- quarter	----	
quarter		\$ _____
--- quarter	----	
quarter		\$ _____
--- quarter	----	
quarter		\$ _____
--- quarter	----	
Total		\$ _____

(c) Income taxes for:

quarter		\$ _____
--- quarter	----	
quarter		\$ _____
--- quarter	----	
quarter		\$ _____
--- quarter	----	
quarter		\$ _____
--- quarter	----	
Total		\$ _____

TOTAL EBIT (sum of (a) through (c)) \$ \_\_\_\_\_

II. EBITDA

(a) EBIT (from Part I)

\$ \_\_\_\_\_

(b) Depreciation expense for:

quarter		\$ _____
--- quarter	----	
quarter		\$ _____
--- quarter	----	

(1) Exclude Restricted Investments

quarter  
--- quarter ---  
--- quarter ---  
Total

\$ \_\_\_\_\_  
\$ \_\_\_\_\_  
\$ \_\_\_\_\_

(c) Amortization expense for:

quarter		\$ _____
--- quarter	----	
quarter		\$ _____
--- quarter	----	
quarter		\$ _____
--- quarter	----	
quarter		\$ _____
--- quarter	----	
Total		\$ _____

(d) Other Non-cash charges for:

quarter		\$ _____
--- quarter	----	
quarter		\$ _____
--- quarter	----	
quarter		\$ _____
--- quarter	----	
quarter		\$ _____
--- quarter	----	
Total		\$ _____

TOTAL EBITDA (sum of (a) through (d)) \$ \_\_\_\_\_

CULP, INC.

CLOSING CERTIFICATE

Reference is made to the Credit Agreement (the "Credit Agreement") dated as of April 23, 1997, among Culp, Inc., the Banks listed therein, Wachovia Bank of Georgia, N.A., as Agent and First Union National Bank of North Carolina, as Documentation Agent. Capitalized terms used herein have the meanings ascribed thereto in the Credit Agreement.

Pursuant to Section 3.01(e) of the Credit Agreement, \_\_\_\_\_, the duly authorized \_\_\_\_\_ of Culp, Inc., hereby certifies to the Agent and the Banks that (i) no Default has occurred and is continuing as of the date hereof, and (ii) the representations and warranties contained in Article IV of the Credit Agreement are true on and as of the date hereof.

Certified as of April 23, 1997.

By: \_\_\_\_\_  
Printed Name: \_\_\_\_\_  
Title: \_\_\_\_\_

CULP, INC.

SECRETARY'S CERTIFICATE

The undersigned, \_\_\_\_\_, Secretary of Culp, Inc., a North Carolina corporation (the "Borrower"), hereby certifies that [s]he has been duly elected, qualified and is acting in such capacity and that, as such, [s]he is familiar with the facts herein certified and is duly authorized to certify the same, and hereby further certifies, in connection with the Credit Agreement dated as of April 23, 1997 among the Borrower, Wachovia Bank of Georgia, N.A. as Agent, First Union National Bank of North Carolina, as Documentation Agent and the Banks listed on the signature pages thereof, that:

1. Attached hereto as Exhibit A is a complete and correct copy of the Certificate of Incorporation of the Borrower as in full force and effect on the date hereof as certified by the Secretary of State of the State of North Carolina, the Borrower's state of incorporation.

2. Attached hereto as Exhibit B is a complete and correct copy of the Bylaws of the Borrower as in full force and effect on the date hereof.

3. Attached hereto as Exhibit C is a complete and correct copy of the resolutions duly adopted by the Board of Directors of the Borrower on \_\_\_\_\_, 1997 approving, and authorizing the execution and delivery of, the Credit Agreement, the Notes and the other Loan Documents (as such terms are defined in the Credit Agreement) to which the Borrower is a party. Such resolutions have not been repealed or amended and are in full force and effect, and no other resolutions or consents have been adopted by the Board of Directors of the Borrower in connection therewith.

4. \_\_\_\_\_, who is \_\_\_\_\_ of the Borrower signed the Credit Agreement, the Notes and the other Loan Documents to which the Borrower is a party, was duly elected, qualified and acting as such at the time [s]he signed the Credit Agreement, the Notes and other Loan Documents to which the Borrower is a party, and [his/her] signature appearing on the Credit Agreement, the Notes and the other Loan Documents to which the Borrower is a party is [his/her] genuine signature.

IN WITNESS WHEREOF, the undersigned has hereunto set [his/her] hand as of April 23, 1997.

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MONEY MARKET QUOTE REQUEST

[Date]

Wachovia Bank of Georgia, N.A.,  
as Agent  
191 Peachtree Street, N.E.  
Atlanta, Georgia 30303-1757  
Attention: Syndications Group

Re: Money Market Quote Request

This Money Market Quote Request is given in accordance with Section 2.03 of the Credit Agreement (as amended or modified from time to time, the "Credit Agreement") dated as of April 23, 1997, among Culp, Inc., the Banks from time to time parties thereto, Wachovia Bank of Georgia, N.A., as Agent and First Union National Bank of North Carolina, as Documentation Agent. Terms defined in the Credit Agreement are used herein as defined therein.

The Borrower hereby requests that the Agent obtain quotes for a Money Market Borrowing based upon the following:

1. The proposed date of the Money Market Borrowing shall be \_\_\_\_\_, 19\_\_\_\_ (the "Money Market Borrowing Date").(1)\*
2. The aggregate amount of the Money Market Borrowing shall be \$\_\_\_\_\_.(2)
3. The Stated Maturity Date(s) applicable to the Money Market Borrowing shall be \_\_\_\_\_ days.(3)

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\* All numbered footnotes appear on the last page of this Exhibit I.

Very truly yours,

CULP, INC.

By: \_\_\_\_\_  
Title:

- (1) The date must be a Euro-Dollar Business Day.
- (2) The amount of the Money Market Borrowing is subject to Section 2.03(a) and (b).
- (3) The Stated Maturity Dates are subject to Section 2.03(b)(iii). The Borrower may request that up to 2 different Stated Maturity Dates be applicable to any Money Market Borrowing, provided that (i) each such Stated Maturity Date shall be deemed to be a separate Money Market Quote Request and (ii) the Borrower shall specify the amounts of such Money Market Borrowing to be subject to each such different Stated Maturity Date.

MONEY MARKET QUOTE

Wachovia Bank of Georgia, N.A.,  
as Agent  
191 Peachtree Street, N.E.  
Atlanta, Georgia 30303-1757  
Attention: Syndications Group

Re: Money Market Quote to Culp, Inc.

This Money Market Quote is given in accordance with Section 2.03(c)(ii) of the Credit Agreement (as amended or modified from time to time, the "Credit Agreement") dated as of April 23, 1997, among Culp, Inc. (the "Borrower"), the Banks from time to time parties thereto, Wachovia Bank of Georgia, N.A., as Agent and First Union National Bank of North Carolina, as Documentation Agent. Terms defined in the Credit Agreement are used herein as defined therein.

In response to the Borrower's Money Market Quote Request dated \_\_\_\_\_, \_\_\_\_\_, we hereby make the following Money Market Quote on the following terms:

- 1. Quoting Bank:
- 2. Person to contact at Quoting Bank:
- 3. Date of Money Market Borrowing:1\*

4. We hereby offer to make Money Market Loan(s) in the following maximum principal amounts for the following Interest Periods and at the following rates:

Maximum Principal Amount(2) - - - - -	Stated Maturity Date(3) - - - - -	Rate Per Annum(4) - - - - -
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\* All numbered footnotes appear on the last page of this Exhibit J.

We understand and agree that the offer(s) set forth above, subject to the satisfaction of the applicable conditions set forth in the Credit Agreement, irrevocably obligate(s) us to make the Money Market Loan(s) for which any offer(s) [is] [are] accepted, in whole or in part (subject to the last sentence of Section 2.03(c)(i) of the Credit Agreement).

Very truly yours,

[Name of Bank]

Dated: \_\_\_\_\_

By: \_\_\_\_\_  
Authorized Officer

- 
- (1) As specified in the related Money Market Quote Request.
  - (2) The principal amount bid for each Stated Maturity Date may not exceed the principal amount requested. Money Market Quotes must be made for at least \$5,000,000 or a larger integral multiple of \$1,000,000.
  - (3) The Stated Maturity Dates are subject to Section 2.03(b)(iii).
  - (4) Subject to Section 2.03(c)(ii)(C).

## Subsidiaries

Name	Jurisdiction of Incorporation
Guilford Printers, Inc.	North Carolina(2)
Culp International, Inc.	Virgin Islands
3096726 Canada Inc.	Federal Laws of Canada
Rayonese Textile Inc.	Federal Laws of Canada

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(2) Administratively dissolved by the North Carolina Secretary of State, effective December 12, 1993

Loans and Advances existing on the Closing Date

NONE.

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Investments existing on the Closing Date

1. The Restricted Investments in existence from time to time.
2. The Borrower's Investments in Subsidiaries.

Debt of Subsidiaries existing on the Closing Date

Indebtedness of Rayonese Textile, Inc. (the outstanding principal amount of which is approximately CN \$ 754,000 as of the Closing Date) represented by that certain Canada-Quebec Subsidiary Agreement on Industrial Development between Rayonese Textile Inc. and Industry Canada.

April 22, 1997

Line of Credit Agreement

Mr. Franklin N. Saxon  
Senior Vice President & Chief Financial Officer  
Culp, Inc.  
P. O. Box 2686  
High Point, N. C. 27261

Dear Frank:

Wachovia Bank of North Carolina, N. A. ("Bank") is pleased to offer to your company the following credit facility:

TYPE: Revolving Line of Credit

AMOUNT: Up to Four Million Dollars (\$4,000,000.00)

PURPOSE: For general working capital purposes.

REPAYMENT TERMS: Interest payable monthly on the first business day of each calendar month.

TERMINATION DATE: After closing, this line of credit will expire on May 31, 1998 ("Termination Date") provided however that the Termination Date shall automatically be extended for an additional three month period on each August 31, November 30, February 28, and May 31 (each an "Extension Date") unless the Bank has notified the Borrower in writing at least 60 days prior to an Extension Date that it will not be so extended. In no event shall the Termination Date extend beyond the "Termination Date" in effect under the Credit Agreement dated April 23, 1997 between Culp, Inc. and Wachovia Bank of Georgia, as Agent.

INTEREST RATE: The interest rate shall be the 30 day Adjusted London Interbank Offered Rate ("LIBOR") plus the Applicable Margin as defined in section 2.06 of the \$125,000,000.00 Credit Agreement between Culp, Inc. and Wachovia Bank of Georgia, N.A., as Agent dated April 23, 1997. The "London Interbank Offered Rate" means the rate per annum determined on the basis of the offered rate for deposits in Dollars of amounts equal or comparable to the principal amount of such Euro-Dollar Loan offered for a term comparable to such Interest Period, which rates appear on the Telerate Page 3750 effective as of 11:00 A.M., London time, 2 Euro-Dollar Business Days prior to the first day of such Interest Period, provided that if no such offered rates appear on such page, the "London Interbank Offered Rate" for such Interest Period will be the arithmetic average (rounded upward, if necessary, to the next higher 1/100th of 1%) of rates quoted by not less than 2 major banks in New York City, selected by the Agent, at approximately 10:00 A.M., New York City time, 2 Euro Dollar Business Days prior to the first day of such Interest Period, for deposits in Dollars offered to leading European banks for a period comparable to such Interest Period in an amount comparable to the principal amount of such Euro-Dollar Loan.

The "Adjusted London Interbank Offered Rate" means, for any Interest Period, a rate per annum equal to the quotient obtained (rounded upwards, if necessary, to the next higher 1/100th of 1%) by dividing (i) the applicable London Interbank Offered Rate for such Interest Period by (ii) 1.00 minus the Euro-Dollar Reserve Percentage.

FINANCIAL REPORTS: The following information will be required:

1. Year end audited financial statements prepared by a certified public accounting firm acceptable to the Bank.
2. Quarterly income statements, balance sheets, and cash flow statements.

FEES: 5,000.00 Facility fee payable upon acceptance.

OTHER CONDITIONS: This commitment is subject to the terms and conditions of the Credit Agreement dated April 23, 1997 between Culp, Inc. and Wachovia Bank of Georgia, as Agent as amended and supplemented from time to time.

In no event shall either your company or the Bank be liable to the other for indirect, special, or consequential damages which may arise out of the issuance of this commitment.

Closing must occur by April 29, 1997.

All information and representations are and will be at closing accurate.

COMMITMENT MODIFICATIONS: No condition or other term of this commitment may be waived or modified except by a writing signed by both your company and the Bank.

Please call me if you have any questions about the terms of this offer. If this commitment is not accepted and returned to the Bank by April 25, 1997, this commitment shall be null and void. To acknowledge your acceptance, please sign below and return to me. We look forward to working with you.

Very truly yours,

Pete T. Callahan  
Senior Vice President

ACCEPTED THIS \_\_\_\_\_ DAY OF \_\_\_\_\_, 1997:

CULP, INC.

BY: \_\_\_\_\_

TITLE: Senior Vice President and Chief Financial Officer

REIMBURSEMENT AND SECURITY AGREEMENT

BETWEEN

CULP, INC.,

AND

WACHOVIA BANK OF NORTH CAROLINA, NATIONAL ASSOCIATION

DATED AS OF APRIL 1, 1997

RELATING TO \$3,377,000 PRINCIPAL AMOUNT  
CHESTERFIELD COUNTY, SOUTH CAROLINA  
INDUSTRIAL REVENUE BONDS  
(CULP, INC. PROJECT) SERIES 1988  
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REIMBURSEMENT AND SECURITY AGREEMENT

THIS REIMBURSEMENT AND SECURITY AGREEMENT, dated as of April 1, 1997, is made and entered into by and between CULP, INC., a North Carolina corporation (the "Company"), and WACHOVIA BANK OF NORTH CAROLINA, NATIONAL ASSOCIATION, a national banking association with its principal office in Winston-Salem, North Carolina (the "Bank").

W I T N E S S E T H:

WHEREAS, on December 19, 1988, Chesterfield County, South Carolina (the "Issuer"), issued its Industrial Revenue Bonds (Culp, Inc. Project) Series 1988 in the aggregate principal amount of \$3,377,000 (the "Bonds") pursuant to an Indenture of Trust dated as of December 1, 1988 (as the same may be supplemented pursuant to its terms, the "Indenture"), between the Issuer and Branch Banking and Trust Company, as trustee (together with any successors in trust, the "Trustee"); and

WHEREAS, pursuant to a Loan Agreement dated as of December 1, 1988 (as the same may be amended pursuant to its terms and the terms of the Indenture, the "Loan Agreement") between the Issuer and the Company, the Issuer loaned the proceeds of the Bonds to the Company (i) to finance the acquisition, construction and equipping of certain facilities more fully described in the Loan Agreement (the "Project"), and (ii) to pay certain costs of issuing the Bonds; and

WHEREAS, to provide additional security for the payment of the Bonds, the Bank issued its irrevocable, direct-pay letter of credit No. LC 968-068488 dated April 1, 1996 (the "Original Letter of Credit"); and

WHEREAS, the Original Letter of Credit was issued pursuant to a 1996 Amended and Restated Credit Agreement dated as of April 1, 1996, among the Company, the Bank, and First Union National Bank of North Carolina, N.A. (the "1996 Credit Agreement"); and

WHEREAS, the Company has determined to replace the 1996 Credit Agreement with a new credit agreement dated as of April 23, 1997 (the "Credit Agreement"), among the Company, the Banks listed therein, and Wachovia Bank of Georgia, N.A., as Agent ("Agent"); and

WHEREAS, as a condition to the execution of the Credit Agreement, the Company and the Bank, at the request of the Agent, have agreed to enter into this Reimbursement Agreement to set forth the Company's obligations to reimburse the Bank for any draws on the Letter of Credit, as hereinafter defined; and

WHEREAS, in connection with the execution of the Credit Agreement, the Bank has agreed to amend the terms of the Original Letter of Credit in order to provide for automatic extension of the

term thereof, and to amend certain references therein to refer to this Reimbursement Agreement; and

WHEREAS, as required by SECTION 8.5 of the Indenture, the Trustee has consented to the amendment of the Original Letter of Credit; and

WHEREAS, the Bank has agreed to issue the First Amendment to Letter of Credit No. LC 968-068488 (the "First Amendment to Letter of Credit") substantially in the form attached herein as EXHIBIT A, which is by this reference made a part hereof (the Original Letter of Credit, as amended by the First Amendment to Letter of Credit, as the same may be further amended from time to time, the "Letter of Credit");

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

#### ARTICLE I. DEFINITIONS.

Section I.1. Defined Terms. Unless otherwise specifically defined herein, capitalized terms used but not defined herein shall have the meanings assigned to them in the Credit Agreement. In the event the Credit Agreement is no longer in effect, such terms and any other references to the terms of the Credit Agreement shall have the meanings and substance assigned to them in the Credit Agreement immediately prior to its termination. Furthermore, in addition to the words and terms defined above, the following terms when used herein shall have the following respective meanings:

"Bankruptcy Code" means Title 11 of the United States Code, as amended, and any successor statute or statutes having substantially the same function.

"Business Day" means any day on which the offices of the Bank at which drawings on the Letter of Credit are made, the Trustee, the Tender Agent, the Registrar (as each such term is defined in the Indenture) and the Remarketing Agent are each open for business and on which The New York Stock Exchange is not closed.

"Closing Date" means April 23, 1997.

"Code" means the Internal Revenue Code of 1986, as amended, or any successor federal tax code. Any reference to any provision of the Code shall also include the income tax regulations promulgated thereunder, whether final, temporary or proposed.

"Default" means any event that, with the passage of time or giving of notice, or both, would constitute an Event of Default.

"Default Rate" means on any day, the sum of 2% plus the then highest interest rate (including the Applicable Margin) which may be applicable to any Loans under the Credit Agreement (irrespective of whether any such type of Loans are actually outstanding thereunder).

"Environmental Law" means any federal, state or local law, statute, ordinance, rule, regulation, permit, license, approval, interpretation, order, guidance or other legal requirement (including without limitation any subsequent enactment, amendment or modification) relating to the protection of human health or the environment, including, but not limited to, any requirement pertaining to the manufacture, processing, distribution, use, treatment, storage, disposal, transportation, handling, reporting, licensing, permitting, investigation or remediation of materials that are or may constitute a threat to human health or the environment.

"Event of Default" means any of the events specified in SECTION 8.1 hereof.

"Expiration Date" means the Initial Expiration Date or, if the stated term of the Letter of Credit is extended as contemplated in SECTION 2.2(B) hereof, the last day of each Successive Extension Period.

"Fee Percentage" means (i) on the Closing Date, \_\_\_\_ % per annum, and (ii) on each Payment Date thereafter, the percentage determined on such Payment Date by reference to the table set forth below and the Debt/EBITDA Ratio for the quarterly or annual period ending immediately prior to such Payment Date:

Debt/EBITDA Ratio	Fee Percentage
< 1.5 to 1.0	.35%
=> 1.5 to 1 but < 2.3 to 1	.40%
=> 2.3 to 1 but < 2.5 to 1	.50%
> 2.5 to 1	.65%

"Financial Statements" means the annual audited consolidated financial statements of the Company and its Subsidiaries at April 30 and for the year then ended.

"Generally Accepted Accounting Principles" means generally accepted accounting principles, applied on a consistent basis for the Company and its Subsidiaries on a consolidated basis throughout the period indicated, as further described in Section 1.02 of the

Credit Agreement.

"Governmental Authority" means any nation or government, any state, department, agency or other political subdivision thereof, and any entity exercising executive, legislative, judicial, regulatory or administrative functions of or pertaining to any government, and any corporation or other entity owned or controlled (through stock or capital ownership or otherwise) by any of the foregoing.

"Hazardous Material" means any substance or material meeting any one or more of the following criteria: (i) it is or contains a substance designated as a hazardous waste, hazardous substance, pollutant, contaminant or toxic substance under any Environmental Law; (ii) it is toxic, explosive, corrosive, ignitable, infectious, radioactive, mutagenic or otherwise hazardous, (iii) its presence requires investigation or remediation under an Environmental Law or common law; (iv) it constitutes a danger, nuisance, trespass or health or safety hazard to persons or property; and/or (v) it is or contains, without limiting the foregoing, petroleum hydrocarbons.

"Initial Expiration Date" means March 1, 2001.

"Letter of Credit Amount" means, at any time, the aggregate of the Letter of Credit - Principal Component and the Letter of Credit - Interest Component, subject to reduction or reinstatement as provided in the Letter of Credit.

"Letter of Credit - Interest Component" has the meaning ascribed thereto in SECTION 2.1 hereof.

"Letter of Credit - Principal Component" has the meaning ascribed thereto in SECTION 2.1 hereof.

"Material Adverse Change" means a material adverse change in, any of (i) the financial condition, operations, business, properties or prospects of the Company and its Subsidiaries, taken as a whole; (ii) the ability of the Company or any Subsidiary to perform under this Agreement or any Related Document in any material respect or any other material contract to which any one or more of them is a party in any material respect; (iii) the legality, validity or enforceability of this Agreement or any Related Document; or (iv) the perfection or priority of the liens of the Bank granted under this Agreement or any Related Document or the rights and remedies of the Bank under this Agreement or any Related Document (other than a change resulting from any act or omission by the Bank).

"Moody's" means Moody's Investors Service and any successor thereto which is a nationally recognized rating agency.

"Notice of Adjustment" has the meaning ascribed thereto in SECTION 2.4(B) hereof.

"Notice of Non-Extension" means a written notice delivered by the Bank to the Trustee, the Company and the Rating Agency to the effect that the Letter of Credit will not be extended for a Successive Extension Period.

"Offering Memorandum" means collectively the Preliminary Offering Memorandum and the Offering Memorandum with respect to the initial offering and sale of the Bonds, together with the Supplement to Offering Memorandum to be distributed in connection with the remarketing of the Bonds following the Closing Date.

"Payment Date" means each anniversary of the Closing Date, commencing April 23, 1998.

"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.

"Placement Agent" means Wachovia Bank of North Carolina, National Association, in its capacity as placement agent under the Placement Agreement.

"Placement Agreement" means the Placement Agreement as defined in the Indenture.

"Pledged Bond Collateral" has the meaning set forth in SECTION 9.1 hereof.

"Pledged Bonds" means those Bonds which have been purchased from monies drawn under the Letter of Credit and not remarketed by the Remarketing Agent pursuant to of the Indenture.

"Purchase Price" means an amount equal to 100% of the principal amount of any Bond tendered or deemed tendered for purchase pursuant to the Indenture plus accrued and unpaid interest thereon to the date of purchase.

"Rating Agency" means Moody's, Standard & Poor's and any other national rating service acceptable to the Trustee, the Remarketing Agent, the Bank and the Company that has a rating of the Bonds in effect at that time.

"Reimbursement Agreement" means this Reimbursement and Security Agreement, as the same may be amended, modified, supplemented or restated from time to time.

"Reimbursement Obligations" means any one or more of the obligations of the Company to the Bank under this Reimbursement Agreement, including but not limited to the obligations specified

in SECTION 2.5 of this Reimbursement Agreement.

"Related Documents" means the Bonds, the Indenture, the Loan Agreement, the Placement Agreement, the Remarketing Agreement and any other instrument, document, agreement or certificate relating thereto or otherwise executed and delivered in connection with the issuance of the Bonds or the Letter of Credit.

"Remarketing Agent" means Wachovia Bank of North Carolina, National Association, and its successors appointed and serving in such capacity under the Indenture.

"Standard & Poor's" means Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, and any successor thereto which is a nationally recognized rating agency.

"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, by the Company.

"Successive Extension Period" has the meaning ascribed thereto in SECTION 2.2(B) hereof.

"Tender Advance" means a loan by the Bank to the Company made pursuant to SECTION 2.6 hereof, the proceeds of which are used to reimburse the Bank for the amount of a corresponding Tender Drawing.

"Tender Advance Interest Rate" means the interest rate applicable to a Euro-Dollar Loan under the Credit Agreement as of the date of such Tender Advance.

"Tender Agent" has the meaning ascribed thereto in ARTICLE I of the Indenture.

"Tender Drawing" means a drawing under the Letter of Credit to pay the portion of the Purchase Price of the Bonds allocable to principal.

"Termination Date" means the earliest of (i) the close of business on the Expiration Date, (ii) the date on which the principal amount of and interest on the Bonds shall have been paid in full, (iii) the close of business on the second Business Day following conversion of the interest rate on the Bonds to a Fixed Rate (as defined in the Indenture), (iv) the date on which the Bank honors the draft drawn on the Letter of Credit pursuant to the Indenture following the occurrence of an Event of Default (as defined in the Indenture) and an acceleration, (v) the date the Letter of Credit is surrendered to the Bank for cancellation, or (vi) the date the Bank honors the final drawing available under the

Letter of Credit.

Section I.2. Accounting Terms. Any accounting terms used in this Reimbursement Agreement that are not specifically defined shall be interpreted as set forth in Section 1.02 of the Credit Agreement.

Section I.3. Singular/Plural. Unless the context otherwise requires, words in the singular include the plural and words in the plural include the singular.

ARTICLE II. THE LETTER OF CREDIT.

Section II.1. Terms of Letter of Credit. The Bank issued its Letter of Credit on April 1, 1996, in an amount equal to the sum of (i) the aggregate principal amount of the Bonds (the "Letter of Credit - Principal Component"), plus (ii) an amount equal to 120 days' interest on the Bonds, computed as though the Bonds bore interest at the rate of 15% per annum, notwithstanding the actual rate borne by the Bonds from time to time, based on a 360-day year for the actual number of days elapsed (the "Letter of Credit - Interest Component"). The Original Letter of Credit is hereby amended by the First Amendment, as set forth on EXHIBIT A hereto. The Bank shall execute the First Amendment and deliver it to the Trustee with instructions that the First Amendment be attached to the Original Letter of Credit.

Section II.2. Term of the Letter of Credit; Extensions of the Stated Term; Cancellation or Replacement of the Letter of Credit.

(a) The term of the Letter of Credit shall end on the Termination Date.

(b) The initial term of the Letter of Credit is stated to expire, subject to earlier termination, on the Initial Expiration Date. The Initial Expiration Date will be automatically extended, subject to earlier termination, for successive additional periods of one calendar month each ("Successive Extension Periods") until the fifth day of the thirteenth calendar month following the calendar month during which the Company, the Trustee, and the Rating Agency receive a Notice of Non-Extension from the Bank. The Bank's decision to deliver a Notice of Non-Extension shall be made in its sole discretion and no course of dealing or other circumstance shall be deemed to require the Bank to refrain from delivering a Notice of Non-Extension. The Company shall provide prior written notice to the Trustee of any amendment or modification of this SECTION 2.2(B).

(c) The Letter of Credit may be canceled or replaced at any time without penalty or premium at the request of the Company upon satisfaction of all conditions specified in subsections (i), (ii)

and (iii) hereof:

(i) the Company shall have given not less than thirty (30) days prior written notice to the Bank that the Company desires to cancel or replace the Letter of Credit;

(ii) the Letter of Credit shall have been returned to the Bank for cancellation; and

(iii) all Reimbursement Obligations (including all Letter of Credit fees) shall have been paid in full.

Upon the cancellation or replacement of the Letter of Credit in accordance with this Section, the Bank will within ten (10) days of the effective date of such cancellation or replacement refund to the Company any unearned portion of the letter of credit fee previously paid by the Company to the Bank pursuant to Section 2.4(a).

Section II.3. Reduction of Letter of Credit Amount; Restoration of Letter of Credit Amount. Without limiting the provisions of the Letter of Credit, the Letter of Credit - Interest Component shall be reduced in an amount equal to any draw to pay interest on the Bonds (including interest constituting a portion of the Purchase Price of Bonds), but shall be reinstated automatically ten (10) calendar days after drawing unless the Bank shall have notified the Trustee that (i) the Bank has not been reimbursed for said drawing or (ii) that an Event of Default has occurred and is continuing. In addition, and without limiting the provisions of the Letter of Credit, the Letter of Credit - Principal Component shall be reduced in an amount equal to any draw to pay principal of the Bonds (including any Tender Drawing), but, with respect to any Tender Drawing, such amount will be reinstated upon receipt by the Trustee of notice from the Bank that the Tender Advance applicable thereto has been repaid.

Section II.4. Fees Relating to Letter of Credit.

(a) The Company hereby agrees to pay to the Bank annually in advance, commencing on the Closing Date and thereafter on each Payment Date, a letter of credit fee, calculated in the manner provided in the last paragraph of Section 2.06(a)(ii) of the Credit Agreement, equal to the product of the Letter of Credit Amount in effect on the date of such payment (after giving effect to any reduction in the Letter of Credit Amount resulting from a redemption of Bonds on such date) multiplied by the applicable Fee Percentage. The letter of credit fee shall be computed on the basis of the actual number of days elapsed over a 360-day year. If a Tender Advance is outstanding on any Payment Date, the Company shall pay to the Bank an additional letter of credit fee on any date when all or a portion of the principal amount of such Tender Advance is repaid equal to the product of the principal amount of the Tender Advance being repaid, multiplied by (1) the Fee Percentage, and (2) the number of days from the date of such repayment until the next Payment Date divided by 360.

(b) If, after the date hereof, any law or regulation shall be adopted or any change in any law or regulation or in the interpretation thereof by any Governmental Authority shall occur, which adoption or change shall either: (i) impose, modify or deem applicable any reserve, special deposit or similar requirement against letters of credit issued by, or assets held by, or deposits in or for the account of, the Bank, or (ii) impose on the Bank any other condition relating, directly or indirectly, to this Reimbursement Agreement or the Letter of Credit, and the result of any event referred to in clause (i) or (ii) of this subsection shall be to increase the cost to the Bank of issuing or maintaining the Letter of Credit, then the Company shall pay to the Bank, upon demand therefor by the Bank, such additional amounts as the Bank shall reasonably determine are necessary to compensate the Bank for such increased cost, together with interest on such amount calculated at the Default Rate from the date of such demand until payment in full if such amount is not paid in full within thirty (30) days after such demand. The Bank shall deliver to the Company a certificate as to such increased cost incurred by the Bank as a result of any event mentioned in this subsection, setting forth in reasonable detail the basis therefor and the manner of calculation thereof, as soon as practicable after the Bank becomes aware of such change, which certificate shall be conclusive (absent manifest error) as to the amount set forth therein.

(c) If after the date hereof, the adoption of any applicable law, rule or regulation regarding capital adequacy, or any change therein, or any change in the interpretation or administration thereof by any Governmental Authority, or compliance by the Bank with any request or directive regarding capital adequacy (whether or not having the force of law) of any Governmental Authority, has or would have the effect of reducing the rate of return on the

Bank's capital as a consequence of its obligations under the Letter of Credit to a level below that which the Bank could have achieved but for such adoption, change or compliance (taking into consideration the Bank's policies with respect to capital adequacy), then the Company shall pay to the Bank, upon demand therefor by the Bank, such additional amounts as the Bank shall reasonably determine are necessary to compensate the Bank for such reduced rate of return, together with interest on such amount calculated at the Default Rate from the date of such demand until payment in full if such amount is not paid in full within thirty (30) days after such demand. The Bank shall deliver to the Company a certificate as to such reduced rate of return incurred by the Bank as a result of any event mentioned in this subsection, setting forth in reasonable detail the basis therefor and the manner of calculation thereof, as soon as practicable after the Bank becomes aware of such change, which certificate shall be conclusive (absent manifest error) as to the amount set forth therein. In determining such amount, the Bank may use any reasonable averaging and attribution methods.

(d) The Company hereby agrees to pay to the Bank upon each drawing under the Letter of Credit in accordance with its terms a drawing fee equal to \$100.00 per drawing, unless the Bank or one of its Affiliates is serving as Trustee pursuant to the terms of the Indenture on the date of such drawing. Such fee is due and payable on the date each drawing under the Letter of Credit is made.

#### Section II.5. Reimbursement of Drawings under Letter of Credit.

(a) The Company hereby agrees to pay to the Bank immediately after and on the same Business Day as any amount is drawn and paid under the Letter of Credit a sum equal to the amount so drawn; PROVIDED, HOWEVER, that if the Bank makes a Tender Advance pursuant to SECTION 2.6 on account of a Tender Drawing, the Company's obligation to reimburse the Bank for the amount of such Tender Drawing shall be deemed satisfied by the Bank's application of the proceeds of such Tender Advance.

(b) If the Company fails to pay to the Bank any amount when due under this Reimbursement Agreement, interest shall accrue on any and all such amounts at the Default Rate (in the case of interest on interest, to the maximum extent permitted by law), commencing the day after such amounts first became due until payment in full, and the Company hereby agrees to pay such accrued interest to the Bank upon demand.

Section II.6. Tender Advances, Prepayments, Interest Computations and Notices.

(a) The Bank agrees to make Tender Advances to the Company for the purpose of paying Tender Drawings arising from time to time (other than a Tender Drawing upon conversion of the interest rate on the Bonds to a "Fixed Rate" as defined in the Indenture), subject to the following conditions precedent: (i) the representations and warranties contained in ARTICLE V hereof shall be true and correct on and as of the date of such Tender Drawing as if made on and as of such date; and (ii) after giving effect to the foregoing clause (i), no Default or Event of Default under this Reimbursement Agreement shall have occurred and be continuing. Each Tender Advance shall be in an amount equal to a corresponding Tender Drawing and the proceeds of such Tender Advance shall be applied by the Bank automatically to the payment in full of such Tender Drawing. The Company hereby agrees to pay to the Bank the aggregate unpaid principal amount of all Tender Advances, together with all accrued and unpaid interest thereon, on the Termination Date. The Tender Advances may, but need not, be made against and evidenced by such promissory notes or instruments as the Bank may deem appropriate. Where a Tender Advance is evidenced by a promissory note or other instrument, the Company hereby authorizes the Bank to endorse on any schedule which may be attached thereto the amount of each Tender Advance made by the Bank to the Company hereunder, the date such Tender Advance is made and the amount of each payment or prepayment of principal of such Tender Advance received by the Bank; PROVIDED, HOWEVER, that any failure by the Bank to make any such endorsement shall not limit, modify or affect the obligations of the Company hereunder or under any promissory note or instrument relating thereto in respect of such Tender Advances.

(b) The Company hereby promises to pay to the Bank interest at a rate per annum equal to the Tender Advance Interest Rate on the unpaid principal amount of each Tender Advance for the period commencing on the date of such Tender Advance to, but excluding, the date such Tender Advance is paid in full; PROVIDED, HOWEVER, that if the Company fails to pay any portion of the principal of or accrued interest on any Tender Advance when due, interest on the unpaid principal amount of each Tender Advance shall accrue and be payable in accordance with the provisions of SECTION 2.5(B). Accrued interest on each Tender Advance shall be payable (i) on each Payment Date, (ii) upon the payment or prepayment thereof (but only on the principal so paid or prepaid), and (iii) on the Termination Date.

(c) All Tender Advances may be prepaid: (i) at any time by the Company on one (1) Business Day's notice stating the amount to be prepaid (which shall be \$5,000 or a whole number multiple thereof); and (ii) at any time on behalf of the Company on one (1) Business Day's notice from the Company or the Remarketing Agent directing the Bank to deliver (or, if the Bonds are then maintained

in book-entry form, authorize the release of) a specified principal amount of Pledged Bonds held by or for the benefit of the Bank for remarketing pursuant to SECTION 2.7 of the Indenture. Each such notice of prepayment shall be irrevocable and shall specify the Tender Advance to be prepaid and the amount of the Tender Advance to be prepaid and the date of prepayment (which date shall be a Business Day). Upon payment to the Bank of the amount to be prepaid pursuant to clause (i) or (ii) above, together with accrued interest, as set forth in SECTION 2.6(B)(II) hereof, to the date of such prepayment on the amount to be prepaid, the outstanding obligations of the Company under SECTION 2.6(A) shall be reduced by the amount of such prepayment, interest shall cease to accrue on the amount prepaid, and the Bank shall release or authorize the release from the pledge and security interest created under SECTION 9.1 hereof a principal amount of Pledged Bonds equal to the amount of such prepayment. Such Bonds shall be delivered to (or, if the Bonds are then maintained in book-entry form, registered for the account of) the Company, in the event of a prepayment pursuant to clause (i) above, or the Remarketing Agent pursuant to SECTION 2.7 of the Indenture, in the event of a prepayment pursuant to clause (ii) above, as appropriate.

Section II.7. Form and Place of Payments; Computation of Interest. All payments by the Company to the Bank hereunder shall be made in lawful currency of the United States and in immediately available funds at the Bank's principal office, which at the date hereof is located at Winston-Salem, North Carolina. Whenever any payment hereunder shall be due on a day which is not a Business Day, the date for payment thereof shall be extended to the next succeeding Business Day, and any interest payable thereof shall be payable for such extended time at the specified rate. All interest (including, without limitation, interest on Tender Advances) and fees hereunder shall be computed on the basis of the actual number of days elapsed over a 360-day year and shall include the first day but exclude the last day of the relevant period.

#### ARTICLE III. OBLIGATIONS ABSOLUTE.

Section III.1. Obligations Absolute, Unconditional and Irrevocable. The obligations of the Company under this Reimbursement Agreement and the Related Documents shall be absolute, unconditional and irrevocable, and shall be performed strictly in accordance with the terms hereof and thereof, under all circumstances whatsoever, irrespective of any of the following circumstances:

(a) any lack of validity or enforceability of this Reimbursement Agreement, the Letter of Credit, the Bonds or any of the other Related Documents;

(b) any amendment or waiver of or any consent to departure

from this Reimbursement Agreement, the Letter of Credit, the Bonds or all or any of the other Related Documents (except to the extent such amendment or waiver expressly relieves the Company of an obligation under this Reimbursement Agreement or the Related Documents);

(c) the existence of any claim, setoff, defense or other rights which the Company or any other Person may have at any time against the Trustee, the Placement Agent, the Remarketing Agent, the Tender Agent, any beneficiary or any transferee of the Letter of Credit (or any Person for whom the Trustee, the Placement Agent, the Remarketing Agent, the Tender Agent, any such beneficiary or any such transferee may be acting), the Bank, or any other Person, whether in connection with this Reimbursement Agreement, the Letter of Credit, the Bonds, the Credit Agreement or any of the other Related Documents or any unrelated transaction;

(d) any statement or any other document presented under the Letter of Credit proves to be forged, fraudulent or invalid or insufficient in any respect or any statement therein being untrue or inaccurate in any respect whatsoever (absent gross negligence or willful misconduct by the Bank);

(e) payment by the Bank under the Letter of Credit against presentation of a draft or certificate that does not comply with the terms of the Letter of Credit (absent gross negligence or willful misconduct by the Bank); and

(f) any other circumstance or happening whatsoever whether or not similar to any of the foregoing.

Nothing contained herein shall act as a waiver of any rights or claims the Company may have against the Bank or any other party listed in SECTION 3.1(C) above.

#### ARTICLE IV. CONDITIONS PRECEDENT TO EXECUTION OF REIMBURSEMENT AGREEMENT

Section IV.1. Conditions Precedent to Execution of Reimbursement Agreement. Each of the following is a condition precedent to the obligation of the Bank to enter into this Reimbursement Agreement.

(a) On or before the Closing Date, the Bank shall have received the following documents, instruments, opinions and certificates, each in form and substance satisfactory to the Bank:

(i) a duly executed original of this Reimbursement Agreement and the Credit Agreement;

(ii) a Closing Certificate as defined in Section 3.01(e)

of the Credit Agreement, addressed to the Bank;

(iii) an Officer's Certificate, as defined in Section 3.01(f) of the Credit Agreement, addressed to the Bank, together with a copy of the items described in such section; and

(iv) a Certificate of the Trustee evidencing the Trustee's consent to the First Amendment to Letter of Credit; and

(v) such other documents, instruments, opinions, certificates, approvals or consents as the Bank may reasonably request.

(b) As of the Closing Date the Bank shall be satisfied that there has been no Material Adverse Change, and that all information, representations and materials submitted to the Bank by the Company in connection with the issuance of the Letter of Credit are accurate and complete in all material respects.

#### ARTICLE V. REPRESENTATIONS AND WARRANTIES.

The representations and warranties of the Company set forth in Article IV of the Credit Agreement are hereby incorporated by reference as is set forth herein. Such representations and warranties are true and accurate on the date hereof (and the date of any Tender Advance, if any, made pursuant to this Reimbursement Agreement).

#### ARTICLE VI. COVENANTS.

Until the Letter of Credit has terminated and all Reimbursement Obligations have been paid in full, the Company will, and will cause its Subsidiaries to:

Section VI.1. Financial and Business Information. Deliver to the Bank:

(a) As soon as available and in any event within forty-five (45) days after the close of each of the first three Fiscal Quarters of each Fiscal Year of the Company, beginning with the current quarter, a consolidated balance sheet of the Company and its Consolidated Subsidiaries as of the end of such Fiscal Quarter and the related consolidated statement of income and statement of cash flows for such Fiscal Quarter then ended and for that portion of the Fiscal Year then ended, 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, GAAP and consistency by the chief financial officer or the chief accounting officer of the Borrower;

(b) As soon as available and in any event within ninety (90) days after the close of each Fiscal Year, consolidated balance sheet of the Company and its consolidated Subsidiaries as of the close of such Fiscal Year and the related audited consolidated statements of income, shareholders' equity and cash flows for each Fiscal Year, setting forth in comparative form the corresponding figures for the preceding Fiscal Year, all certified by KPMG Peat Marwick LLP or other independent public accountants of nationally recognized standing, with such certification to be free of exceptions and qualifications not acceptable to the Bank;

(c) Concurrently with the delivery of the financial statements described in subsections (a) and (b) above, a certificate required by Section 5.01(c) of the Credit Agreement, in substantially the form of EXHIBIT F to the Credit Agreement addressed to the Bank; and

(d) Copies of any other documents, instruments, certificates and notices required to be delivered to the Agent pursuant to Section 5.01 of the Credit Agreement.

Section VI.2. Notice of Certain Events. Promptly give notice in writing to the Bank of any Default or Event of Default under the Reimbursement Agreement.

Section VI.3. Covenants Incorporated by Reference. The covenants of the Company set forth in Sections 5.02 through 5.05, inclusive, and 5.07 through 5.22, inclusive, of the Credit Agreement are hereby incorporated by reference and shall be deemed to be made for the benefit the Bank under the Reimbursement Agreement as if fully set forth herein; PROVIDED THAT in all such covenants, the terms "the Banks" and "the Agent" shall be deemed to include the Bank, and the Bank shall be entitled to receipt of all notices, instruments, certificates and documents required to be delivered to the Banks or the Agent pursuant to such sections.

ARTICLE VII. RESERVED.

ARTICLE VIII. EVENTS OF DEFAULT; REMEDIES.

Section VIII.1. Events of Default. The occurrence of any one or more of the following events shall constitute an Event of Default hereunder:

(a) The Company shall fail to pay when due any amount payable under this Reimbursement Agreement;

(b) The Company shall fail to observe or perform any covenant, restriction or agreement contained in SECTIONS 6.1, 6.2 AND 6.3 of this Reimbursement Agreement;

(c) The Company shall fail to observe or perform any covenant, restriction or agreement contained in this Reimbursement Agreement and not described in SECTIONS 8.1(A) and (B) above for thirty (30) days after receipt by the Company of written notice from the Bank;

(d) Any representation, warranty, certification or statement made or deemed made by the Company in ARTICLE V of this Reimbursement Agreement, in any Related Document, in the Credit Agreement or in any certificate, financial statement or other document delivered pursuant to this Reimbursement Agreement or any Related Document shall prove to have been incorrect in any material respect when made or deemed made;

(e) A default or event of default as defined in any Related Document shall occur and be continuing; or

(f) A default or event of default as defined in the Credit Agreement or in any other agreement between the Company and the Bank shall occur and be continuing.

Section VIII.2. Remedies. Upon the occurrence and during the continuance of any Event of Default:

(a) Acceleration of Indebtedness. The Bank may, in its sole discretion, (i) declare all Tender Advances and all other amounts due hereunder and all interest accrued thereon to be immediately due and payable, and upon such declaration the same shall become and be immediately due and payable, without presentment, protest or other notice of any kind, all of which are hereby waived by the Company, (ii) notify the Trustee of such occurrence and thereby require the Trustee immediately to declare the principal of all Bonds then outstanding and the interest accrued thereon immediately due and payable pursuant to the Indenture, and (iii) pursue all remedies available to it by contract, at law or in equity.

(b) Right of Set-off. The Bank may, and is hereby authorized by the Company, at any time and from time to time, to the fullest extent permitted by applicable laws, without advance notice to the Company (any such notice being expressly waived by the Company), to set off and apply any and all deposits (general or special, time or demand, provisional or final) at any time held and any other indebtedness at any time owing by the Bank or any of its Affiliates to or for the credit or the account of the Company against any or all of the obligations of the Company under this Reimbursement Agreement now or hereafter existing, whether or not such obligations have matured. The Bank agrees promptly to notify the Company after any such set-off or application; PROVIDED, however,

that the failure to give such notice shall not affect the validity of such set-off and application.

(c) Rights and Remedies Cumulative; Non-Waiver; etc. The enumeration of the Bank's rights and remedies set forth in this Reimbursement Agreement is not intended to be exhaustive and the exercise by the Bank of any right or remedy shall not preclude the exercise of any other rights or remedies, all of which shall be cumulative, and shall be in addition to any other right or remedy given hereunder, under any Related Documents or under any other agreement between the Company and the Bank or that may now or hereafter exist in law or in equity or by suit or otherwise. No delay or failure to take action on the part of the Bank in exercising any right, power or privilege shall operate as a waiver thereof, nor shall any single or partial exercise of any such right, power or privilege preclude other or further exercise thereof or the exercise of any other right, power or privilege or shall be construed to be a waiver of any Event of Default. No course of dealing between the Company and the Bank or their agents or employees shall be effective to change, modify or discharge any provision of this Reimbursement Agreement or any of the Related Documents or to constitute a waiver of any Event of Default.

#### ARTICLE IX. PLEDGED BONDS.

Section IX.1. The Pledge. The Company hereby pledges, assigns, hypothecates, transfers, and delivers to the Bank all its right, title and interest to, and hereby grants to the Bank a first lien on, and security interest in, all right, title and interest of the Company in and to the following (hereinafter collectively called the "Pledged Bond Collateral"):

(i) all Pledged Bonds;

(ii) all income, earnings, profits, interest, premium or other payments in whatever form in respect of the Pledged Bonds; and

(iii) all proceeds (cash and non-cash) arising out of the sale, exchange, collection, enforcement or other disposition of all or any portion of the Pledged Bonds.

The Pledged Bond Collateral shall serve as security for the payment and performance when due of the Reimbursement Obligations. The Company shall deliver, or cause to be delivered, the Pledged Bonds to the Bank or to a pledge agent designated by the Bank immediately upon receipt thereof or, in the case of Pledged Bonds held under a book-entry system administered by The Depository Trust Company ("DTC"), New York, New York (or any other clearing corporation), the Company shall cause the Pledged Bonds to be reflected on the records of DTC (or such other clearing corporation) as a position

held by the Bank (or a pledge agent acceptable to the Bank) as a DTC participant (or a participant in such other clearing corporation) and the Bank (or its pledge agent) shall reflect on its records that the Pledged Bonds are owned beneficially by the Company subject to the pledge in favor of the Bank.

Section IX.2. Remedies Upon Default. If any Event of Default shall have occurred and be continuing, the Bank, without demand of performance or other demand, advertisement or notice of any kind (except the notice specified below of time and place of public or private sale) to or upon the Company or any other person (all and each of which demands, advertisements and/or notices are hereby expressly waived), may forthwith collect, receive, appropriate and realize upon the Pledged Bond Collateral, or any part thereof, and/or may forthwith sell, assign, give option or options to purchase, contract to sell or otherwise dispose of and deliver said Pledged Bond Collateral, or any part thereof, in one or more parcels at public or private sale or sales, at any exchange, broker's board or at any of the Bank's offices or elsewhere upon such terms and conditions as it may deem advisable and at such prices as it may deem best, for cash or on credit or for future delivery without assumption of any credit risk, with the right to the Bank upon any such sale or sales, public or private, to purchase the whole or any part of said Pledged Bond Collateral so sold, free of any right or equity of redemption in the Company, which right or equity is hereby expressly waived or released. The Bank shall apply the net proceeds of any such collection, recovery, receipt, appropriation, realization or sale, after deducting all reasonable costs and expenses of every kind incurred therein or incidental to the care, safekeeping or otherwise of any and all of the Pledged Bond Collateral or in any way relating to the rights of the Bank hereunder, including reasonable attorneys' fees and legal expenses, to the payment in whole or in part of the Reimbursement Obligations in such order as the Bank may elect, the Company remaining liable for any deficiency remaining unpaid after such application, and only after so applying such net proceeds and after the payment by the Bank of any other amount required by any provision of law, including, without limitation, Section 9-504(1)(c) of the Uniform Commercial Code, need the Bank account for the surplus, if any, to the Company. The Company agrees that the Bank need not give more than ten days notice of the time and place of any public sale or of the time after which a private sale or other intended disposition is to take place and that such notice is reasonable notification of such matters. No notification need be given to the Company if it has signed after Default a statement renouncing or modifying any right to notification of sale or other intended disposition. In addition to the rights and remedies granted to the Bank in this Reimbursement Agreement and in any other instrument or agreement securing, evidencing or relating to any of the Reimbursement Obligations, the Bank shall have all the rights and remedies of a secured party under the Uniform Commercial Code in effect in the State of North Carolina at that time.

If the Bank sells any of the Pledged Bond Collateral pursuant to this SECTION 9.2, the Bank agrees that it will reinstate the Letter of Credit in an amount sufficient to cover all principal and accrued interest on the Bonds so sold for up to 120 days at 15% per annum (computed on the basis of a 360-day year).

Section IX.3. Valid Perfected First Lien. The Company covenants that the pledge, assignment and delivery of the Pledged Bond Collateral hereunder will create a valid, perfected, first priority security interest in all right, title or interest of the Company in or to such Pledged Bond Collateral, and the proceeds thereof, subject to no prior pledge, lien, mortgage, hypothecation, security interest, charge, option or encumbrance or to any agreement purporting to grant to any third party a security interest in the property or assets of the Company which would include the Pledged Bond Collateral. The Company covenants and agrees that it will defend the Bank's right, title and security interest in and to the Pledged Bond Collateral and the proceeds thereof against the claims and demands of all persons whomsoever.

Section IX.4. Release of Pledged Bonds. Pledged Bonds shall be released from the security interest created hereunder upon satisfaction of the Reimbursement Obligations with respect to such Pledged Bonds as provided in SECTION 2.8 of the Indenture.

#### ARTICLE X. MISCELLANEOUS.

Section X.1. Costs, Expenses and Taxes. The Company agrees to pay on demand all reasonable out-of-pocket expenses of the Bank, including reasonable fees and disbursements of counsel, in connection with: (i) the preparation, execution, delivery, and filing, if required, of this Reimbursement Agreement and the Letter of Credit, (ii) any amendments, supplements, consents or waivers hereto or thereto, and (iii) the administration or enforcement of this Reimbursement Agreement, the Bonds, the Letter of Credit and the Related Documents and any other documents which may be delivered in connection herewith or therewith. In addition, the Company shall pay any and all stamp and other taxes and fees payable or determined to be payable in connection with the execution, delivery, filing and recording of this Reimbursement Agreement and the Related Documents and agrees to save the Bank harmless from and against any and all liabilities with respect to or resulting from any delay in paying or omission to pay such taxes and fees. It is the intention of the parties hereto that the Company shall pay amounts referred to in this Section directly. In the event the Bank pays any of the amounts referred to in this Section directly, the Company will reimburse the Bank for such advances and interest on such advance shall accrue until reimbursed at the Default Rate.

Section X.2. Indemnification. From and at all times after the date of this Reimbursement Agreement, and in addition to all of the Bank's other rights and remedies against the Company, the Company agrees to indemnify, defend and hold harmless the Bank, and each director, officer, employee, agent, successor, assign and affiliate of the Bank from and against the following (collectively "Costs"): any and all claims (whether valid or not), losses, damages, actions, suits, inquiries, investigations, administrative proceedings, judgments, liens, liabilities, penalties, fines, amounts paid in settlement, requirements of Governmental Authorities, punitive damages, interest, damages to natural resources and other costs and expenses of any kind or nature whatsoever (including without limitation reasonable attorneys' fees and expenses, court costs and fees, and consultant and expert witness fees and expenses) arising in any manner, directly or indirectly, out of or by reason of (a) the negotiation, preparation, execution or performance of this Reimbursement Agreement or the Related Documents, or any transaction contemplated herein or therein, whether or not the Bank or any other party protected under the indemnity agreement under this paragraph is a party to any action, proceeding or suit in question, or the target of any inquiry or investigation in question; PROVIDED, HOWEVER, that no indemnified party shall have the right to be indemnified hereunder for any liability resulting from the willful misconduct or gross negligence of such indemnified party (as finally determined by a court of competent jurisdiction), (b) any breach of any of the covenants, warranties or representations of the Company hereunder or under any Related Document, (c) any violation or alleged violation of any Environmental Law, federal or state securities law, common law, equitable requirement or other legal requirement by the Company or with respect to any property owned, leased or operated by the Company (in the past, currently or in the future), (d) by reason of any untrue statement or alleged untrue statement of any material fact contained or incorporated by reference in the Offering Memorandum, or in any supplement or amendment thereto, or the omission to state therein a material fact necessary to make such statements, in the light of the circumstances under which they are or were made, not misleading (other than statements or information supplied by the Bank for incorporation in the Offering Memorandum); (e) by reason of or in connection with the execution and delivery or transfer of, or payment or failure to pay under, the Letter of Credit (unless such Cost was caused by the willful misconduct or gross negligence of the Bank); and/or (f) any presence, generation, treatment, storage, disposal, transport, movement, release, suspected release or threatened release of any Hazardous Material on, in, to or from any property (or any part thereof including without limitation the soil and groundwater thereon and thereunder) owned, leased or operated by the Company (in the past, currently or in the future).

All of the foregoing Costs and obligations of the Company shall be additional obligations hereunder. In the event the Bank

or any other indemnified party shall suffer or incur any Costs, the Company shall pay to the indemnified party the total of all such Costs suffered or incurred by the party, and fulfill its other obligations hereunder, on demand.

Without limiting the foregoing, the Company shall be obligated to pay, on demand, the costs of any investigation, monitoring, assessment, enforcement, removal, remediation, restoration or other response or corrective action undertaken by the Bank or any other indemnified party, or their respective agents, with respect to any property owned, leased or operated by the Company.

It is expressly understood and agreed that the obligations of the Company under this Section shall not be limited to any extent by the term of the Letter of Credit or this Reimbursement Agreement and shall remain in full force and effect unless and until expressly terminated by Bank in writing.

Section X.3. Waiver of Jury Trial. AS PART OF THE CONSIDERATION FOR NEW VALUE THIS DAY RECEIVED, THE COMPANY HEREBY CONSENTS TO THE NONEXCLUSIVE JURISDICTION OF ANY STATE OR FEDERAL COURT SITTING WITHIN THE STATE OF NORTH CAROLINA FOR ANY ACTION TO WHICH THE COMPANY AND THE BANK ARE PARTIES ARISING OUT OF OR IN CONNECTION WITH THIS REIMBURSEMENT AGREEMENT OR ANY OF THE RELATED DOCUMENTS. TO THE EXTENT PERMITTED BY LAW, THE COMPANY WAIVES TRIAL BY JURY AND WAIVES ANY OBJECTION WHICH THE COMPANY MAY HAVE BASED ON LACK OF JURISDICTION OR IMPROPER VENUE OR FORUM NON CONVENIENS TO THE CONDUCT OF ANY ACTION INSTITUTED HEREUNDER OR UNDER ANY OF THE RELATED DOCUMENTS, OR ARISING OUT OF OR IN CONNECTION WITH THIS REIMBURSEMENT AGREEMENT OR ANY OF THE RELATED DOCUMENTS, OR ANY OTHER PROCEEDING ARISING OUT OF OR IN CONNECTION WITH THIS REIMBURSEMENT AGREEMENT OR ANY OF THE RELATED DOCUMENTS TO WHICH THE BANK IS A PARTY, INCLUDING ANY ACTIONS BASED UPON, ARISING OUT OF OR IN CONNECTION WITH ANY COURSE OF CONDUCT, COURSE OF DEALING OR STATEMENT (WHETHER ORAL OR WRITTEN) OR ACTIONS OF THE BANK OR THE COMPANY, AND THE COMPANY CONSENTS TO THE GRANTING OF SUCH LEGAL OR EQUITABLE RELIEF AS IS DEEMED APPROPRIATE BY THE COURT. NOTHING IN THIS SECTION SHALL AFFECT THE RIGHT OF THE BANK TO BRING ANY ACTION OR PROCEEDING AGAINST THE COMPANY IN THE COURTS OF ANY OTHER JURISDICTION THAT HAS JURISDICTION OVER THE COMPANY.

Section X.4. Waiver of Automatic or Supplemental Stay. IN THE EVENT THAT A PETITION FOR RELIEF UNDER ANY CHAPTER OF THE BANKRUPTCY CODE IS FILED BY OR AGAINST THE COMPANY, THE COMPANY PROMISES AND COVENANTS THAT IT WILL NOT SEEK A SUPPLEMENTAL STAY PURSUANT TO BANKRUPTCY CODE SS.SS. 105 OR 362 OR ANY OTHER RELIEF PURSUANT TO BANKRUPTCY CODE SS. 105 OR ANY OTHER PROVISION OF THE BANKRUPTCY CODE, WHETHER INJUNCTIVE OR OTHERWISE, WHICH WOULD STAY, INTERDICT, CONDITION, REDUCE OR INHIBIT THE BANK'S ABILITY TO ENFORCE ANY RIGHTS IT HAS, AT LAW OR IN EQUITY, TO COLLECT THE REIMBURSEMENT OBLIGATIONS FROM ANY PERSON OTHER THAN THE COMPANY.

Section X.5. Notices. All demands, notices, approvals, consents, requests, and other communications hereunder shall be in writing and shall be deemed to have been given when the writing is delivered, if given or delivered by hand, overnight delivery service or facsimile transmitter (with confirmed receipt), or five (5) days after being mailed, if mailed by first class, registered or certified mail, postage prepaid, to the address or telecopy number set forth below:

Party	Address
Company	Culp, Inc. 101 South Main Street High Point, North Carolina 27261 Attention: Franklin N. Saxon Telephone: (910) 888-6266 Telecopy: (910) 889-7089
Bank	Wachovia Bank of North Carolina, National Association Post Office Box 631 High Point, North Carolina 27261 Attention: Peter T. Callahan Telephone: (910) 887-7641 Telecopy: (910) 887-7550
with copies to:	Wachovia Bank of North Carolina, National Association 301 North Main Street Winston-Salem, North Carolina 27150 Attention: International Department  Wachovia Bank of North Carolina, National Association 100 North Main Street Winston-Salem, North Carolina 27101 Attention: Bond and Money Market Group/Customer Services
Trustee	First-Citizens Bank & Trust Company 2917 Highwoods Boulevard Raleigh, North Carolina 27604 Attention: Corporate Trust Department Telephone: (919) 755-7422 Facsimile: (919) 755-2025

The Company, the Bank or the Trustee may, by notice given hereunder, designate any further or different addresses or telecopy numbers to which subsequent demands, notices, approvals, consents, requests or other communications shall be sent or persons to whose attention the same shall be directed.

Section X.6. Payment from Bank's Funds. The Bank hereby covenants and agrees that any payments under the Letter of Credit will be made with the Bank's own funds and not with funds of the Issuer or the Company.

Section X.7. Limited Liability of the Bank. As between the Company and the Bank, the Company agrees to assume all risk of the acts or omissions of the Trustee (and any transferee of the Letter of Credit) with respect to its use of the Letter of Credit. Neither the Bank nor any of its officers or directors shall be liable or responsible for: (a) the use which may be made of the Letter of Credit or for any acts or omissions of the Trustee (or transferee) and any beneficiary in connection therewith; (b) the validity, or genuineness of documents, or of any endorsement(s) thereon, even if such documents should in fact prove to be in any or all respects invalid, fraudulent or forged; or (c) any other circumstances whatsoever in making or failing to make payment under the Letter of Credit, except that the Company shall have a claim against the Bank, and the Bank shall be liable to the Company, to the extent, but only to the extent, of any direct, as opposed to consequential, damages suffered by the Company which were caused by: (y) the Bank's willful misconduct or gross negligence in determining whether documents presented under the Letter of Credit comply with the terms thereof; or (z) the Bank's willful failure to pay under the Letter of Credit after the presentation to it by the Trustee (or a successor trustee under the Indenture to whom the Letter of Credit has been transferred in accordance with its terms) of a draft and certificate strictly complying with the terms and conditions of the Letter of Credit. In furtherance and not in limitation of the foregoing, the Bank may accept documents that appear on their face to be in order without responsibility for further investigation.

Section X.8. Continuing Obligations; Revival of Obligations. The obligations of the Company under this Reimbursement Agreement shall continue until all amounts due and owing to the Bank hereunder as of the Termination Date shall have been paid in full; PROVIDED, HOWEVER, that the obligations of the Company pursuant to SECTIONS 10.1 and 10.2 hereof shall survive the termination of this Reimbursement Agreement. The Company further agrees that to the extent the Company makes a payment to the Bank, which payment or any part thereof is subsequently invalidated, declared to be fraudulent or preferential, set aside or required to be repaid to a trustee, receiver, or any other party under any bankruptcy, insolvency or other similar state or federal statute, common law or principles of equity, then, to the extent of such repayment by the Bank, the Reimbursement Obligations or part thereof intended to be satisfied by such payment shall be revived and continued in full force and effect as if such payment had not been received by the Bank.

Section X.9. Confirmation of Lien. The Company hereby grants

to the Bank, to secure payment by the Company of sums due hereunder, a lien on moneys or instruments (at such times as they become payable to the Company under the Indenture) which the Company has an interest in or title to pursuant to SECTIONS 4.1, 4.2 or 4.4 of the Indenture, now or hereafter held in the Bond Fund, Bond Purchase Fund or Project Fund (as such terms are defined in the Indenture) or otherwise by the Trustee under any provision of the Indenture and in the right of the Company to receive any such moneys or instruments. The Bank hereby confirms that such lien is and shall be junior and subordinate to the lien on such moneys in favor of the holders of the Bonds and the Trustee.

Section X.10. Controlling Law. This Reimbursement Agreement has been executed, delivered and accepted at, and shall be deemed to have been made in, North Carolina and shall be interpreted in accordance with the internal laws (as opposed to conflicts of laws provisions) of the State of North Carolina.

Section X.11. Successors And Assigns. This Reimbursement Agreement shall be binding upon the Company, its successors and assigns and all rights against the Company arising under this Reimbursement Agreement shall be for the sole benefit of the Bank.

Section X.12. Assignment and Sale. Without the prior written consent of the Bank, the Company may not sell, assign or transfer this Reimbursement Agreement or any of the Related Documents or any portion hereof or thereof, including without limitation the Company's rights, title, interests, remedies, powers, and duties hereunder or thereunder.

Section X.13. Amendment. This Reimbursement Agreement can be amended or modified only by an instrument in writing signed by the parties. The Company must provide the Trustee with prior written notice of any amendment or modification of SECTION 2.2(B).

Section X.14. Severability. In the event that any provision of this Reimbursement Agreement shall be determined to be invalid or unenforceable by any court of competent jurisdiction, such determination shall not invalidate or render unenforceable any other provision hereof.

Section X.15. Entire Reimbursement Agreement. THIS REIMBURSEMENT AGREEMENT AND THE DOCUMENTS AND INSTRUMENTS EXECUTED AND DELIVERED CONTEMPORANEOUSLY HERewith AND THE DOCUMENTS INCORPORATED HEREIN BY REFERENCE EMBODY THE ENTIRE REIMBURSEMENT AGREEMENT AND UNDERSTANDING BETWEEN THE PARTIES HERETO AND SUPERSEDE ALL PRIOR AGREEMENTS AND UNDERSTANDINGS OF SUCH PERSONS, VERBAL OR WRITTEN, RELATING TO THE SUBJECT MATTER HEREOF. THIS REIMBURSEMENT AGREEMENT AND THE DOCUMENTS AND INSTRUMENTS EXECUTED IN CONNECTION HERewith AND THE DOCUMENTS INCORPORATED HEREIN BY REFERENCE REPRESENT THE FINAL REIMBURSEMENT AGREEMENT BETWEEN THE PARTIES AND MAY NOT BE CONTRADICTED BY PRIOR, CONTEMPORANEOUS OR

SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES. THERE ARE NO UNWRITTEN ORAL AGREEMENTS BETWEEN THE PARTIES.

Section X.16. Counterparts. This Reimbursement Agreement may be executed in several counterparts, each of which shall be an original and all of which, together shall constitute but one and the same instrument.

Section X.17. Captions. The captions to the various sections and subsections of this Reimbursement Agreement have been inserted for convenience only and shall not limit or affect any of the terms hereof.

[The remainder of this page is left blank intentionally.]

IN WITNESS WHEREOF, the parties hereto have caused this Reimbursement Agreement to be duly executed and delivered by their respective duly authorized officers as of the date first above written.

CULP, INC.

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

[Execution by the Bank appears on the following page.]

WACHOVIA BANK OF NORTH CAROLINA,  
NATIONAL ASSOCIATION

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

EXHIBIT A

FIRST AMENDMENT TO  
IRREVOCABLE LETTER OF CREDIT  
NO. LC 968-068488

April \_\_, 1997

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

Ladies and Gentlemen:

In accordance with the terms of the Reimbursement and Security Agreement dated as of April 1, 1997 (the "Reimbursement Agreement"), between us and Culp, Inc., a North Carolina corporation (the "Company"), Irrevocable Letter of Credit No. 968-068488, issued in your favor on April 1, 1996, is hereby amended as follows:

1. The first paragraph of the Letter of Credit is hereby amended by deleting therefrom the reference to "the 1996 Amended and Restated Credit Agreement, dated as of April 1, 1996, among the Company, First Union National Bank of North Carolina, as agent, and us (the "Credit Agreement")," and inserting in its place the following: "the Reimbursement and Security Agreement dated as of April 1, 1997, between us and the Company (the "Reimbursement Agreement")."

2. Subparagraph (i) of the first paragraph thereof is hereby amended to read as follows:

(i) the close of business on March 1, 2001, or, if such date is extended pursuant to SECTION 2.2(B) of the Reimbursement Agreement, the date as so extended,

3. Subsection (c) of Section 10 of the Letter of Credit is hereby amended to read as follows:

(c) all Reimbursement Obligations relating to this Letter of Credit, including all Letter of Credit fees, shall have been paid in full.

4. The text of Section 11 of the Letter of Credit is hereby deleted in its entirety, and the word "[Reserved]" shall be inserted in its place.

All other terms and conditions set forth in the Letter of Credit shall remain in full force and effect.

Very truly yours,

WACHOVIA BANK OF NORTH CAROLINA, NATIONAL ASSOCIATION

By: \_\_\_\_\_  
Authorized Officer

(A graphic appears here of number 25)

CELEBRATING 25 YEARS

ABOUT CULP

(Three photos appear here)

Culp's team of 3,100 associates markets more than 2,000 patterns of upholstery fabrics for furniture and over 600 styles of mattress ticking to an international array of customers. The company is a fully integrated marketer to the furniture, bedding and institutional furnishings industries with manufacturing plants in North and South Carolina, Georgia, Pennsylvania and Canada.

#### ABOUT THE COVER

The listing of Culp's shares on the New York Stock Exchange in December 1996 highlighted a year in which we celebrated our 25th corporate anniversary. Culp's growth over that period has been headlined by success in becoming the world's largest marketer of upholstery fabrics for furniture and a leading supplier of mattress ticking.

(CFI Listed NYSE logo appears here)

(Five photos appear here)

HIGHLIGHTS

CULP'S COMMON SHARES WERE LISTED on the New York Stock Exchange (December 1996) with the new trading symbol, CFI.

NET SALES FOR 1997 REACHED A NEW HIGH of \$398.9 million, up 13% from 1996, and increased for the seventh consecutive year. Net income also set a new annual record and increased for the eighth consecutive year to \$13.8 million, or \$1.18 per share, up 20% from 1996.

NET INCOME OF \$4.8 MILLION IN THE FOURTH QUARTER represented the eighteenth consecutive quarter of record earnings versus the comparable year-earlier period.

INTERNATIONAL SALES ROSE 31% in 1997 and accounted for \$101.6 million, or 25%, of net sales.

THE BOARD INCREASED the regular quarterly cash dividend in June 1997 for the eighth consecutive year, representing a 17% growth rate over the last five years. The current indicated annual rate of \$0.14 per share represents an 8% increase over the previous annualized payout.

CAPITAL EXPENDITURES for 1997 totaled a record \$27.0 million, increasing the amount invested over the past six years to \$100.5 million.

A SECONDARY OFFERING of common stock completed in February 1997 provided \$16.3 million in additional equity capital.

CULP'S FINANCIAL POSITION at the close of 1997 included a funded debt-to-capital ratio of 37% and a new \$125 million line of credit with an international syndicate of financial institutions.

THE AVERAGE PRICE of Culp's shares during 1997 represented a 29% compound appreciation to shareholders over the past five years.

(THREE GRAPHS APPEAR BELOW WITH THE FOLLOWING PLOT POINTS.)

NET SALES (\$ MILLIONS)				
93	94	95	96	97
\$200.8	\$245.0	\$308.0	\$351.7	\$398.9

NET INCOME (\$ MILLIONS)				
93	94	95	96	97
\$4.5	\$7.7	\$9.8	\$11.0	\$13.8

INCOME PER SHARE				
93	94	95	96	97
\$0.41	\$0.69	\$0.87	\$0.98	\$1.18

(CUSTOMER: PLEASE FILL IN THE PLOT POINTS ABOVE.)

(AMOUNTS IN THOUSANDS, EXCEPT PER SHARE DATA)	FISCAL 1997	FISCAL 1996	PERCENT CHANGE	FIVE-YEAR GROWTH RATE
STATEMENTS OF INCOME				
Net sales	\$ 398,879	351,667	13.4%	15.8%
Gross profit	72,485	62,538	15.9	19.2
Income from operations	27,427	23,470	16.9	37.9
Net income	13,770	10,980	25.4	35.9
Average shares outstanding	11,624	11,234	3.5	1.4
PER SHARE				
Net income	\$ 1.18	0.98	20.4%	34.3%
Cash dividends	0.13	0.11	18.2	21.6
Book value	8.79	7.21	21.9	13.5
Year-end stock price	16.63	13.00	27.9	26.0
BALANCE SHEET				
Working capital	\$ 69,777	56,953	22.5%	21.2%
Total assets	243,952	211,644	15.3	21.2
Funded debt	65,623	76,791	(14.5)	31.3
Shareholders' equity	110,789	81,446	36.0	17.0
RATIOS				
Gross profit margin	18.2%	17.8%		
Operating income margin	6.9	6.7		
Net income margin	3.5	3.1		
Return on average equity	15.2	14.4		
Funded debt to capital	37.2	48.5		

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THROUGHOUT THIS ANNUAL REPORT, 1997, 1996, 1995, 1994 AND 1993 ARE USED TO REFER, RESPECTIVELY, TO THE COMPANY'S FISCAL YEARS THAT ENDED IN THOSE SAME CALENDAR PERIODS.

#### GROWTH OF A \$10,000 INVESTMENT IN CULP

The graph below illustrates the 251% appreciation through 1997 in the value of a \$10,000 investment in Culp's shares five years ago. The values plotted exclude dividends and are based on the average of the high and low for the stock each year, adjusted for the three stock splits distributed over this period.

1992	1993	1994	1995	1996	1997
\$10,000	\$12,300	\$25,900	\$22,300	\$23,600	\$35,100

(PHOTOS OF ROBERT G. CULP, III AND HOWARD L. DUNN, JR. APPEAR HERE)

To Our Fellow Shareholders

That's what I was aiming at," is the quip Lee Trevino once offered after holing a remarkable shot from the fairway. It would be nice to say that when we founded Culp 25 years ago, our aim was to become the world's largest marketer of upholstery fabrics for furniture. We are indeed recognized today as the global leader in that portion of our business, but we cannot honestly claim that as an objective set in 1972. The principles and values laid as Culp's foundation, however, remain as vital to our success today as when we started as a small, but very ambitious, distributor of upholstery fabrics. We knew then that our fortunes depended on one goal: delivering value to customers. As a fully integrated manufacturer with a global array of customers, we still hold that purpose before us every day.

We thought it was appropriate to use the cover to highlight Culp's 25th anniversary. The celebration was capped in 1997 with the listing of our shares on the New York Stock Exchange. We are proud of that milestone which has afforded us increased visibility among individual and institutional investors. Any corporation has a number of stakeholders dependent upon its progress, but we keenly recognize the importance of delivering a positive return to those who have provided the capital for us to pursue our goals. We are therefore especially pleased with the performance of Culp's shares which have appreciated in value at a faster rate than most broad market measures over the past five years.

SECONDARY OFFERING UNDERSCORES SOUND GROWTH STRATEGY

Culp's growth since our initial public offering had been funded entirely from internally generated funds and borrowings. During 1997, we decided to make a secondary offering to obtain additional capital to fund our expansion plans. The net result was the completion in February 1997 of an offering of common stock that added \$16.3 million in equity capital to Culp. Marketing the offering included more than 50 meetings with investors both in the United States and overseas. We found these contacts an excellent forum for presenting our growth strategy to audiences well versed in business objectives who were able--and certainly willing--to challenge our plans. The bottom line was a strong endorsement for Culp's potential for future growth. Our statement was that we were going to stick with essentially the game plan that has produced 18 consecutive quarters of record earnings and 16 consecutive quarters of record sales versus comparable year-earlier periods.

But underlying that broad comment was our presentation of Culp's strengths. Attributes that we showcased included one of the broadest lines of upholstery fabrics and mattress ticking available, a versatility in meeting each customer's needs and a resolve throughout the organization to deliver a consistently high level of customer service and product quality. We tried to simplify what in reality is not an easy recipe by focusing on three fundamental initiatives. One is our willingness and flexibility to pursue new market opportunities. Another is the exceptional opportunity which we have to continue building international sales. And the third is our ongoing interest in acquiring complementary businesses in an industry where ownership of resources is becoming more concentrated. We thought that a sound outline for this letter was to summarize each of these areas for you, our shareholders.

ONGOING CAPITAL INVESTMENTS SUPPORT MARKET LEADERSHIP

Maybe opportunistic is the best term to use in characterizing how Culp has built market share. We have benefited from our heritage as a distributor that was willing and eager to pursue any opening for a sale. Realistically, we are probably not as nimble as we once were. The compensation for that, however, is a vertically-integrated organization that is regarded as a valued partner by many of the largest manufacturers of furniture and bedding in the world. Achieving that competitive leadership has involved deliberate planning and lots of capital. Over the past six years, we have invested more than \$100 million to modernize and expand our manufacturing capacity.

The importance we place on manufacturing efficiency was underscored during 1997 by record capital expenditures of approximately \$27 million. The diversity of some of the projects represented by this spending is noteworthy. The addition of new air-jet weaving machines substantially increased our capacity for jacquard greige, or unfinished, goods. We installed a state-of-the-art flock coating line to produce flock greige goods. A new manufacturing facility, completed in July 1997, is designed specifically for wet printing these flocked fabrics to produce upholstery patterns that are increasingly popular worldwide. Although these are different projects, they are obviously linked. Each complements the other, expanding our capacity while increasing our vertical integration and ability to help manufacturers differentiate their products with fabrics with distinctive patterns and textures.

(THREE GRAPHS APPEAR BELOW WITH THE FOLLOWING PLOT POINTS.)

CASH DIVIDENDS  
PER SHARE

93	94	95	96	97
\$0.64	\$0.08	\$0.10	\$0.11	\$0.13

SHAREHOLDER'S EQUITY  
(\$ MILLIONS)

93	94	95	96	97
\$54.5	\$62.6	\$71.4	\$81.4	\$110.8

RETURN ON  
AVERAGE EQUITY

93	94	95	96	97
8.6%	13.1%	14.6%	14.4%	15.2%

## INTERNATIONAL SALES CONTINUE GROWTH TREND

The 31% growth in international sales during 1997 signaled the strong momentum that has been achieved in this portion of our business. International sales have risen sixfold since 1990, illustrating the global aspect of Culp's marketing efforts. Our customer base includes distributors and manufacturers in more than 50 countries. Furniture and bedding manufacturers throughout the world value the designs and finishes on our fabrics as essential components of their marketing programs. The popularity of American styles has played directly to our strengths although we are increasingly starting to market designs crafted for specific cultural tastes. We have a design initiative to keep Culp at the leading edge of new patterns, colorations and textures, and we have the established manufacturing resources and distribution capability to supply accounts throughout the world.

Apart from outstanding growth in international sales, the geographical expansion of our customer base firmly evidences the company's world-class standing. Only a few years ago, our shipments outside the United States were largely confined to the nearby markets of Canada and Mexico. Europe has now become the largest market outside of North America for international sales, and we ship an increasing volume to distributors in the Middle East, Asia and the Pacific Rim. We are continuing to broaden that geographical diversity. Establishing our own distribution facilities in certain international markets is a distinct possibility. We are also increasing our use of CulpLink. This proprietary, computer-based information system allows customers via the internet to check and enter orders; verify the exact status of any shipment with individual identification of each roll and color specification; and review sales and invoice history.

## ACQUISITIONS OFFER ACCELERATED GROWTH POTENTIAL

Our progression toward an integrated manufacturing process has included several strategic acquisitions. Purchases such as Rossville/Chromatex in 1994 and Rayonese the following year added

(TWO GRAPHS APPEAR BELOW WITH THE FOLLOWING PLOT POINTS.)

### INTERNATIONAL SALES (\$ MILLIONS)

93	94	95	96	97
\$41.5	\$44.0	\$58.0	\$77.4	\$101.6

### CAPITAL EXPENDITURES (\$ MILLIONS)

93	94	95	96	97
\$11.9	\$16.8	\$18.1	\$14.4	\$27.0

incremental sales and earnings. Equally important, these operations substantially broadened our marketing footprint. A stimulus for acquiring other established fabric marketers is the consolidation occurring at all levels within the furniture industry. Simply put, the leading firms are increasing their market share each year. The ten largest manufacturers of furniture in the United States accounted for approximately 38% of total industry sales in the latest survey, up from 23% eleven years prior. These larger companies are seeking true corporate partners who can provide not only the necessary volume of fabrics but also consistently high product quality and customer service. We are proud of the accomplishments Culp has made in each of these areas and understand fully that achieving customer satisfaction demands ongoing focus and attention.

Shortly after the close of 1997, we announced a letter of intent to acquire certain of the assets of Phillips Mills. The inclusion of these operations would enhance our market position in jacquard fabrics and woven velvets. This proposed transaction illustrates our active pursuit of other steps that can bolster Culp's market share. This initiative is soundly supported by a strong balance sheet that at the close of 1997 included a funded debt-to-capital position of 37%. We were able to capitalize on that financial position by closing a \$125 million line of credit that replaced an existing \$65 million credit facility. This additional loan resource significantly broadens our flexibility to consider future growth opportunities.

#### CONSTRUCTION OF DESIGN CENTER UNDER WAY

As our worldwide stature has increased in recent years, we have increasingly recognized the importance of the design of new patterns, colorations and textures. To deliver value, our fabrics and ticking must enhance the retail appeal of customers' products. We have responded to this need by adding experienced personnel and investing in new computer systems and equipment. Moreover, we have emphasized the importance of instilling cooperation at all corporate levels to ensure that design is not just expressed but delivered. A tangible expression of this commitment is

(TWO PHOTOS APPEAR HERE)

(LEFT) SUPERIOR CUSTOMER SERVICE CULP'S DEDICATION TO CUSTOMER SERVICE IS A CONSTANT. THE STANDARDS FOR QUALITY AND VALUE THAT MATTER ARE SET FOR US BY THE MANY ACCOUNTS WE SERVE WORLDWIDE.

(RIGHT) PRODUCT DESIGN AND INNOVATION OUR FABRICS AND TICKING MUST ENHANCE THE RETAIL APPEAL OF CUSTOMERS' PRODUCTS. THE HOWARD L. DUNN DESIGN CENTER, OPENING IN 1998, WILL CONSOLIDATE MOST OF OUR DESIGN RESOURCES TO STRENGTHEN OUR DESIGN LEADERSHIP.

INCREASING WORLDWIDE PRESENCE CULP'S INTERNATIONAL SALES HAVE RISEN SIXFOLD SINCE 1990, HIGHLIGHTING THE GLOBAL ASPECT OF THE COMPANY'S MARKETING EFFORTS. WET-PRINTED FLOCK FABRICS ARE ONE OF THE GROWTH CATEGORIES IN INTERNATIONAL MARKETS, AND 1997 CAPITAL PROJECTS INCLUDED A FLOCK COATING LINE AS WELL AS A NEW DEDICATED MANUFACTURING FACILITY TO ENSURE CULP'S CAPACITY TO SUPPORT FUTURE DEMAND.

the new Howard L. Dunn Design Center that is planned for completion in December 1997. We are excited about how this unique facility will consolidate most of our design resources, providing an exceptional environment for creativity and imagination.

#### INCENTIVES BASED ON EARNINGS GROWTH

Our corporate culture is clearly fixed on growth. We believe that an integral part of the strategy must be establishing appropriate goals - and rewards. Our executive compensation program has a definite focus on increasing earnings per share. If we are successful, the resulting corporate performance should mean an above-average return for shareholders.

We are prepared to face a competitive marketplace again in 1998. Based on the recent positive trends in overall consumer confidence, we believe the year will be one of sound progress for Culp. As we have indicated before, consumer spending on home furnishings can be influenced by a host of variables including interest rates, employment levels and the buoyancy of the overall economy. We have the advantage of the capital projects during 1997 which have provided us increased capacity in some of the most popular categories of fabrics and ticking. We have set an aggressive plan to continue increasing international sales, and our marketing programs are set soundly on the principles of innovation, styling leadership and creativity. Our task is to capitalize on this competitive advantage and further increase our market share.

Sincerely,

/s/ Robert G. Culp, III  
Robert G. (Rob) Culp, III  
Chairman and Chief Executive Officer

/s/ Howard L. Dunn, Jr.  
Howard L. Dunn, Jr.  
President and Chief Operating Officer

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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

Overview

Culp believes it is the largest manufacturer and marketer in the world for upholstery fabrics for furniture and is one of the leading global producers of mattress fabrics (or ticking). The company's fabrics are used primarily in the production of residential and commercial upholstered furniture and bedding products, including sofas, recliners, chairs, love seats, sectionals, sofa-beds, office seating, modular office systems and mattress sets. Although Culp markets fabrics at most price levels, the company emphasizes fabrics that have broad appeal in the promotional and popular-priced categories of furniture and bedding.

Culp's position as a leading worldwide manufacturer and marketer of upholstery fabrics and mattress ticking has been achieved through internal expansion and the integration of strategic acquisitions. In 1995, the company completed the acquisition of Rayonese Textile Inc. ("Rayonese") in a transaction valued at \$10.5 million. The acquisition of Rayonese substantially increased the company's capacity to manufacture jacquard greige, or unfinished, goods used by the company in the production of printed fabrics. In 1994, the company completed the purchase of Rossville/Chromatex in a transaction valued at \$39.3 million. This acquisition significantly added to the company's capacity to produce jacquard and dobby upholstery fabrics marketed principally for residential furniture. In January 1997, the company acquired a facility in Lumberton, North Carolina and has purchased the related manufacturing equipment necessary for this facility. This new facility, which is expected to be operational by July 1997, is expected to require capital expenditures of approximately \$9 million. This investment will approximately double Culp's capacity to produce wet-printed flock upholstery fabrics. The company has experienced significant growth in sales for this fabric category over the past three years, particularly in international markets.

The company is organized into four business units. Culp Textures manufactures jacquard and dobby woven fabrics for residential and commercial furniture. Rossville/Chromatex manufactures jacquard and dobby woven fabrics primarily for residential furniture. Velvets/Prints manufactures a broad range of printed and velvet fabrics used primarily for residential and juvenile furniture. Culp Home Fashions principally manufactures mattress ticking. The company believes that this business unit structure, adopted in 1994, has been effective in increasing business with existing customers, as well as in broadening the company's customer base.

Results of Operations

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

	1997	1996	1995
Net sales	100.0%	100.0%	100.0%
Cost of sales	81.8	82.2	82.2
Gross profit	18.2	17.8	17.8
Selling, general and administrative expenses	11.3	11.1	10.9
Income from operations	6.9	6.7	6.9
Interest expense	1.2	1.5	1.5
Interest income	(0.1)	0.0	0.0
OTHER EXPENSE	0.4	0.3	0.4
Income before income taxes	5.4	4.9	5.0
Income taxes(*)	36.0	36.5	37.0
Net income	3.5%	3.1%	3.2%

(\*) CALCULATED AS A PERCENT OF INCOME BEFORE INCOME TAXES.

The following table sets forth the company's sales by product category and then by business unit for each of the company's three most recent years. The table also sets forth the change in net sales for major product categories and the business units as a percentage for comparative periods included in the table.

(DOLLARS IN THOUSANDS)	AMOUNTS			PERCENT CHANGE	
	1997	1996	1995	1996 TO 1997	1995 TO 1996
Upholstery fabrics:					
Culp Textures	\$ 88,218	\$ 84,384	\$ 85,125	4.5%	(0.9)%

Rossville/ Chromatex	79,512	74,203	63,765	7.2%	16.4%
-----					
	167,730	158,587	148,890	5.8%	6.5%
Velvets/Prints	156,467	125,701	106,803	24.5%	17.7%
-----					
	324,197	284,288	255,693	14.0%	11.2%
Mattress ticking:					
Culp Home Fashions	74,682	67,379	52,333	10.8%	28.8%
-----					
	\$398,879	\$351,667	\$308,026	13.4%	14.2%
=====					

#### 1997 Compared with 1996

SALES. Net sales for 1997 increased by \$47.2 million, or 13.4%, compared with 1996. The company's sales of upholstery fabrics increased \$39.9 million, or 14.0% in 1997 compared with 1996. Sales from Velvets/Prints were up significantly from the prior year, reflecting increased international sales of wet-printed flock fabrics. Sales from Rossville/Chromatex and Culp Textures also rose for the year. Sales from Culp Home Fashions, principally represented by mattress ticking, rose 10.8% for the year. Business within the United States, especially sales to residential furniture manufacturers, decreased by 2.1% during the fourth quarter of 1997 in comparison to the same period of 1996. However, the company still achieved an 8% gain in sales to U.S.-based accounts for the year. International sales, consisting primarily of upholstery fabrics, increased to \$101.6 million, up 31.2% from 1996. International shipments accounted for 25.5% of the company's sales for 1997, up from 22.0% in 1996. Sales were made to customers in over 50 countries during 1997. See note 11 on page 21 for more information about international sales.

**GROSS PROFIT AND COST OF SALES.** Gross profit for 1997 increased by \$9.9 million and amounted to 18.2% of net sales compared with 17.8% in 1996. A significant portion of the increase in gross profit dollars was generated by Velvets/Prints and, to a lesser degree, by Culp Home Fashions. Gross profit for Culp Textures and Rossville/Chromatex increased slightly. Factors contributing to the higher profitability included the increased absorption of fixed costs as a result of the growth in sales, and the benefit from the company's ongoing capital investment in equipment designed to lower manufacturing costs and raise productivity. The company also began to experience a stabilization in cost of raw materials during 1997 and, in some instances, realized lower costs.

**SELLING, GENERAL AND ADMINISTRATIVE EXPENSES.** Selling, general and administrative expenses increased as a percentage of net sales for 1997. Although the company is continuing to emphasize cost-containment programs, planned increases in expenses related to resources for designing new fabrics, higher selling commissions related to international sales and higher data processing costs contributed to the higher ratio of expenses to net sales.

**INTEREST EXPENSE.** Interest expense, net of interest income, of \$4.4 million for 1997 was down from \$5.2 million in 1996 due to lower average borrowings outstanding.

**OTHER EXPENSE.** Other expense increased \$565,000 in comparison to 1996, primarily due to the non-recurring write-off of certain fixed assets totaling \$175,000 and the recognition last year of a gain of \$100,000 related to an indemnification for an environmental matter.

**INCOME TAXES.** The effective tax rate for 1997 decreased slightly to 36.0% compared with 36.5% in 1996. This decrease was primarily due to the lower tax rate related to Canadian income and tax benefits related to international sales.

**NET INCOME.** Net income increased 25% to \$13.8 million in 1997 compared to \$11.0 million in 1996.

#### 1996 Compared with 1995

**NET SALES.** Net sales for 1996 increased by \$43.6 million, or 14.2%, compared with 1995. The company's sales of upholstery fabrics increased \$28.6 million, or 11.2% in fiscal 1996 compared to fiscal 1995. Sales from Rossville/Chromatex and Velvets/Prints were up significantly from the prior year, while Culp Textures' sales were down slightly. The gain of \$15.0 million in sales from the Culp Home Fashions business unit reflected higher shipments to existing accounts and the additional sales from Rayonese. Sales of mattress ticking for 1996 included \$7.7 million from Rayonese, which was acquired on March 6, 1995. Rayonese contributed \$1.4 million to sales for the portion of 1995 in which it was included in the company's results. International sales, consisting primarily of upholstery fabrics, increased to \$77.4 million, up 33.5% from 1995. International shipments accounted for 22.0% of the company's sales for 1996, up from 18.8% in 1995.

**GROSS PROFIT AND COST OF SALES.** Gross profit for 1996 increased by \$7.9 million and remained constant as a percentage of net sales at 17.8%. The increase in gross profit was generated by improvements in Velvets/Prints and, to a lesser degree, Culp Home Fashions. Gross profit for Culp Textures was flat and for Rossville/Chromatex was down in comparison to 1995. The cost of most raw materials generally rose throughout 1996, and the company was unable to offset very much of the impact of these increases through higher prices. Raw material price increases were offset by a shift in the company's product mix toward fabrics with higher gross margins and increased production efficiencies. During the latter part of the year, the company began experiencing some easing in the rate of increase in the cost of raw materials.

**SELLING, GENERAL AND ADMINISTRATIVE EXPENSES.** Selling, general and administrative expenses increased as a percentage of net sales for 1996. Although the company continued to emphasize cost-containment programs, planned increases in expenses related to the design of new fabrics and higher selling commissions related to international sales led to the higher ratio of expenses to net sales.

**OTHER EXPENSE.** Other expense decreased \$126,000 compared to 1995, primarily due to the recognition in 1996 of a gain of \$100,000 related to an indemnification for an environmental matter.

**INCOME TAXES.** The effective tax rate for 1996 decreased slightly to 36.5% compared with 37.0% in 1995.

**INTEREST EXPENSE.** Interest expense for 1996 rose 12.7% to \$5.3 million. The increase principally reflected additional borrowings related to funding the acquisition of Rayonese, capital expenditures and an increased level of working capital needed to support increased sales. The company experienced generally lower prevailing interest rates during 1996.

**NET INCOME.** Net income increased 12.3% to \$11.0 million in 1996 compared to \$9.8 million in 1995.

#### Liquidity and Capital Resources

**LIQUIDITY.** Cash and cash investments were \$830,000 as of April 27, 1997 compared with \$498,000 at the end of 1996. Funded debt (long-term debt, including current maturities, less restricted investments) decreased to \$65.6 million at the close

of 1997 from \$76.8 million at the end of 1996. As a percentage of total capital (funded debt plus total shareholders' equity), the company's borrowings amounted to 37.2% as of April 27, 1997 compared with 48.5% at the end of 1996. The company's working capital as of April 27, 1997 was \$69.8 million compared with \$57.0 million at the close of 1996.

The company's cash flow from operations was \$23.4 million for 1997, consisting of \$28.2 million from earnings (net income plus depreciation, amortization and deferred income taxes) offset by a reduction of \$4.8 million from changes in working capital. On February 4, 1997 the company sold 1.2 million shares in a public offering with net proceeds of approximately \$16.3 million. The funds from operations and the net proceeds from the public offering of stock were used principally to fund capital expenditures of \$27.0 million and reduce long-term debt.

FINANCING ARRANGEMENTS. In April 1997, the company completed a \$125 million syndicated, unsecured, multi-currency revolving credit facility. The facility, which has a term of five years, requires quarterly payments of interest on all outstanding borrowings and provides for a reduction of \$5 million annually in the maximum amount of the facility. As of April 27, 1997, the company had outstanding balances of \$41.0 million under the credit facility.

The company also has a total of \$31.6 million in outstanding industrial revenue bonds ("IRBs") which have been used to finance capital expenditures. The IRBs are collateralized by restricted investments of \$11.0 million as of April 27, 1997 and letters of credit for the outstanding balance of the IRBs and certain interest payments due thereunder. The company expects to close an \$8.5 million IRB to finance its new manufacturing facility in Lumberton, NC in July 1997. With the completion of this IRB, the company will reach the maximum amount of available financing from this source for the foreseeable future.

The company's loan agreements require, among other things, that the company maintain certain financial ratios. As of April 27, 1997, the company was in compliance with the required financial covenants.

As of April 27, 1997, the company had three interest rate swap agreements to reduce its exposure to floating interest rates on a \$25 million notional amount. The effect of these contracts is to "fix" the interest rate payable on \$25 million of the company's bank borrowings at a weighted average rate of 7.1%. The company also enters into foreign exchange forward and option contracts to hedge against currency fluctuations with respect to firm commitments to purchase machinery, equipment and certain raw materials when those commitments are denominated in foreign currencies.

CAPITAL EXPENDITURES. The company maintains a significant program of capital expenditures designed to increase capacity as needed, enhance manufacturing efficiencies through modernization and increase the company's vertical integration. Capital expenditures totaled \$27.0 million for 1997. The company anticipates spending approximately \$27 million in 1998.

The company believes that cash flows from operations and funds available under existing credit facilities and committed IRB financings will be sufficient to fund capital expenditures and working capital requirements for the foreseeable future.

#### Pending Acquisition

On April 30, 1997, Culp announced that it has signed a letter of intent to acquire the business and certain assets relating to the upholstery fabric businesses operating as Phillips Weaving Mills, Phillips Velvet Mills, Phillips Printing and Phillips Mills. These operating units are owned by Phillips Industries, Inc., a privately owned corporation based in High Point, North Carolina. Closing of the transaction is subject to negotiation of a definitive asset purchase agreement, completion of due diligence and certain other conditions set forth in the letter of intent.

#### Inflation

The company's costs for operating expenses, such as labor, utilities and manufacturing supplies, rose during 1997 and 1996. Additionally, generally higher costs of raw materials were experienced during 1996. Competitive conditions did not allow the company to fully offset the impact of these increases through higher prices, which put pressure on profit margins. Although the cost of the company's raw materials stabilized and, in some cases, declined during 1997, the net incremental effect on margins will continue to be influenced by raw material prices, other operating costs and overall competitive conditions.

#### Seasonality

The company's business is slightly seasonal, with increased sales during the company's second and fourth fiscal quarters. This seasonality results from one-week closings of the company's manufacturing facilities, and the facilities of most of its customers in the United States, during the first and third quarters for the holiday weeks including July 4th and Christmas.

#### New Accounting Pronouncements

The Financial Accounting Standards Board has issued Statement of Financial Accounting Standards (SFAS) No. 123, "Accounting for Stock-Based Compensation," which permits a change from the intrinsic value based method of accounting for stock options (Accounting Principles Board Opinion No. 25) to a fair value based method for employee stock option and similar equity investments. As an alternative, SFAS No. 123 allows the continued use of the intrinsic value based method accompanied with pro forma disclosures of the fair value based method. The company has adopted this alternative commencing with the year ended April 27, 1997.

The Financial Accounting Standards Board has issued Statement of Financial Accounting Standards (SFAS) No. 128, "Earnings per Share," which is effective for financial statements for both interim and annual periods ending after December 15, 1997. SFAS No. 128 specifies the computation, presentation, and disclosure requirements for earnings per share for entities with publicly held common stock. Early adoption of SFAS No. 128 is prohibited and, as a result, the company plans to adopt SFAS No. 128 in its fiscal third quarter of 1998.

Other than the adoption of SFAS No. 128, the implementation of new accounting standards will not have a material impact on the company's financial statements in 1998.

#### Forward-Looking Information

This annual report to shareholders and the company's annual report on Form 10-K may contain statements that could be deemed forward-looking statements, which are inherently subject to risks and uncertainties. Factors that could influence the matters discussed in the forward-looking statements include the level of housing starts and existing home sales, consumer confidence and trends in disposable income. Decreases in these economic indicators could have a negative effect on the company's business and its prospects. Likewise, increases in interest rates, particularly home mortgage rates, and increases in consumer debt or the general rate of inflation, could affect the company adversely.

Additionally, strengthening of the U.S. dollar against foreign currencies could make the company's products less competitive on the basis of price in international markets.

CONSOLIDATED BALANCE SHEETS

APRIL 27, 1997 AND APRIL 28, 1996 (DOLLARS IN THOUSANDS, EXCEPT SHARE DATA) 1997 1996

ASSETS		
current assets:		
cash and cash investments	\$ 830	498
accounts receivable	56,691	52,038
inventories	53,463	47,395
other current assets	5,450	4,191
<b>total current assets</b>	<b>116,434</b>	<b>104,122</b>
restricted investments	11,018	5,250
property, plant and equipment, net	91,231	76,961
goodwill	22,262	22,871
other assets	3,007	2,440
<b>total assets</b>	<b>\$ 243,952</b>	<b>211,644</b>
LIABILITIES AND SHAREHOLDERS' EQUITY		
current liabilities:		
current maturities of long-term debt	\$ 100	7,100
accounts payable	29,903	27,308
accrued expenses	15,074	12,564
income taxes payable	1,580	197
<b>total current liabilities</b>	<b>46,657</b>	<b>47,169</b>
long-term debt	76,541	74,941
deferred income taxes	9,965	8,088
<b>total liabilities</b>	<b>133,163</b>	<b>130,198</b>
commitments and contingencies (note 11)		
shareholders' equity:		
preferred stock, \$.05 par value, authorized 10,000,000 shares	0	0
common stock, \$.05 par value, authorized 40,000,000 shares, issued and outstanding 12,608,759 at April 27, 1997 and 11,290,300 at April 28, 1996	630	565
capital contributed in excess of par value	33,899	16,878
retained earnings	76,260	64,003
<b>total shareholders' equity</b>	<b>110,789</b>	<b>81,446</b>
<b>total liabilities and shareholders' equity</b>	<b>\$ 243,952</b>	<b>211,644</b>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THE CONSOLIDATED FINANCIAL STATEMENTS.

CONSOLIDATED STATEMENTS OF INCOME

FOR THE YEARS ENDED APRIL 27, 1997, APRIL 28, 1996,  
AND APRIL 30, 1995 (DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)

	1997	1996	1995
net sales	\$ 398,879	351,667	308,026
cost of sales	326,394	289,129	253,345
gross profit	72,485	62,538	54,681
selling, general and administrative expenses	45,058	39,068	33,432
income from operations	27,427	23,470	21,249
interest expense	4,671	5,316	4,715
interest income	(280)	(92)	(64)
other expense	1,521	956	1,082
income before income taxes	21,515	17,290	15,516
income taxes	7,745	6,310	5,741
net income	\$ 13,770	10,980	9,775
net income per share	\$ 1.18	0.98	0.87

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THE CONSOLIDATED FINANCIAL STATEMENTS.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

FOR THE YEARS ENDED APRIL 27, 1997, APRIL 28, 1996 AND APRIL 30, 1995 (DOLLARS IN THOUSANDS, EXCEPT SHARE DATA)	COMMON STOCK SHARES	COMMON STOCK AMOUNT	CAPITAL CONTRIBUTED IN EXCESS OF PAR VALUE	RETAINED EARNINGS	TOTAL SHAREHOLDERS' EQUITY
balance, May 1, 1994	11,177,353	\$ 558	16,487	45,604	62,649
cash dividends (\$0.10 per share)				(1,120)	(1,120)
net income				9,775	9,775
common stock issued in connection with stock option plan	27,413	2	90		92
balance, April 30, 1995	11,204,766	560	16,577	54,259	71,396
cash dividends (\$0.11 per share)				(1,236)	(1,236)
net income				10,980	10,980
common stock issued in connection with stock option plan	85,534	5	301		306
balance, April 28, 1996	11,290,300	565	16,878	64,003	81,446
proceeds from public offering of 1,200,000 shares	1,200,000	60	16,235		16,295
cash dividends (\$0.13 per share)				(1,513)	(1,513)
net income				13,770	13,770
common stock issued in connection with stock option plan	118,459	5	786		791
balance, April 27, 1997	12,608,759	\$ 630	33,899	76,260	110,789

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THE CONSOLIDATED FINANCIAL STATEMENTS.

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED APRIL 27, 1997, APRIL 28, 1996 AND APRIL 30, 1995  
(DOLLARS IN THOUSANDS)

	1997	1996	1995
-----			
cash flows from operating activities:			
net income	\$ 13,770	10,980	9,775
adjustments to reconcile net income to net cash provided by operating activities:			
depreciation	12,688	12,348	11,257
amortization of intangible assets	810	748	628
provision for deferred income taxes	966	2,210	1,373
changes in assets and liabilities, net of effects of business acquired:			
accounts receivable	(4,653)	(7,786)	(5,515)
inventories	(6,068)	(1,624)	(7,281)
other current assets	(348)	(537)	(310)
other assets	(205)	(103)	(518)
accounts payable	2,586	(1,077)	159
accrued expenses	2,510	1,032	2,180
income taxes payable	1,383	(464)	25
	-----	-----	-----
net cash provided by operating activities	23,439	15,727	11,773
cash flows from investing activities:			
capital expenditures	(26,958)	(14,385)	(18,058)
purchase of restricted investments	(9,770)	(6,019)	(57)
purchase of investments to fund deferred compensation liability	(563)	(1,286)	-
sale of restricted investments	4,002	1,564	2,185
business acquired	-	-	(10,455)
	-----	-----	-----
net cash used in investing activities	(33,289)	(20,126)	(26,385)
cash flows from financing activities:			
proceeds from issuance of long-term debt	54,500	19,854	23,455
principal payments on long-term debt	(59,900)	(11,555)	(11,275)
cash dividends paid	(1,513)	(1,236)	(1,120)
proceeds from common stock issued	17,086	306	92
change in accounts payable - capital expenditures	9	(3,865)	2,160
	-----	-----	-----
net cash provided by financing activities	10,182	3,504	13,312
increase (decrease) in cash and cash investments	332	(895)	(1,300)
cash and cash investments, beginning of year	498	1,393	2,693
	-----	-----	-----
cash and cash investments, end of year	\$ 830	498	1,393
	=====	=====	=====

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THE CONSOLIDATED FINANCIAL STATEMENTS.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### (1) General and Summary of Significant Accounting Policies

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

**Description of Business** - The company primarily manufactures and markets furniture upholstery fabrics and mattress ticking for the furniture, bedding, and related industries, with the majority of its business conducted in the United States.

**Fiscal Year** - The company's fiscal year is the 52 or 53 week period ending on the Sunday closest to April 30. Fiscal years 1997, 1996 and 1995 included 52 weeks.

**Statements of Cash Flows** - For purposes of reporting cash flows, the company considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash investments.

**Accounts Receivable** - Substantially all of the company's accounts receivable are due from manufacturers and distributors in the markets noted above. The company grants credit to customers, a substantial number of which are located in the United States. Management performs credit evaluations of the company's customers and generally does not require collateral.

**Inventories** - Principally all inventories are valued at the lower of last-in, first-out (LIFO) cost or market.

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

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

**Foreign Currency Translation** - The United States dollar is the functional currency for the company's Canadian subsidiary. Translation gains or losses for this subsidiary are reflected in net income.

**Goodwill and Other Intangible Assets** - Goodwill, which represents the unamortized excess of the purchase price over the fair values of the net assets acquired, is being amortized using the straight-line method over 40 years. The company assesses the recoverability of goodwill by determining whether the amortization of the balance over its remaining life can be recovered through undiscounted future operating cash flows of the acquired businesses. The assessment of the recoverability of goodwill will be impacted if estimated cash flows are not achieved.

Other intangible assets are included in other assets and consist principally of debt issue costs. Amortization is computed using the straight-line method over the respective terms of the debt agreements.

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

No provision is made for income taxes which may be payable if undistributed income of the company's Canadian subsidiary were to be paid as dividends to the company, since the company intends that such earnings will continue to be invested. At April 27, 1997, the amount of such undistributed income was \$5.2 million. Foreign tax credits may be available as a reduction of United States income taxes in the event of such distributions.

**Revenue Recognition** - Revenue is recognized when products are shipped to customers. Provision is made currently for estimated product returns, claims and allowances.

**Stock Option Plan** - Prior to April 29, 1996, the company accounted for its stock option plan in accordance with the provisions of Accounting Principles Board ("APB") Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations. As such, compensation expense was recorded on the date of grant only if the current market price of the underlying stock exceeded the exercise price. On April 29, 1996, the company adopted SFAS No. 123, Accounting for Stock-Based Compensation, which permits entities to recognize as expense over the vesting period the fair value of all stock-based awards on the date of grant. Alternatively, SFAS No. 123 also allows entities to continue to apply the provisions of APB Opinion No. 25 and provide pro forma net income and pro forma net income per share disclosures for employee stock option grants made in fiscal 1996 and future years as if the fair-value-based method defined in SFAS No. 123 had been applied. The company has elected to continue to apply the provisions of

APB Opinion No. 25 and provide the pro forma disclosure provisions of SFAS No. 123.

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

The fair value of the company's long-term debt is estimated by discounting the future cash flows at rates currently offered to the company for similar debt instruments of comparable maturities. The fair value of the company's long-term debt approximates the carrying value of the debt due to the variable interest rates on the majority of long-term debt at April 27, 1997.

Interest Rate Swap Agreements - Interest rate swap agreements generally involve the exchange of fixed and floating rate interest payment obligations without the exchange of the underlying principal amounts. These agreements are used to effectively fix the interest rates on certain variable rate borrowings. Net amounts paid or received are reflected as adjustments to interest expense.

Forward Contracts - Gains and losses related to qualifying hedges of firm commitments are deferred and included in the measurement of the related foreign currency transaction when the hedged transaction occurs.

Per Share Data - Primary income per share is computed by dividing net income by the weighted average number of common shares outstanding during each year (11,624,136 in 1997, 11,234,363 in 1996, and 11,203,160 in 1995). The effect of stock options on the calculation is not materially dilutive.

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

Reclassification - Certain items in the 1996 consolidated financial statements have been reclassified to conform with the presentation adopted in the current year. The reclassifications did not impact net income as previously reported.

(2) Acquisition

On March 6, 1995, the company acquired Rayonese Textile Inc. (Rayonese), a manufacturer of home furnishings fabrics located near Montreal, Canada. The transaction was valued at approximately \$10.5 million and included the purchase of 100% of the Rayonese common stock and the assumption of Rayonese's funded debt. Goodwill on the transaction was approximately \$5 million, which is being amortized on the straight-line method over 40 years. The acquisition was accounted for as a purchase, and accordingly, the net assets and operations of Rayonese have been included in the company's consolidated financial statements since March 6, 1995.

(3) Accounts Receivable A summary of accounts receivable follows:

(DOLLARS IN THOUSANDS)	1997	1996
customers	\$ 58,568	53,392
allowance for doubtful accounts	(1,500)	(1,016)
reserve for returns and allowances	(377)	(338)
	\$ 56,691	52,038

(4) Inventories

A summary of inventories follows:

(DOLLARS IN THOUSANDS)	1997	1996
inventories on the FIFO cost method		
raw materials	\$ 32,025	29,150
work-in-process	4,627	5,067
finished goods	20,212	16,708
	56,864	50,925
adjustments of certain inventories to the LIFO cost method	(3,401)	(3,530)
	\$ 53,463	47,395

(5) Property, Plant and Equipment

A summary of property, plant and equipment follows:

(DOLLARS IN THOUSANDS)	DEPRECIABLE LIVES (IN YEARS)	1997	1996
land and improvements	10	\$ 1,795	1,765
buildings and improvements	7-40	13,719	13,529
leasehold improvements	7-10	1,379	1,320
machinery and equipment	3-12	124,531	109,906
office furniture and equipment	3-10	13,122	12,152
capital projects in progress		19,019	8,517
		173,565	147,189
accumulated depreciation		(82,334)	(70,228)
		\$ 91,231	76,961

=====  
(6) Goodwill

A summary of goodwill follows:

(DOLLARS IN THOUSANDS)	1997	1996
-----		
goodwill	\$ 24,218	24,218
accumulated amortization	(1,956)	(1,347)
-----		
	\$ 22,262	22,871
=====		

(7) Accounts Payable

A summary of accounts payable follows:

(DOLLARS IN THOUSANDS)	1997	1996
-----		
accounts payable - trade	\$ 24,156	21,570
accounts payable - capital expenditures	5,747	5,738
-----		
	\$ 29,903	27,308
=====		

(8) Accrued Expenses

A summary of accrued expenses follows:

(DOLLARS IN THOUSANDS)	1997	1996
-----		
compensation and benefits	\$ 10,217	8,153
other	4,857	4,411
-----		
	\$ 15,074	12,564
=====		

(9) Income Taxes

A summary of income taxes follows:

(DOLLARS IN THOUSANDS)	1997	1996	1995
-----			
CURRENT			
-----			
federal	\$ 5,109	3,345	3,473
state	881	700	699
Canadian	789	0	0
-----			
	6,779	4,045	4,172
deferred			
federal	(26)	1,422	1,374
state	(12)	145	195
Canadian	1,004	698	0
-----			
	966	2,265	1,569
	\$ 7,745	6,310	5,741
=====			

Income before income taxes related to the company's Canadian operation for the years ended April 27, 1997 and April 28, 1996 were \$5,500,000 and \$2,100,000, respectively. Income before income taxes from this operation was not significant for the year ended April 30, 1995.

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

	1997	1996	1995
-----			
FEDERAL INCOME TAX RATE	35.0%	34.2%	34.1%
-----			
state income taxes, net of federal income tax benefit	2.6	3.4	3.8
exempt income of foreign sales corporation	(1.7)	(1.7)	(1.5)
other	0.1	0.6	0.6
-----			
	36.0%	36.5%	37.0%
=====			

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

(DOLLARS IN THOUSANDS)	1997	1996
-----		
deferred tax liabilities:		
property, plant and equipment, net	\$ (8,903)	(7,328)
goodwill	(1,019)	(720)
other	(105)	(437)
-----		
total deferred tax liabilities	(10,027)	(8,485)
deferred tax assets:		
accounts receivable	638	474
inventories	380	148
compensation	1,231	960
liabilities and reserves	691	782
-----		
gross deferred tax assets	2,940	2,364
valuation allowance	0	0
-----		
total deferred tax assets	2,940	2,364
	\$ (7,087)	(6,121)
=====		

Deferred taxes are classified in the accompanying consolidated balance sheet captions as follows:

(DOLLARS IN THOUSANDS)	1997	1996
-----		
other current assets	\$ 2,878	1,967
deferred income taxes	(9,965)	(8,088)
-----		
	\$ (7,087)	(6,121)
=====		

The company believes that it is more likely than not that the results of future operations will generate sufficient taxable income to realize the remaining deferred tax assets.

Income taxes paid, net of income tax refunds, were \$5,396,000 in 1997; \$4,623,000 in 1996; and \$4,071,000 in 1995.

(10) Long-Term Debt A summary of long-term debt follows:

(DOLLARS IN THOUSANDS)	1997	1996
------------------------	------	------

industrial revenue bonds and other obligations	\$ 31,641	22,241
revolving credit facility	41,000	-
revolving line of credit	4,000	-
revolving credit line, repaid in 1997	-	23,300
term loan, repaid in 1997	-	35,500
subordinated note payable, repaid in 1997	-	1,000
	76,641	82,041
current maturities	(100)	(7,100)
	\$ 76,541	74,941

On April 23, 1997, the company entered into a revolving credit agreement (the "Credit Agreement") providing for a five-year unsecured multi-currency revolving credit facility with a syndicate of banks in the United States and Europe. The Credit Agreement provides for a revolving loan commitment of \$125,000,000 which declines \$5,000,000 at each of four annual dates beginning in April 1998. The agreement requires payment of a quarterly facility fee in advance. Additionally, the agreement requires payment of interest on any outstanding borrowings based on, at the company's option, (1) the reference rate of the agent acting on behalf of the syndicate of banks, or (2) a specified pricing grid which increases from LIBOR or IBOR based on the company's debt to EBITDA ratio, as defined by the agreement. At April 27, 1997, all of the outstanding borrowings under the multi-currency agreement were based on LIBOR and the interest rate was approximately 6.0%.

On April 23, 1997, the company obtained a \$4,000,000 revolving line of credit which expires on May 31, 1998. However, the line of credit will automatically be extended for an additional three-month period on each August 31, November 30, February 28 and May 31 unless the bank notifies the company that the line of credit will not be extended. Additionally, the revolving line of credit requires payment of interest monthly on any outstanding borrowings at an interest rate based on LIBOR plus a margin based on the company's debt to EBITDA ratio, as defined in the credit facility. At April 27, 1997, the interest rate on outstanding borrowings was approximately 6.0%.

During 1997, the company obtained \$9,500,000 of new industrial revenue bond (IRB) financing related to the expansion of its plant and equipment at its West Hazelton, Pennsylvania and Burlington, North Carolina facilities. The final maturities of these IRBs range from the year 2006 to 2009. The remaining IRBs are substantially due in one-time payments at various dates from 2008

to 2013 and all of the bonds bear interest at variable rates at approximately 64% of the prime rate (prime at April 27, 1997 was 8.5%). The IRBs are collateralized by restricted investments of \$11,018,000 and letters of credit for \$32,416,000 at April 27, 1997.

The company's loan agreements require, among other things, that the company maintain compliance with certain positive and negative financial covenants. At April 27, 1997, the company was in compliance with these required financial covenants.

At April 27, 1997, the company had three interest rate swap agreements with a bank in order to reduce its exposure to floating interest rates on a portion of its variable rate borrowings. The following table summarizes certain data regarding the interest rate swaps:

NOTIONAL AMOUNT	INTEREST RATE	EXPIRATION DATE
\$15,000,000	7.3%	April 2000
\$ 5,000,000	6.9%	June 2002
\$ 5,000,000	6.6%	July 2002

The company believes it could terminate these agreements as of April 27, 1997 for little or no cost based on current market conditions. Net amounts paid under these agreements increased interest expense by approximately \$301,000 in 1997; \$290,000 in 1996; and \$138,000 in 1995. Management believes the risk of incurring losses resulting from the inability of the bank to fulfill its obligation under the interest rate swap agreements to be remote and that any losses incurred would be immaterial.

The principal payment requirements of long-term debt during the next five years are: 1998 - \$100,000; 1999 - \$4,075,000; 2000 - \$200,000; 2001 - \$200,000; and 2002 - \$41,154,000.

Interest paid during 1997, 1996 and 1995 totaled \$4,834,000, \$5,365,000, and \$4,668,000, respectively.

#### (11) Commitments and Contingencies

The company leases certain office, manufacturing and warehouse facilities and equipment, primarily computer and vehicles, under noncancellable operating leases. Lease terms related to real estate range from five to ten years with renewal options for additional periods ranging from five to fifteen years. The leases generally require the company to pay real estate taxes, maintenance, insurance and other expenses. Rental expense for operating leases, net of sublease income, was \$4,590,000 in 1997; \$3,502,000 in 1996; and \$2,486,000 in 1995. Future minimum rental commitments for noncancellable operating leases are \$4,091,000 in 1998; \$3,840,000 in 1999; \$3,092,000 in 2000; \$2,067,000 in 2001; \$1,881,000 in 2002; and \$10,189,000 in later years.

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

The company has outstanding capital expenditure commitments of approximately \$12,000,000 as of April 27, 1997.

#### (12) Stock Option Plans

The company has a fixed stock option plan under which options to purchase common stock may be granted to officers, directors and key employees. At April 27, 1997, 865,728 shares of common stock were authorized for issuance under the plan. Options are generally exercisable one year after the date of grant and generally expire beginning ten years after the date of grant.

No compensation cost has been recognized for this stock option plan as options are granted under the plan at an option price not less than fair market value at the date of grant. Had compensation cost for this stock-based compensation plan been determined consistent with SFAS No. 123, the company's pro forma net income and net income per share for 1997 and 1996 would have approximated the company's net income and net income per share in the accompanying consolidated statements of income as compensation cost was immaterial for options granted in 1997 and 1996.

The fair value of each option grant is estimated on the date of grant using the Black Scholes option-pricing model with the following weighted-average assumptions used for grants in 1997 and 1996: dividend yield of 1%; risk-free interest rates of 5%; expected volatility of 44%; and expected lives of 3 years.

A summary of the status of the plan as of April 27, 1997, April 28, 1996 and April 30, 1995 and changes during the years ended on those dates is presented below and continued on the next page:

	SHARES	1997 WEIGHTED-AVG. EXERCISE PRICE	SHARES	1996 WEIGHTED-AVG. EXERCISE PRICE	SHARES	1995 WEIGHTED-AVG. EXERCISE PRICE
Outstanding at beginning of year	443,437	\$ 7.46	455,721	\$ 6.65	385,884	\$ 5.81
Granted	82,250	12.61	83,250	8.27	97,250	9.05
Exercised	(118,459)	6.81	(85,534)	3.51	(27,413)	3.31
Canceled/expired	-	-	(10,000)	11.25	-	-
Outstanding at end of year	407,228	8.69	443,437	7.46	455,721	6.65

Options exercisable at year-end	336,228	7.91	371,437	7.37	369,721	6.07
granted during the year	\$ 4.55		\$ 2.98		-	

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RANGE OF EXERCISE PRICES	OPTIONS OUTSTANDING			OPTIONS EXERCISABLE	
	NUMBER OUTSTANDING AT 4/27/97	WEIGHTED-AVG. REMAINING CONTRACTUAL LIFE	WEIGHTED-AVG. EXERCISE PRICE	NUMBER EXERCISABLE AT 4/27/97	WEIGHTED-AVG. EXERCISE PRICE
\$ 2.82-\$ 4.63	128,728	2.1years	\$ 4.01	128,728	\$ 4.01
\$ 7.75-\$ 9.00	110,875	7.1	8.43	110,875	8.43
\$ 9.90-\$ 12.75	134,375	7.6	12.08	75,375	12.05
\$13.34-\$ 14.38	33,250	5.3	13.90	21,250	14.22
	407,228	5.5	8.69	336,228	7.91

During fiscal 1995, the company adopted a stock option plan which provided for the one-time grant to officers and certain senior managers of options to purchase 121,000 shares of the company's common stock at \$.05 (par value) per share. Coincident with the adoption of this plan, the company's 1993 stock option plan was amended to reduce the number of shares issuable under that plan by 121,000 shares. Options under the plan are exercisable the earlier of January 1, 2003 or approximately 45 days after the end of fiscal 1997 if the company achieves an annual compound rate of growth in its primary earnings per share of 17% during the three-year period ended April 27, 1997. Since these options were granted in fiscal 1995, the provisions of SFAS No. 123 are not applicable.

As of April 27, 1997, the 121,000 options outstanding under the plan have exercise prices of \$.05 and a weighted-average remaining contractual life of 6.7 years. The options outstanding vested on April 27, 1997 as the company achieved an annual compound rate of growth in its primary earnings per share of 17% during the three-year period ended April 27, 1997.

During March 1997, the company's board of directors approved the 1997 performance-based stock option plan which provides for the one-time grant to certain officers and certain senior managers of options to purchase 106,000 shares of the company's common stock at \$1.00 per share. Options under the plan are exercisable the earlier of January 1, 2006 or approximately 30 days after the end of fiscal 1999 if the company achieves net income per share of \$1.50 for fiscal 1999, which would represent a 13% compound growth rate from 1997. The 1997 performance-based option plan is pending shareholder approval at the company's annual shareholder meeting in September 1997. As a result, the date of grant for the options to purchase 106,000 shares will occur in September 1997, if approved by the shareholders, and the compensation expense would begin to be recorded under APB Opinion No. 25 in fiscal 1998, provided the company's financial performance is on track to achieve the net income per share target.

#### (13) Benefit Plans

The company has a defined contribution plan which covers substantially all employees and provides for participant contributions on a pre-tax basis and discretionary matching contributions by the company, which are determined annually. Company contributions to the plan were \$875,000 in 1997; \$791,000 in 1996; and \$771,000 in 1995.

In addition to the defined contribution plan, the company has a nonqualified deferred compensation plan covering officers and certain other associates. At April 27, 1997 and April 28, 1996, the company had approximately \$1,774,000 and \$1,286,000, respectively, of assets related to the nonqualified plan which are included in other assets. The company also had a liability of \$2,128,000 and \$1,426,000 at April 27, 1997 and April 28, 1996, respectively, which is included in accrued expenses in the accompanying consolidated balance sheets.

#### (14) International Sales

International sales, of which 91%, 90% and 98% were denominated in U.S. dollars in 1997, 1996 and 1995, accounted for 25% of net sales in 1997, 22% in 1996, and 19% in 1995, and are summarized by geographic area as follows:

(DOLLARS IN THOUSANDS)	1997	1996	1995
NORTH AMERICA			
(excluding USA)	\$ 27,479	23,528	16,707
Europe	25,245	18,927	19,177
Middle East	23,505	15,609	6,081
Asia and Pacific Rim	19,646	12,124	8,969
South America	2,604	2,753	3,749
All other areas	3,092	4,456	3,288
	\$ 101,571	77,397	57,971

#### (15) Related Party Transactions

A director of the company is also an officer and director of a major customer of the company. The amount of sales to this customer was approximately \$27,549,000 in 1997; \$27,739,000 in 1996; and \$20,484,000 in 1995. The amount due from this customer at April 27, 1997 was approximately \$2,718,000 and at April 28, 1996 was approximately \$2,608,000.

A director of the company is also a director of a bank participating in the syndicated revolving credit facility and an officer and director of the lessor

of the company's office facilities in High Point. The amount of interest and other fees paid to the bank was approximately \$2,217,000 in 1997; \$2,580,000 in 1996; and \$2,039,000 in 1995, and the loans payable to the bank and amounts guaranteed through letters of credit by the bank at April 27, 1997 and April 28, 1996 aggregated \$28,672,000 and \$48,402,000, respectively. Rent expense for the company's office facilities in High Point was approximately \$436,000 in 1997; \$421,000 in 1996; and \$435,000 in 1995.

Rents paid to entities owned by certain shareholders and officers of the company and their immediate families were \$680,000 in 1997; \$680,000 in 1996; and \$670,000 in 1995.

(16) Foreign Exchange Contracts

The company generally enters into foreign exchange forward and option contracts as a hedge against its exposure to currency fluctuations on firm commitments to purchase certain machinery and equipment and raw materials. Machinery and equipment and raw material purchases hedged by foreign exchange forward contracts are valued by using the exchange rate of the applicable foreign exchange forward contract. The company had approximately \$2,432,000 and \$1,924,000 of outstanding foreign exchange forward contracts as of April 27, 1997 and April 28, 1996, respectively (primarily denominated in German marks, Austrian shillings and Belgian francs). The contracts outstanding at April 27, 1997 mature at various dates in fiscal 1998. Due to the short maturity of these financial instruments, the fair values of these contracts approximate the contract amounts at April 27, 1997 and April 28, 1996, respectively.

(17) Stock Offering

In February of 1997, the company completed the sale of 1,200,000 shares of common stock at a per share price of \$15 less commissions and expenses of approximately \$1,700,000 which resulted in net proceeds realized of approximately \$16,300,000. The net proceeds received from the offering were used to reduce outstanding borrowings under the company's revolving credit line.

The stock offering also included 640,000 shares of common stock sold by two non-management shareholders at a per share price of \$15 less commissions of approximately \$576,000 which resulted in net proceeds realized of approximately \$9,024,000 by the selling shareholders.

(18) Subsequent Event

On April 30, 1997, the company announced that it signed a letter of intent to purchase the operations and certain assets relating to an upholstery fabric business operating as Phillips Weaving Mills, Phillips Velvet Mills, Phillips Printing and Phillips Mills. Closing of the transaction, is subject to negotiation of a definitive asset purchase agreement, completion of due diligence and certain other conditions set forth in the letter of intent.

SELECTED QUARTERLY DATA

(AMOUNTS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)	FISCAL 1997 4TH QUARTER	FISCAL 1997 3RD QUARTER	FISCAL 1997 2ND QUARTER	FISCAL 1997 1ST QUARTER	FISCAL 1996 4TH QUARTER
net sales	\$ 105,678	97,468	105,204	90,529	102,162
cost of sales	85,386	80,317	86,082	74,609	82,957
gross profit	20,292	17,151	19,122	15,920	19,205
SG & A expenses	11,730	10,760	11,704	10,864	11,300
income from operations	8,562	6,391	7,418	5,056	7,905
interest expense	1,019	1,228	1,242	1,182	1,352
interest income	(90)	(73)	(60)	(57)	(92)
other expense	404	421	301	395	365
income before income taxes	7,229	4,815	5,935	3,536	6,280
income taxes	2,389	1,805	2,225	1,326	2,230
net income	4,840	3,010	3,710	2,210	4,050
EBITDA (6)	\$ 11,582	9,279	10,540	8,003	10,814
depreciation	3,248	3,119	3,177	3,144	3,070
cash dividends	410	368	367	368	310
weighted average shares outstanding	12,546	11,342	11,312	11,297	11,284
PER SHARE DATA (3) (5)					
net income	\$ 0.39	0.27	0.33	0.20	0.36
cash dividends	0.0325	0.0325	0.0325	0.0325	0.0275
book value	8.79	7.89	7.66	7.37	7.21
BALANCE SHEET DATA (5)					
working capital	\$ 69,777	60,689	57,230	53,635	56,953
property, plant and equipment, net	91,231	86,146	80,316	78,292	76,961
total assets	243,952	228,262	219,527	208,283	211,644
capital expenditures	8,333	8,949	5,201	4,475	6,675
long-term debt	76,541	86,266	72,891	70,916	74,941
funded debt (1)	65,623	80,588	74,612	72,772	76,791
shareholders' equity	110,789	89,578	86,835	83,356	81,446
capital employed (7)	176,412	170,166	161,447	156,128	158,237
RATIOS & OTHER DATA (5)					
gross profit margin	19.2%	17.6%	18.2%	17.6%	18.8%
operating income margin	8.1	6.6	7.1	5.6	7.7
net income margin	4.6	3.1	3.5	2.4	4.0
EBITDA margin	11.0	9.5	10.0	8.8	10.6
effective income tax rate	33.0	37.5	37.5	37.5	35.5
funded debt-to-total capital ratio (1)	37.2	47.4	46.2	46.6	48.5
working capital turnover	5.3	5.3	5.4	5.4	5.3
days sales in receivables	49	47	45	43	46
inventory turnover	6.6	6.2	6.6	6.0	6.8
STOCK DATA (3)					
stock price					
high	\$ 19.63	17.00	14.38	14.25	13.25
low	14.50	13.50	11.75	11.50	10.00
close	16.63	14.88	13.75	12.25	13.00
P/E ratio (2)					
high	16.6	14.7	13.0	13.6	13.5
low	12.3	11.6	10.6	11.0	10.2
trading volume (shares)	2,165	945	563	1,364	1,325

(AMOUNTS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)	FISCAL 1996 3RD QUARTER	FISCAL 1996 2ND QUARTER	FISCAL 1996 1ST QUARTER
net sales	86,476	90,672	72,357
cost of sales	71,447	74,565	60,159
gross profit	15,029	16,107	12,198
SG & A expenses	9,639	9,675	8,454
income from operations	5,390	6,432	3,744
interest expense	1,279	1,388	1,297
interest income	0	0	0
other expense	266	219	107
income before income taxes	3,845	4,825	2,340
income taxes	1,430	1,825	825
net income	2,415	3,000	1,515
EBITDA (6)	8,450	9,494	6,852

depreciation	3,140	3,071	3,067
cash dividends	309	309	308
=====			
weighted average shares outstanding	11,232	11,211	11,207
=====			
PER SHARE DATA (3) (5)			
net income	0.22	0.27	0.14
cash dividends	0.0275	0.0275	0.0275
book value	6.89	6.72	6.48
=====			
BALANCE SHEET DATA (5)			
working capital	52,266	46,373	45,069
property, plant and equipment, net	73,356	73,876	75,744
total assets	197,704	200,404	192,725
capital expenditures	2,620	2,084	3,006
long-term debt	68,112	65,137	67,662
funded debt (1)	79,667	76,692	79,217
shareholders' equity	77,623	75,351	72,624
capital employed (7)	157,290	152,043	151,841
=====			
RATIOS & OTHER DATA (5)			
gross profit margin	17.4%	17.8%	16.9%
operating income margin	6.2	7.1	5.2
net income margin	2.8	3.3	2.1
EBITDA margin	9.8	10.5	9.5
effective income tax rate	37.2	37.8	35.3
funded debt-to-total capital ratio (1)	48.5	50.6	50.4
working capital turnover	5.3	5.4	5.4
days sales in receivables	43	47	45
inventory turnover	5.7	6.0	5.1
=====			
STOCK DATA (3)			
stock price			
high	11.50	11.00	10.00
low	9.50	9.00	7.75
close	10.00	9.75	7.75
P/E ratio (2)			
high	12.2	12.1	11.2
low	10.1	9.9	8.7
trading volume (shares)	1,142	1,011	1,454
=====			

(1) FUNDED DEBT INCLUDES LONG- AND SHORT-TERM DEBT, LESS RESTRICTED INVESTMENTS.

(2) P/E RATIOS BASED ON TRAILING 12-MONTH NET INCOME PER SHARE.

(3) SHARE AND PER SHARE DATA ADJUSTED FOR STOCK SPLITS, EXCEPT FOR TRADING VOLUME.

(4) ROSSVILLE/CHROMATEX INCLUDED IN CONSOLIDATED RESULTS FROM ITS NOVEMBER 1, 1993 ACQUISITION BY CULP.

(5) RAYONESE INCLUDED IN CONSOLIDATED RESULTS FROM ITS MARCH 6, 1995 ACQUISITION BY CULP.

(6) EBITDA REPRESENTS EARNINGS BEFORE INTEREST, INCOME TAXES, DEPRECIATION AND AMORTIZATION.

(7) CAPITAL EMPLOYED INCLUDES FUNDED DEBT AND SHAREHOLDERS' EQUITY.

(8) CULP'S COMMON SHARES WERE LISTED ON THE NEW YORK STOCK EXCHANGE ON DECEMBER 31, 1996.

SELECTED ANNUAL DATA

(AMOUNTS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)	FISCAL 1997	FISCAL 1996	FISCAL 1995	FISCAL 1994	FISCAL 1993	PERCENT CHANGE 1997/1996	FIVE-YEAR GROWTH RATE
<b>INCOME STATEMENT DATA (4) (5)</b>							
net sales	\$398,879	351,667	308,026	245,049	200,783	13.4%	15.8%
cost of sales	326,394	289,129	253,345	202,426	168,599	12.9	15.2
gross profit	72,485	62,538	54,681	42,623	32,184	15.9	19.2
S G & A expenses	45,058	39,068	33,432	27,858	24,203	15.3	12.9
income from operations	27,427	23,470	21,249	14,765	7,981	16.9	37.9
interest expense	4,671	5,316	4,715	2,515	1,409	(12.1)	26.9
interest income	(280)	(92)	(64)	(79)	(29)	204.3	15.5
other expense	1,521	956	1,082	350	1	59.1	39.5
income before income taxes	21,515	17,290	15,516	11,979	6,600	24.4	40.5
income taxes	7,745	6,310	5,741	4,314	2,099	22.7	51.7
net income	13,770	10,980	9,775	7,665	4,501	25.4	35.9
EBITDA(6)	\$ 39,404	35,610	32,052	23,256	14,933	10.7	25.7
depreciation	12,688	12,348	11,257	8,497	6,724	2.8	12.4
cash dividends	1,513	1,236	1,120	887	696	22.4	23.2
weighted average shares outstanding	11,624	11,234	11,203	11,076	10,875	3.5	1.4
<b>PER SHARE DATA (3) (4) (5)</b>							
net income	\$ 1.18	0.98	0.87	0.69	0.41	20.4%	34.3%
cash dividends	0.13	0.11	0.10	0.08	0.064	18.2	21.6
book value	8.79	7.21	6.37	5.60	5.01	21.9	13.5
<b>BALANCE SHEET DATA (4) (5)</b>							
working capital	\$ 69,777	56,953	38,612	37,949	34,942	22.5%	21.2%
property, plant and equipment, net	91,231	76,961	75,805	64,004	44,529	18.5	18.3
total assets	243,952	211,644	194,999	164,948	106,548	15.3	21.2
capital expenditures	26,958	14,385	18,058	16,764	11,938	87.4	16.8
businesses acquired	0	0	10,455	38,205	0	0	0
long-term debt	76,541	74,941	62,187	58,512	23,147	2.1	40.3
funded debt (1)	65,623	76,791	72,947	58,639	26,582	(14.5)	31.3
shareholders' equity	110,789	81,446	71,396	62,649	54,521	36.0	17.0
capital employed (7)	176,412	158,237	144,343	121,288	81,103	11.5	21.2
<b>RATIOS &amp; OTHER DATA (4) (5)</b>							
gross profit margin	18.2%	17.8%	17.8%	17.4%	16.0		
operating income margin	6.9	6.7	6.9	6.0	4.0		
net income margin	3.5	3.1	3.2	3.1	2.2		
EBITDA margin	9.9	10.1	10.4	9.5	7.4		
effective income tax rate	36.0	36.5	37.0	36.0	31.8		
funded debt-to-total capital ratio (1)	37.2	48.5	50.5	48.3	32.8		
RETURN ON AVERAGE TOTAL CAPITAL	10.1	9.5	9.6	9.2	7.4		
return on average equity	15.2	14.4	14.6	13.1	8.6		
working capital turnover	5.3	5.3	5.6	5.7	5.4		
days sales in receivables	49	46	47	43	43		
inventory turnover	6.4	6.0	6.0	6.3	6.4		
<b>STOCK DATA (3)</b>							
stock price							
high	\$ 19.63	13.25	12.50	17.33	7.33		
low	11.50	7.75	7.25	5.67	3.60		
close	16.63	13.00	9.75	11.63	7.20		
P/E ratio (2)							
high	16.6	13.5	14.3	25.1	17.7		
low	9.7	7.9	8.3	8.2	8.7		
trading volume (shares)	5,037 (8)	4,932	10,161	11,178	2,646		

(1) - (8) SEE SELECTED QUARTERLY DATA TABLE FOOTNOTE

REPORT OF INDEPENDENT AUDITORS

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

We have audited the accompanying consolidated balance sheets of Culp, Inc. and subsidiary as of April 27, 1997 and April 28, 1996, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the years in the three-year period ended April 27, 1997. These consolidated financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Culp, Inc. and subsidiary as of April 27, 1997 and April 28, 1996, and the results of their operations and their cash flows for each of the years in the three-year period ended April 27, 1997, in conformity with generally accepted accounting principles.

/s/ KPMG Peat Marwick LLP.  
Greensboro, North Carolina  
May 22, 1997

MANAGEMENT'S RESPONSIBILITY

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

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

KPMG Peat Marwick LLP, the company's independent auditors, conducts an audit in accordance with generally accepted auditing standards and provides an opinion on the financial statements prepared by management. Their report for 1997 is presented above.

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

/s/ Robert G. Culp, III  
Robert G. Culp, III  
Chairman and Chief Executive Officer

/s/ Franklin N. Saxon  
Franklin N. Saxon  
Senior Vice President and Chief Financial Officer  
May 22, 1997

## CORPORATE DIRECTORY

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

Howard L. Dunn, Jr.  
President and Chief Operating Officer; Director (E)

Franklin N. Saxon  
Senior Vice President and Chief Financial Officer, Treasurer, Secretary;  
Director (E)

Kenneth M. Ludwig  
Senior Vice President-Human Resources; Assistant Secretary

Harry R. Culp, D.D.S.  
Director

Baxter P. Freeze, Sr.  
Director (A,C); Retired President, Chairman of the Board,  
Commonwealth Hosiery Mills, Inc., Randleman, NC

Earl M. Honeycutt  
Director (A,C); Retired President, Amoco Fabrics and Fibers Company,  
Atlanta, GA

Patrick H. Norton  
Director (N); Senior Vice President, Sales and Marketing;  
La-Z-Boy, Inc., Monroe, MI

Earl N. Phillips, Jr.  
Director; Co-Founder and President, First Factors Corporation  
High Point, NC

Bland W. Worley  
Director (A,C,N); Retired Chairman of the Board and Chief Executive  
Officer, Barclays American Corporation, Charlotte, NC

## BOARD COMMITTEES:

A-AUDIT  
C-COMPENSATION  
E-EXECUTIVE  
N-NOMINATING

## SHAREHOLDER INFORMATION

Corporate Address  
101 South Main Street  
Post Office Box 2686  
High Point, NC 27261

Telephone: (910) 889-5161  
Fax: (910) 887-7089

Registrar and Transfer Agent  
Wachovia Bank, N.A.  
Winston-Salem, NC 27102  
(800) 633-4236

Written shareholder correspondence should be sent to:  
Wachovia Shareholder Services  
P.O. Box 8218  
Boston, MA 02266-8218

Transfers should be sent to:  
Wachovia Shareholder Services  
P.O. Box 8217  
Boston, MA 02266-8217

Auditors  
KPMG Peat Marwick LLP  
Greensboro, NC 27401

Legal Counsel  
Robinson, Bradshaw & Hinson, PA  
Charlotte, NC 28246

Form 10-K and Quarterly Reports/Investor Contact  
The Form 10-K Annual Report of Culp, Inc., as filed with the Securities and  
Exchange Commission, is available from the company without charge to  
shareholders upon written request. Shareholders may also obtain copies of the  
company's news releases issued in conjunction with the company's quarterly  
results. These requests and other investor contacts should be directed to the  
Investor Relations department at the corporate address.

NYSE Symbol  
The company's common stock is traded on the New York Stock Exchange under the

symbol CFI.

#### Analyst Coverage

These analysts cover Culp, Inc.:

Interstate/Johnson Lane - Kay Norwood, CFA  
Raymond, James & Associates - Budd Bugatch, CFA  
Robinson-Humphrey Co., Inc. - Lorraine Miller, CFA  
Wheat First Securities, Inc. - John Baugh, CFA  
Value Line, Inc. - Jed S. Brody

#### Stock Listing

Culp, Inc. common stock is traded on the New York Stock Exchange under the symbol CFI. As of April 27, 1997, Culp, Inc. had approximately 2,900 shareholders based on the number of holders of record and an estimate of the number of individual participants represented by security position listings.

#### Annual Meeting

Shareholders are invited to attend the annual meeting to be held Tuesday, September 16, 1997 at the Radisson Hotel; 135 South Main Street; High Point, North Carolina.

(Graphic appears here of number 25)

CULP, INC.  
101 SOUTH MAIN STREET  
POST OFFICE BOX 2686  
HIGH POINT, NC 27261  
TELEPHONE: (910) 889-5161  
INTERNET: [INVESTORRELATIONS@CULPINC.COM](mailto:INVESTORRELATIONS@CULPINC.COM)

EXHIBIT 22

LIST OF SUBSIDIARIES OF CULP, INC.

CULP INTERNATIONAL, INC.  
INCORPORATED IN VIRGIN ISLANDS

3096726 CANADA INC.  
INCORPORATED UNDER LAWS OF CANADA

RAYONESE TEXTILE INC.  
INCORPORATED UNDER LAWS OF CANADA

EXHIBIT 24(A)

CONSENT OF INDEPENDENT AUDITORS  
TO THE BOARD OF DIRECTORS AND SHAREHOLDERS OF CULP, INC.

WE CONSENT TO INCORPORATION BY REFERENCE IN THE REGISTRATION STATEMENTS (NOS. 33-13310, 33-37027, 33-80206, 33-62843 AN 333-27519) ON FORM S-8 OF CULP, INC. OF OUR REPORT DATED MAY 22, 1997, RELATING TO THE CONSOLIDATED BALANCE SHEETS OF CULP, INC. AND SUBSIDIARY AS OF APRIL 27, 1997 AND APRIL 28, 1996, AND THE RELATED CONSOLIDATED STATEMENTS OF INCOME, SHAREHOLDERS' EQUITY AND CASH FLOWS FOR EACH OF THE YEARS IN THE THREE-YEAR PERIOD ENDED APRIL 27, 1997, WHICH REPORT IS INCORPORATED BY REFERENCE IN THE APRIL 27, 1997 ANNUAL REPORT ON FORM 10-K OF CULP, INC.

KPMG PEAT MARWICK LLP

GREENSBORO, NORTH CAROLINA  
JULY 24, 1997

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS that the undersigned director of CULP, INC., a North Carolina corporation, hereby constitutes and appoints FRANKLIN N. SAXON the true and lawful agent and attorney-in-fact to sign for the undersigned as a director of the Corporation the Corporation's Annual Report on Form 10-K for the year ended April 27, 1997 to be filed with the Securities and Exchange Commission, Washington, D. C., under the Securities Exchange Act of 1934, as amended, and to sign any amendment or amendments to such Annual Report, hereby ratifying and confirming all acts taken by such agent and attorney-in-fact, as herein authorized.

/s/ Harry R. Culp  
Harry R. Culp

DATE: JUNE 2, 1997

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS that the undersigned director of CULP, INC., a North Carolina corporation, hereby constitutes and appoints FRANKLIN N. SAXON the true and lawful agent and attorney-in-fact to sign for the undersigned as a director of the Corporation the Corporation's Annual Report on Form 10-K for the year ended April 27, 1997 to be filed with the Securities and Exchange Commission, Washington, D. C., under the Securities Exchange Act of 1934, as amended, and to sign any amendment or amendments to such Annual Report, hereby ratifying and confirming all acts taken by such agent and attorney-in-fact, as herein authorized.

/s/           Howard L. Dunn, Jr.  
                  Howard L. Dunn, Jr.

DATE:       June 20, 1997

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS that the undersigned director of CULP, INC., a North Carolina corporation, hereby constitutes and appoints FRANKLIN N. SAXON the true and lawful agent and attorney-in-fact to sign for the undersigned as a director of the Corporation the Corporation's Annual Report on Form 10-K for the year ended April 27, 1997 to be filed with the Securities and Exchange Commission, Washington, D. C., under the Securities Exchange Act of 1934, as amended, and to sign any amendment or amendments to such Annual Report, hereby ratifying and confirming all acts taken by such agent and attorney-in-fact, as herein authorized.

/s/           Baxter P. Freeze  
              Baxter P. Freeze

DATE:     June 3, 1997

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS that the undersigned director of CULP, INC., a North Carolina corporation, hereby constitutes and appoints FRANKLIN N. SAXON the true and lawful agent and attorney-in-fact to sign for the undersigned as a director of the Corporation the Corporation's Annual Report on Form 10-K for the year ended April 27, 1997 to be filed with the Securities and Exchange Commission, Washington, D. C., under the Securities Exchange Act of 1934, as amended, and to sign any amendment or amendments to such Annual Report, hereby ratifying and confirming all acts taken by such agent and attorney-in-fact, as herein authorized.

/s/ Earl M. Honeycutt  
Earl M. Honeycutt

DATE: June 3, 1997

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS that the undersigned director of CULP, INC., a North Carolina corporation, hereby constitutes and appoints FRANKLIN N. SAXON the true and lawful agent and attorney-in-fact to sign for the undersigned as a director of the Corporation the Corporation's Annual Report on Form 10-K for the year ended April 27, 1997 to be filed with the Securities and Exchange Commission, Washington, D. C., under the Securities Exchange Act of 1934, as amended, and to sign any amendment or amendments to such Annual Report, hereby ratifying and confirming all acts taken by such agent and attorney-in-fact, as herein authorized.

/s/ Patrick H. Norton  
Patrick H. Norton

DATE: JUNE 2, 1997

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS that the undersigned director of CULP, INC., a North Carolina corporation, hereby constitutes and appoints FRANKLIN N. SAXON the true and lawful agent and attorney-in-fact to sign for the undersigned as a director of the Corporation the Corporation's Annual Report on Form 10-K for the year ended April 27, 1997 to be filed with the Securities and Exchange Commission, Washington, D. C., under the Securities Exchange Act of 1934, as amended, and to sign any amendment or amendments to such Annual Report, hereby ratifying and confirming all acts taken by such agent and attorney-in-fact, as herein authorized.

/s/ Earl N. Phillips, Jr.  
Earl N. Phillips, Jr.

DATE: June 1, 1997

## POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS that the undersigned director of CULP, INC., a North Carolina corporation, hereby constitutes and appoints FRANKLIN N. SAXON the true and lawful agent and attorney-in-fact to sign for the undersigned as a director of the Corporation the Corporation's Annual Report on Form 10-K for the year ended April 27, 1997 to be filed with the Securities and Exchange Commission, Washington, D. C., under the Securities Exchange Act of 1934, as amended, and to sign any amendment or amendments to such Annual Report, hereby ratifying and confirming all acts taken by such agent and attorney-in-fact, as herein authorized.

/s/ Bland W. Worley  
Bland W. Worley

Date: June 4, 1997

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