
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended July 28, 2013
Commission File No. 1-12597

CULP, INC.

(Exact name of registrant as specified in its charter)

NORTH CAROLINA

(State or other jurisdiction of
incorporation or other organization)

56-1001967

(I.R.S. Employer Identification No.)

1823 Eastchester Drive

High Point, North Carolina

(Address of principal executive offices)

27265-1402

(zip code)

(336) 889-5161

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to the filing requirements for at least the past 90 days. ☒ YES ☐ NO

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

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

Large accelerated filer ☐

Accelerated filer ☒

Non-accelerated filer ☐

Smaller Reporting Company ☐

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

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

Common shares outstanding at July 28, 2013: 12,241,405

Par Value: \$0.05 per share

INDEX TO FORM 10-Q
For the period ended July 28, 2013

Page

Part I - Financial Statements

Item 1. Financial Statements: (Unaudited)

<u>Consolidated Statements of Net Income — Three Months Ended July 28, 2013 and July 29, 2012</u>	I-1
<u>Consolidated Statements of Comprehensive Income – Three Months Ended July 28, 2013 and July 29, 2012</u>	I-2
<u>Consolidated Balance Sheets — July 28, 2013, July 29, 2012 and April 28, 2013</u>	I-3
<u>Consolidated Statements of Cash Flows — Three Months Ended July 28, 2013 and July 29, 2012</u>	I-4
<u>Consolidated Statements of Shareholders' Equity</u>	I-5
<u>Notes to Consolidated Financial Statements</u>	I-6
<u>Cautionary Statement Concerning Forward-Looking Information</u>	I-23

<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	I-24
--	------

<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	I-34
---	------

<u>Item 4. Controls and Procedures</u>	I-35
--	------

Part II - Other Information

<u>Item 1. Legal Proceedings</u>	II-1
--	------

<u>Item 1A. Risk Factors</u>	II-1
--	------

<u>Item 2. Unregistered Sales of Equity Securities and Use of Sales Proceeds</u>	II-1
--	------

<u>Item 6. Exhibits</u>	II-2
---	------

<u>Signatures</u>	II-3
-----------------------------------	------

CULP, INC.
CONSOLIDATED STATEMENTS OF NET INCOME
FOR THE THREE MONTHS ENDED JULY 28, 2013 AND JULY 29, 2012
UNAUDITED
(Amounts in Thousands, Except for Per Share Data)

	THREE MONTHS ENDED	
	July 28, 2013	July 29, 2012
Net sales	\$ 70,141	69,184
Cost of sales	57,067	56,064
Gross profit	13,074	13,120
Selling, general and administrative expenses	7,100	7,641
Income from operations	5,974	5,479
Interest expense	140	190
Interest income	(92)	(127)
Other expense	391	44
Income before income taxes	5,535	5,372
Income taxes	2,305	1,848
Net income	\$ 3,230	3,524
Net income per share, basic	\$ 0.27	0.28
Net income per share, diluted	0.26	0.28
Average shares outstanding, basic	12,148	12,551
Average shares outstanding, diluted	12,366	12,711

See accompanying notes to consolidated financial statements.

CULP, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE THREE MONTHS ENDED JULY 28, 2013 AND JULY 29, 2012
UNAUDITED

	THREE MONTHS ENDED	
	July 28, 2013	July 29, 2012
Net income	\$ 3,230	3,524
Other comprehensive (loss) income		
Unrealized (loss) gain on short-term investments	(135)	33
Total other comprehensive (loss) income	(135)	33
Comprehensive income	<u>3,095</u>	<u>3,557</u>

See accompanying notes to consolidated financial statements.

CULP, INC.
CONSOLIDATED BALANCE SHEETS
JULY 28, 2013, JULY 29, 2012 AND APRIL 28, 2013
UNAUDITED
(Amounts in Thousands)

	July 28, 2013	July 29, 2012	* April 28, 2013
Current assets:			
Cash and cash equivalents	\$ 21,423	21,889	23,530
Short-term investments	6,174	5,200	5,286
Accounts receivable, net	24,493	20,021	23,392
Inventories	41,770	44,052	38,418
Deferred income taxes	7,747	2,337	7,709
Assets held for sale	-	15	-
Income taxes receivable	292	-	318
Other current assets	3,408	2,563	2,093
Total current assets	105,307	96,077	100,746
Property, plant and equipment, net	30,808	31,016	30,594
Goodwill	11,462	11,462	11,462
Deferred income taxes	651	2,715	753
Other assets	2,873	1,890	1,151
Total assets	\$ 151,101	143,160	144,706
Current liabilities:			
Current maturities of long-term debt	\$ 2,200	2,400	2,200
Line of credit	-	834	561
Accounts payable-trade	27,821	27,284	22,357
Accounts payable - capital expenditures	-	152	225
Accrued expenses	8,704	8,366	11,829
Accrued restructuring costs	-	40	-
Income taxes payable - current	320	751	285
Total current liabilities	39,045	39,827	37,457
Income taxes payable - long-term	4,176	4,131	4,191
Deferred income taxes	4,335	705	3,075
Line of credit	560	-	-
Long-term debt, less current maturities	4,400	6,666	4,400
Total liabilities	52,516	51,329	49,123
Commitments and Contingencies (Note 16)			
Shareholders' equity	98,585	91,831	95,583
Total liabilities and shareholders' equity	\$ 151,101	143,160	144,706
Shares outstanding	12,241	13,181	12,225

* Derived from audited financial statements.

See accompanying notes to consolidated financial statements.

CULP, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE THREE MONTHS ENDED JULY 28, 2013 AND JULY 29, 2012
UNAUDITED
(Amounts in Thousands)

	THREE MONTHS ENDED	
	July 28, 2013	July 29, 2012
Cash flows from operating activities:		
Net income	\$ 3,230	3,524
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	1,305	1,254
Amortization of other assets	39	60
Stock-based compensation	152	70
Excess tax benefit related to stock-based compensation	(114)	(55)
Deferred income taxes	1,438	675
Gain on sale of equipment	(74)	-
Foreign currency exchange losses (gains)	96	(80)
Changes in assets and liabilities, net of effects of acquisition of assets:		
Accounts receivable	(1,049)	4,985
Inventories	(3,271)	(7,710)
Other current assets	(1,300)	(572)
Other assets	(11)	(43)
Accounts payable - trade	5,284	(3,288)
Accrued expenses	(3,131)	(930)
Income taxes	81	148
Net cash provided by (used in) operating activities	<u>2,675</u>	<u>(1,962)</u>
Cash flows from investing activities:		
Capital expenditures	(884)	(1,008)
Cash paid for business acquisition	(2,640)	-
Purchase of short-term investments	(1,023)	(25)
Proceeds from the sale of short-term investments	-	795
Proceeds from the sale of equipment	104	-
Net cash used in investing activities	<u>(4,443)</u>	<u>(238)</u>
Cash flows from financing activities:		
Payments on long-term debt	-	(50)
Proceeds from common stock issued	145	-
Common stock repurchased	-	(470)
Dividends paid	(489)	(381)
Excess tax benefit related to stock-based compensation	114	55
Net cash used in financing activities	<u>(230)</u>	<u>(846)</u>
Effect of exchange rate changes on cash and cash equivalents	(109)	(88)
Decrease in cash and cash equivalents	(2,107)	(3,134)
Cash and cash equivalents at beginning of period	<u>23,530</u>	<u>25,023</u>
Cash and cash equivalents at end of period	<u>\$ 21,423</u>	<u>21,889</u>

See accompanying notes to consolidated financial statements.

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

	Common Stock		Capital Contributed in Excess of Par Value	Accumulated Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
	Shares	Amount				
Balance, April 29, 2012	12,702,806	\$ 635	46,056	42,293	16	\$ 89,000
Net income	-	-	-	18,317	-	18,317
Stock-based compensation	-	-	562	-	-	562
Unrealized gain on short-term investments	-	-	-	-	38	38
Excess tax benefit related to stock based compensation	-	-	76	-	-	76
Common stock repurchased	(502,595)	(25)	(4,997)	-	-	(5,022)
Fully vested common stock award	1,658	-	-	-	-	-
Common stock issued in connection with stock option plans	23,025	1	204	-	-	205
Dividends paid	-	-	-	(7,593)	-	(7,593)
Balance, April 28, 2013 *	12,224,894	611	41,901	53,017	54	95,583
Net income	-	-	-	3,230	-	3,230
Stock-based compensation	-	-	152	-	-	152
Unrealized loss on short-term investments	-	-	-	-	(135)	(135)
Excess tax benefit related to stock based compensation	-	-	114	-	-	114
Common stock issued in connection with stock option plans	17,500	1	144	-	-	145
Common stock surrendered for withholding taxes payable	(989)	-	(15)	-	-	(15)
Dividends paid	-	-	-	(489)	-	(489)
Balance, July 28, 2013	12,241,405	\$ 612	42,296	55,758	(81)	\$ 98,585

* Derived from audited financial statements.

See accompanying notes to consolidated financial statements.

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

1. Basis of Presentation

The accompanying unaudited consolidated financial statements of Culp, Inc. and subsidiaries (the “company”) include all adjustments, which are, in the opinion of management, necessary for fair presentation of the results of operations and financial position. All of these adjustments are of a normal recurring nature except as disclosed in note 3 to the consolidated financial statements. Results of operations for interim periods may not be indicative of future results. The unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements, which are included in the company’s annual report on Form 10-K filed with the Securities and Exchange Commission on July 12, 2013 for the fiscal year ended April 28, 2013.

The company’s three months ended July 28, 2013 and July 29, 2012, represent 13 week periods, respectively.

2. Significant Accounting Policies

As of July 28, 2013, there were no changes in the nature of our significant accounting policies or the application of those policies from those reported in our annual report on Form 10-K for the year then ended April 28, 2013.

Recently Adopted Accounting Pronouncements

None

Recently Issued Accounting Pronouncements

Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists

In July 2013, the Financial Accounting Standards Board (“FASB”) issued an accounting standards update which requires an unrecognized tax benefit to be presented as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss or a tax credit carryforward that the entity intends to use and is available for settlement at the reporting date. This update will be effective for us in the fourth quarter of fiscal 2014 and will not have an impact on our financial position, results of operations, or cash flows.

3. Business Combination – Mattress Fabric Segment

On May 8, 2013, we entered into an asset purchase and consulting agreement with Bodet & Horst GMBH & Co. KG and certain affiliates (“Bodet & Horst”) that provides for, among other things, the purchase of equipment and certain other assets from Bodet & Horst and the restructuring of existing consulting and non-compete agreements pursuant to an earlier asset purchase and consulting agreement with Bodet & Horst dated August 11, 2008. This agreement was accounted for as a business combination in accordance with ASC Topic 805, Business Combinations. We have agreed with Bodet & Horst to replace the existing non-compete agreement that prevented us from selling certain mattress fabrics and products to a leading manufacturer, which will now allow us to make such sales. In addition, the current consulting and non-compete agreement, under which Bodet & Horst agreed not to sell most mattress fabrics in North America, is replaced, expanded, and extended pursuant to the new asset purchase and consulting agreement.

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

The purchase price for the equipment and the other certain assets noted below was \$2.6 million in cash.

Direct acquisition costs related to this business combination totaled \$83,000.

The following table presents the allocation of the acquisition cost to the assets acquired based on their fair values:

(dollars in thousands)	Fair Value
Equipment	\$ 890
Non-compete agreement (Notes 7 and 10)	882
Customer relationships (Notes 7 and 10)	868
	<u>\$ 2,640</u>

The company recorded its non-compete at its fair value based on a discounted cash flow valuation model. The company recorded its customer relationships at its fair value based on a multi-period excess earnings valuation model. This non-compete agreement will be amortized on a straight line basis over the fifteen year life of the agreement. The customer relationships will be amortized on a straight line basis over its useful life of seventeen years. The equipment will be amortized on a straight line basis over its useful life of seven years.

The following unaudited pro forma consolidated results of operations for the three month periods ending July 28, 2013 and July 29, 2012 have been prepared as if the acquisition of Bodet & Horst had occurred on April 30, 2012:

(dollars in thousands)	Three months ended	
	July 28, 2013	July 29, 2012
Net Sales	\$ 70,141	\$ 71,651
Income from operations	5,974	5,470
Net income	3,230	3,480
Net income per share, basic	0.27	0.28
Net income per share, diluted	0.26	0.27

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

4. Stock-Based Compensation

Incentive Stock Option Awards

We did not grant any incentive stock option awards during the first quarter of fiscal 2014.

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

At July 28, 2013, options to purchase 165,325 shares of common stock were outstanding, had a weighted average exercise price of \$6.86 per share, and a weighted average contractual term of 4.1 years. At July 28, 2013, the aggregate intrinsic value for options outstanding was \$2.1 million.

At July 28, 2013, outstanding options to purchase 157,325 shares of common stock were exercisable, had a weighted average exercise price of \$7.11 per share, and a weighted average contractual term of 4.1 years. At July 28, 2013, the aggregate intrinsic value for options exercisable was \$1.9 million.

The aggregate intrinsic value for options exercised for the three months ending July 28, 2013 was \$171,000. No options were exercised during the three months ending July 29, 2012.

The remaining unrecognized compensation cost related to incentive stock option awards at July 28, 2013, was \$4,000 which is expected to be recognized over a weighted average period of 0.4 years.

We recorded \$6,000 and \$25,000 of compensation expense on incentive stock option grants within selling, general, and administrative expense for the three months ended July 28, 2013, and July 29, 2012, respectively.

Common Stock Awards

We did not grant any common stock awards during the first quarter of fiscal 2014.

Time Vested Restricted Stock Awards

We did not grant any time vested restricted stock awards during the first quarter of fiscal 2014.

We recorded \$27,000 and \$28,000 of compensation expense within selling, general, and administrative expense for time vested restricted stock awards for the three month periods ending July 28, 2013, and July 29, 2012, respectively.

At July 28, 2013, there were 61,667 shares of time vested restricted stock outstanding and unvested. Of the 61,667 shares outstanding and unvested, 35,000 shares (granted on January 7, 2009) will vest on May 1, 2014. The remaining 26,667 shares (granted on July 1, 2009) will vest on July 1, 2014. At July 28, 2013, the weighted average fair value of these outstanding and unvested shares was \$4.21 per share.

During the three month period ended July 28, 2013, 61,667 shares of time vested restricted stock vested and had a weighted average fair value of \$249,000 or \$4.04 per share. During the three month period ended July 29, 2012, 61,665 shares of time vested restricted stock vested and had a weighted average fair value of \$232,000 or \$3.76 per share.

At July 28, 2013, the remaining unrecognized compensation cost related to the unvested restricted stock awards was \$42,000, which is expected to be recognized over a weighted average vesting period of 0.9 years.

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

Performance Based Restricted Stock Units

Fiscal 2014 Grant

On June 25, 2013, certain key members of management were granted performance based restricted common stock units which could earn up to 72,380 shares of common stock if certain performance targets are met as defined in the related restricted stock unit agreement. These awards were valued based on the fair market value on the date of grant. The fair value of these awards was \$17.12, which represents the closing price of our common stock on the date of grant. The vesting of these awards is over the requisite service period of three years.

Fiscal 2013 Grant

On July 11, 2012, certain key members of management were granted performance based restricted common stock units which could earn up to 120,000 shares of common stock if certain performance targets are met as defined in the related restricted stock unit agreement. These awards were valued based on the fair market value on the date of grant. The fair value of these awards was \$10.21, which represents the closing price of our common stock on the date of grant. The vesting of these awards is over the requisite service period of three years.

The company recorded compensation expense of \$119,000 and \$17,000 within selling, general, and administrative expense for performance based restricted stock units for the three month periods ending July 28, 2013 and July 29, 2012, respectively. Compensation cost is recorded based on an assessment each reporting period of the probability if certain performance goals will be met during the vesting period. If performance goals are not probable of occurrence, no compensation cost will be recognized and any recognized compensation cost would be reversed.

Overall

As of July 28, 2013, the remaining unrecognized compensation cost related to the performance based restricted stock units was \$1.4 million, which is expected to be recognized over a weighted average vesting period of 2.4 years.

5. Accounts Receivable

A summary of accounts receivable follows:

<i>(dollars in thousands)</i>	July 28, 2013	April 28, 2013
Customers	\$ 25,829	\$ 24,715
Allowance for doubtful accounts	(743)	(780)
Reserve for returns and allowances and discounts	(593)	(543)
	\$ 24,493	\$ 23,392

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

<i>(dollars in thousands)</i>	July 28, 2013	Three months ended July 29, 2012
Beginning balance	\$ (780)	\$ (567)
Provision for bad debts	7	(41)
Net write-offs, net of recoveries	30	(31)
Ending balance	\$ (743)	\$ (639)

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

A summary of the activity in the allowance for returns and allowances and discounts accounts follows:

<i>(dollars in thousands)</i>	Three months ended	
	July 28, 2013	July 29, 2012
Beginning balance	\$ (543)	\$ (478)
Provision for returns, allowances and discounts	(653)	(847)
Credits issued	603	759
Ending balance	\$ (593)	\$ (566)

6. Inventories

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

A summary of inventories follows:

<i>(dollars in thousands)</i>	July 28, 2013	April 28, 2013
Raw materials	\$ 5,960	\$ 5,311
Work-in-process	2,228	2,539
Finished goods	33,582	30,568
	\$ 41,770	\$ 38,418

7. Other Assets

A summary of other assets follows:

<i>(dollars in thousands)</i>	July 28, 2013	April 28, 2013
Cash surrender value – life insurance	\$ 622	\$ 625
Non-compete agreement	1,061	185
Customer relationships	855	-
Other	335	341
	\$ 2,873	\$ 1,151

Non-Compete Agreement

In connection with the asset purchase and consulting agreement with Bodet & Horst on May 8, 2013 (see note 3), we restructured our existing non-compete agreement pursuant to our asset purchase and consulting agreement dated August 11, 2008. We have agreed with Bodet & Horst to replace the existing non-compete agreement that prevented us from selling certain mattress fabrics and products to a leading manufacturer that will now allow us to make such sales. In addition, the existing consulting and non-compete agreement, under which Bodet & Horst agreed not to sell mattress fabrics in North America, is replaced, expanded, and extended pursuant to the new asset purchase consulting agreement. We recorded this non-compete agreement at its fair value based on a discounted cash flow valuation model. This non-compete agreement is amortized on a straight-line basis over the fifteen year life of the agreement and requires quarterly payments of \$12,500 through May 2014. As of July 28, 2013, the total remaining non-compete payments were \$50,000.

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

The gross carrying amount of this non-compete agreement was \$2.0 million and \$1.1 million at July 28, 2013 and April 28, 2013, respectively. At July 28, 2013 and April 28, 2013, accumulated amortization for the non-compete agreement was \$958,000 and \$940,000, respectively.

Of the \$1,061,000 non-compete agreement carrying amount at July 28, 2013, \$194,000 pertains to the non-compete agreement that was in place as part of the asset purchase agreement dated August 11, 2008, and \$867,000 pertains to the non-compete agreement pursuant to the asset purchase agreement dated May 8, 2013 that was restructured to expand the non-compete agreement in place effective August 11, 2008.

Amortization expense for the non-compete agreement was \$19,000 and \$49,000 for the three month periods ended July 28, 2013 and July 29, 2012, respectively. The remaining amortization expense (which includes the total remaining Bodet & Horst non-compete payments of \$50,000) for the next five fiscal years and thereafter follows: FY 2014 - \$53,000; FY 2015 - \$75,000; FY 2016 - \$75,000; FY 2017 - \$75,000; FY 2018 - \$75,000; and Thereafter - \$758,000.

The weighted average amortization period for the non-compete agreement is 14.8 years as of July 28, 2013.

Customer Relationships

In connection with the asset purchase and consulting agreement with Bodet & Horst noted above, we purchased certain customer relationships. We recorded the customer relationships at its fair value based on a multi-period excess earnings valuation model. The gross carrying amount of these customer relationships was \$868,000 at July 28, 2013. Accumulated amortization for these customer relationships was \$13,000 at July 28, 2013.

The customer relationships are amortized on a straight-line basis over its seventeen year useful life. Amortization expense for the customer relationships was \$13,000 for the three months ending July 28, 2013. The remaining amortization expense for the next five fiscal years and thereafter follows: FY 2014 - \$39,000; FY 2015 - \$51,000; FY 2016 - \$51,000; FY 2017 - \$51,000; FY 2018 - \$51,000; and Thereafter - \$612,000.

The weighted average amortization period for the non-compete agreement is 16.8 years as of July 28, 2013.

Cash Surrender Value – Life Insurance

We had two life insurance contracts with death benefits to the respective insured totaling \$4.4 million at July 28, 2013, and April 28, 2013, respectively. Our cash surrender value – life insurance balances of \$622,000 and \$625,000 at July 28, 2013 and April 28, 2013, respectively, are collectible upon death of the respective insured.

8. Accrued Expenses

A summary of accrued expenses follows:

<i>(dollars in thousands)</i>	July 28, 2013	April 28, 2013
Compensation, commissions and related benefits	\$ 5,987	\$ 9,831
Interest	244	111
Other accrued expenses	2,473	1,887
	\$ 8,704	\$ 11,829

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

9. Long-Term Debt and Lines of Credit

A summary of long-term debt and lines of credit follows:

<i>(dollars in thousands)</i>	July 28, 2013	April 28, 2013
Unsecured senior term notes	\$ 6,600	\$ 6,600
Current maturities of long-term debt	(2,200)	(2,200)
Long-term debt, less current maturities of long-term debt	\$ 4,400	\$ 4,400

Unsecured Term Notes

We entered into a note agreement dated August 11, 2008 that provided for the issuance of \$11.0 million of unsecured term notes with a fixed interest rate of 8.01% and a term of seven years. Principal payments of \$2.2 million per year are due on the notes beginning August 11, 2011. The remaining principal payments are payable over an average term 2.0 years through August 11, 2015. Any principal payments would be assessed a penalty as defined in the agreement. The agreement contains customary financial and other covenants as defined in the agreement.

Revolving Credit Agreement – United States

At July 28, 2013, we had an unsecured Amended and Restated Credit Agreement with Wells Fargo Bank, N.A. (“Wells Fargo”) that provided for a revolving loan commitment of \$7.6 million. This agreement provided for a pricing matrix to determine the interest rate payable on loans made under the agreement (applicable interest rate of 1.79% at July 28, 2013). At July 28, 2013 and April 28, 2013, there was a \$195,000 outstanding letter of credit (all of which related to workers compensation). At July 28, 2013 and April 28, 2013, there were no borrowings outstanding under the agreement.

On August 13, 2013, we entered into a Credit Agreement (“Credit Agreement”) with Wells Fargo that replaced the agreement noted above. This Credit Agreement contains terms and covenants similar to the previous agreement and extends the term of the credit facility through August 31, 2015. Interest is charged at a rate equal to the one-month LIBOR rate plus a spread based on our ratio of debt to EBITDA as defined in the agreement.

This Credit Agreement provides for an unsecured revolving loan commitment of \$10.0 million to be used to finance working capital and for general corporate purposes. The amount of borrowings that are outstanding under the revolving credit agreement with Culp Europe noted below decrease the \$10.0 million available under this Credit Agreement.

Revolving Credit Agreement – China

We have an unsecured credit agreement associated with our operations in China that provides for a line of credit of up to 40 million RMB (approximately \$6.5 million USD at July 28, 2013), expiring on June 8, 2014. This agreement has an interest rate determined by the Chinese government. There were no borrowings outstanding under the agreement as of July 28, 2013 and April 28, 2013.

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

Revolving Credit Agreement – Europe

As of July 28, 2013, we had an unsecured credit agreement associated with our operations in Poland that provided for a line of credit of up to 6.8 million Polish Zloty (approximately \$2.1 million USD at July 28, 2013). This agreement bears interest at WIBOR (Warsaw Interbank Offered Rate) plus 2% (applicable interest rate of 4.625% at July 28, 2013). At July 28, 2013, \$560,000 (1.8 million Polish Zloty) in borrowings was outstanding under this agreement. At April 28, 2013, \$561,000 (1.8 million Polish Zloty) in borrowings was outstanding under this agreement.

In connection with the Credit Agreement effective August 13, 2013 note above, the outstanding borrowings totaling \$560,000 at July 28, 2013, are due on August 31, 2015 and decrease the \$10.0 million available under the Credit Agreement.

Overall

Our loan agreements require, among other things, that we maintain compliance with certain financial covenants. At July 28, 2013, the company was in compliance with these financial covenants.

At July 28, 2013, the principal payment requirements of long-term debt during the next three years are: Year 1 – \$2.2 million; Year 2 - \$2.2 million; and Year 3 - \$2.2 million.

The fair value of the company's long-term debt is estimated by discounting the future cash flows at rates currently offered to the company for similar debt instruments of comparable maturities. At July 28, 2013, the carrying value of the company's long-term debt was \$6.6 million and the fair value was \$7.0 million. At April 28, 2013, the carrying value of the company's long-term debt was \$6.6 million and the fair value was \$7.0 million.

10. Fair Value of Financial Instruments

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

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

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

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

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

Recurring Basis

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

Fair value measurements at July 28, 2013 using:				
	Quoted prices in active markets for identical assets	Significant other observable inputs	Significant unobservable inputs	
(amounts in thousands)	Level 1	Level 2	Level 3	Total
Assets:				
Low Duration Bond Fund	\$ 2,050	N/A	N/A	\$2,050
Limited Term Bond Fund	2,545	N/A	N/A	2,545
Intermediate Term Bond Fund	1,579	N/A	N/A	1,579

Fair value measurements at April 28, 2013 using:				
	Quoted prices in active markets for identical assets	Significant other observable inputs	Significant unobservable inputs	
(amounts in thousands)	Level 1	Level 2	Level 3	Total
Assets:				
Limited Term Bond Fund	\$ 2,092	N/A	N/A	\$2,092
Low Duration Bond Fund	2,076	N/A	N/A	2,076
Intermediate Term Bond Fund	1,118	N/A	N/A	1,118

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

Our short-term investments include short-term bond funds, are classified as available-for-sale, and their unrealized gains or losses are included in other comprehensive income (loss). Our short-term bond funds were recorded at their fair value of \$6.2 million and \$5.3 million at July 28, 2013 and April 28, 2013, respectively. Our short-term bond funds had an accumulated unrealized loss totaling \$81,000 at July 28, 2013 and an accumulated unrealized gain totaling \$54,000 at April 28, 2013. At July 28, 2013 and April 28, 2013 the fair value of our short-term bond funds approximated its cost basis.

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

Nonrecurring Basis

As of July 28, 2013, we had no financial assets that are required to be measured at fair value on a nonrecurring basis other than the assets acquired from Bodet & Horst (see note 3) that were acquired at fair value.

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

Fair value measurements at July 28, 2013 using:

	Quoted prices in active markets for identical assets	Significant other observable inputs	Significant unobservable inputs	
(amounts in thousands)	Level 1	Level 2	Level 3	Total
Assets:				
Equipment	\$ -	\$890	\$ -	\$890
Non-compete Agreement	-	-	882	882
Customer Relationships	-	-	868	868

The equipment was classified as level 2 as the fair value was determined using quoted market prices from a third party. The non-compete was recorded at its fair value using a discounted cash flow valuation model that used significant unobservable inputs and was classified as level 3. The customer relationships were recorded at a fair value using a multi-period excess earnings valuation model that used significant unobservable inputs and was classified as level 3.

11. Cash Flow Information

Payments for interest and income taxes follows:

	Three months ended	
(dollars in thousands)	July 28, 2013	July 29, 2012
Interest	\$ 7	\$ 14
Net income tax payments	792	1,026

12. Net Income Per Share

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

	Three months ended	
(amounts in thousands)	July 28, 2013	July 29, 2012
Weighted average common shares outstanding, basic	12,148	12,551
Dilutive effect of stock-based compensation	218	160
Weighted average common shares outstanding, diluted	12,366	12,711

All options to purchase shares of common stock were included in the computation of diluted net income for the three months ended July 28, 2013 and July 29, 2012, as the exercise price of the options was less than the average market price of the common shares.

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

The computations of basic net income per share did not include 61,667 and 123,335 shares of time vested restricted common stock as these shares were unvested for the three months ending July 28, 2013 and July 29, 2012, respectively.

13. Segment Information

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

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

Financial information for the company's operating segments follows:

<i>(dollars in thousands)</i>	Three months ended	
	July 28, 2013	July 29, 2012
Net sales:		
Mattress Fabrics	\$ 38,164	\$ 37,964
Upholstery Fabrics	31,977	31,220
	<u>\$ 70,141</u>	<u>\$ 69,184</u>
Gross profit:		
Mattress Fabrics	\$ 7,392	\$ 7,622
Upholstery Fabrics	5,682	5,498
	<u>\$ 13,074</u>	<u>\$ 13,120</u>
Selling, general, and administrative expenses:		
Mattress Fabrics	\$ 2,374	\$ 2,391
Upholstery Fabrics	3,266	3,340
Total segment selling, general, and administrative expenses	5,640	5,731
Unallocated corporate expenses	1,460	1,910
	<u>\$ 7,100</u>	<u>\$ 7,641</u>
Income from operations:		
Mattress Fabrics	\$ 5,018	\$ 5,230
Upholstery Fabrics	2,416	2,159
Total segment income from operations	7,434	7,389
Unallocated corporate expenses	(1,460)	(1,910)
Total income from operations	5,974	5,479
Interest expense	(140)	(190)
Interest income	92	127
Other expense	(391)	(44)
Income before income taxes	<u>\$ 5,535</u>	<u>\$ 5,372</u>

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

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

<i>(dollars in thousands)</i>	July 28, 2013	April 28, 2013
Segment assets:		
Mattress Fabrics		
Current assets (1)	\$ 35,718	\$ 33,323
Non-compete agreement	1,061	185
Customer relationships	855	-
Goodwill	11,462	11,462
Property, plant and equipment (2)	28,552	28,578
Total mattress fabrics assets	77,648	73,548
Upholstery Fabrics		
Current assets (1)	30,545	28,487
Property, plant and equipment (3)	1,549	1,230
Total upholstery fabrics assets	32,094	29,717
Total segment assets	109,742	103,265
Non-segment assets:		
Cash and cash equivalents	21,423	23,530
Short-term investments	6,174	5,286
Deferred income taxes	8,398	8,462
Income taxes receivable	292	318
Other current assets	3,408	2,093
Property, plant and equipment (4)	707	786
Other assets	957	966
Total assets	\$ 151,101	\$ 144,706

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

<i>(dollars in thousands)</i>	Three months ended	
	July 28, 2013	July 29, 2012
Capital expenditures (5):		
Mattress Fabrics	\$ 263	\$ 969
Upholstery Fabrics	390	8
Unallocated Corporate	5	14
Total capital expenditures	\$ 658	\$ 991
Depreciation expense:		
Mattress Fabrics	\$ 1,149	\$ 1,092
Upholstery Fabrics	156	162
Total depreciation expense	\$ 1,305	\$ 1,254

- (1) Current assets represent accounts receivable and inventory for the respective segment.
- (2) The \$28.6 million at July 28, 2013, represents property, plant, and equipment of \$20.7 million and \$7.9 million located in the U.S. and Canada, respectively. The \$28.6 million at April 28, 2013, represents property, plant, and equipment of \$20.4 million and \$8.2 million located in the U.S. and Canada, respectively.
- (3) The \$1.5 million at July 28, 2013, represents property, plant, and equipment located in the U.S. of \$1.1, located in China of \$371, and located in Poland of \$53. The \$1.2 million at April 28, 2013, represents property, plant, and equipment located in the U.S. of \$908, located in China of \$265, and located in Poland of \$57.
- (4) The \$707 and \$786 at July 28, 2013 and April 28, 2013, respectively, represent property, plant, and equipment associated with unallocated corporate departments and corporate departments shared by both the mattress and upholstery fabric segments. Property, plant, and equipment associated with corporate are located in the U.S.
- (5) Capital expenditure amounts are stated on the accrual basis. See Consolidated Statement of Cash Flows for capital expenditure amounts on a cash basis.

14. Income Taxes

Effective Income Tax Rate

We recorded income tax expense of \$2.3 million, or 41.6% of income before income tax expense, for the three month period ended July 28, 2013, compared to income tax expense of \$1.8 million, or 34.4% of income before income tax expense, for the three month period ended July 29, 2012. Our effective income tax rates for the three month periods ended July 28, 2013 and July 29, 2012 were based upon the estimated effective income tax rate applicable for the full year after giving effect to any significant items related specifically to interim periods. The effective income tax rate can be affected over the fiscal year by the mix and timing of actual earnings from our U.S. operations and foreign sources versus annual projections and changes in foreign currencies in relation to the U.S. dollar.

The income tax expense for the three month period ended July 28, 2013 is different from the amount obtained by applying our statutory rate of 34% to income before income taxes for the following reasons:

- The income tax rate increased 5% for adjustments primarily made to our state of North Carolina loss carryforwards for the decrease in future North Carolina corporate income tax rates commencing in fiscal 2015 and beyond. These adjustments totaled \$273,000 and represented a discrete event in which the full tax effects were recorded in the first quarter of fiscal 2014.
- The income tax rate decreased by 6% for taxable income subject to lower statutory income tax rates in foreign jurisdictions (Canada and China) compared with the statutory income tax rate of 34% for the United States.

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

- The income tax rate increased by 4% for an increase in unrecognized tax benefits.
- The income tax rate increased by 4.6% for stock-based compensation and other miscellaneous items.

The income tax expense for the three month period ended July 29, 2012 is different from the amount obtained by applying our statutory rate of 34% to income before income taxes for the following reasons:

- The income tax rate increased 5% for an increase in unrecognized tax benefits.
- The income tax rate was reduced by 5% for taxable income subject to lower statutory income tax rates in foreign jurisdictions (Canada and China) compared with the statutory income tax rate of 34% for the United States.
- The income tax rate was increased by 0.4% for stock-based compensation and other miscellaneous items.

Deferred Income Taxes

In accordance with ASC Topic 740, we evaluate our deferred income taxes to determine if a valuation allowance is required. ASC Topic 740 requires that companies assess whether a valuation allowance should be established based on the consideration of all available evidence using a “more likely than not” standard, with significant weight being given to evidence that can be objectively verified. Since the company operates in multiple jurisdictions, we assess the need for a valuation allowance on a jurisdiction-by-jurisdiction basis, taking into account the effects of local tax law. Based on our assessment at July 28, 2013, we recorded a partial valuation allowance of \$1.1 million, of which \$722,000 pertained to certain U.S. state net operating loss carryforwards and credits and \$328,000 pertained to loss carryforwards associated with our Culp Europe operation located in Poland. Based on our assessment at April 28, 2013, we recorded a partial valuation allowance of \$963,000, of which \$722,000 pertained to certain U.S. state net operating loss carryforwards and credits and \$241,000 pertained to loss carryforwards associated with our Culp Europe operation located in Poland.

No valuation allowance was recorded against our net deferred tax assets associated with our operations located in China and Canada at July 28, 2013 and April 28, 2013, respectively.

At July 28, 2013, the current deferred tax asset of \$7.7 million represents \$7.4 million and \$302,000 from our operations located in the U.S. and China, respectively. At April 28, 2013, the current deferred tax asset of \$7.7 million represents \$7.4 million and \$325,000 from our operations located in the U.S. and China, respectively. At July 28, 2013, the non-current deferred tax asset of \$651,000 pertains to our operations located China. At April 28, 2013, the non-current deferred tax asset of \$753,000 pertains to our operations located in China. At July 28, 2013, the non-current deferred tax liability of \$4.3 million represents \$3.2 million and \$1.1 million from operations located in the U.S. and Canada, respectively. At April 28, 2013, the non-current deferred tax liability of \$3.1 million represents \$2.0 million and \$1.1 million from our operations located in the U.S. and Canada, respectively.

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

Uncertainty In Income Taxes

At July 28, 2013, we had \$13.3 million of total gross unrecognized tax benefits, of which \$4.2 million represents the amount of gross unrecognized tax benefits that, if recognized, would favorably affect the income tax rate in future periods. Of the \$13.3 million in gross unrecognized tax benefits as of July 28, 2013, \$9.1 million were classified as net non-current deferred income taxes and \$4.2 million were classified as income taxes payable –long-term in the accompanying consolidated balance sheets.

We estimate that the amount of gross unrecognized tax benefits will increase by approximately \$838,000 for fiscal 2014. This increase primarily relates to double taxation under applicable tax treaties with foreign tax jurisdictions.

15. Statutory Reserves

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

The transfer to this reserve must be made before distributions of any dividend to shareholders. As of July 28, 2013, the company's statutory surplus reserve was \$4.1 million, representing 10% of accumulated earnings and profits determined in accordance with PRC accounting rules and regulations. The surplus reserve fund is non-distributable other than during liquidation and can be used to fund previous years' losses, if any, and may be utilized for business expansion or converted into share capital by issuing new shares to existing shareholders in proportion to their shareholding or by increasing the par value of the shares currently held by them provided that the remaining reserve balance after such issue is not less than 25% of the registered capital.

Our subsidiaries located in China can transfer funds to the parent company with the exception of the statutory surplus reserve of \$4.1 million to assist with debt repayment, capital expenditures, and other expenses of the company's business.

16. Commitments and Contingencies

Chromatex Environmental Claim

A lawsuit was filed against us and other defendants (Chromatex, Inc., Rossville Industries, Inc., Rossville Companies, Inc. and Rossville Investments, Inc.) on February 5, 2008 in the United States District Court for the Middle District of Pennsylvania. The plaintiffs are Alan Shulman, Stanley Siegel, Ruth Cherenon as Personal Representative of Estate of Alan Cherenon, and Adrienne Rolla and M.F. Rolla as Executors of the Estate of Joseph Byrnes. The plaintiffs were partners in a general partnership that formerly owned a manufacturing plant in West Hazleton, Pennsylvania (the "Site"). Approximately two years after this general partnership sold the Site to defendants Chromatex, Inc. and Rossville Industries, Inc., we leased and operated the Site as part of our Rossville/Chromatex division. The lawsuit involves court judgments that have been entered against the plaintiffs and against defendant Chromatex, Inc. requiring them to pay costs incurred by the United States Environmental Protection Agency ("USEPA") responding to environmental contamination at the Site, in amounts approximating \$8.6 million, plus unspecified future environmental costs. We understand that the USEPA's costs have exceeded \$13 million, but are not expected to increase significantly in the future. Neither USEPA nor any other governmental authority has asserted any claim against us on account of these matters. The plaintiffs seek contribution from us and other defendants and a declaration that the company and the other defendants are responsible for environmental response costs under environmental laws and certain agreements. The plaintiffs also asserted that we tortiously interfered with contracts between them and other defendants in the case and diverted assets to prevent the plaintiffs from being paid monies owed to them. We have defended ourselves vigorously with regards to the matters described in this litigation. In addition, we have an indemnification agreement with certain other defendants in the litigation pursuant to which the other defendants agreed to indemnify us for any damages we incur as a result of the environmental matters that are the subject of this litigation, although it is unclear whether the indemnitors have significant assets at this time.

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

In the first quarter of fiscal 2014, the parties to this lawsuit reached a tentative settlement of all matters, which would involve the company contributing cash to a global settlement fund. Consequently, we recorded a charge of \$206,000 for this tentative settlement. This charge was recorded in other expense in the Consolidated Statement of Net Income for the three months ending July 28, 2013. The corresponding liability was recorded in accrued expenses in the Consolidated Balance Sheet dated July 28, 2013. As of the date of this report, the settlement remains subject to final agreement by the parties, as well as governmental review procedures and approval by the court.

Other Litigation

The company is periodically involved in legal proceedings and claims which have arisen in the ordinary course of business. These actions, when ultimately concluded and settled, will not, in the opinion of management, have a material adverse effect upon the financial position, results of operations or cash flows of the company.

Purchase Commitments

At July 28, 2013 and April 28, 2013, we had open purchase commitments to acquire equipment for our mattress fabrics segment totaling \$403,000 and \$170,000, respectively.

17. Common Stock Repurchase Program

On August 29, 2012, we announced that our board of directors authorized for us to acquire up to \$2.0 million of our common stock. Under the common stock repurchase program, shares may be purchased from time to time in open market transactions, block trades, through plans established under the Securities Exchange Act Rule 10b5-1, or otherwise. The amount of shares purchased and the timing of such purchases will be based on working capital requirements, market and general business conditions, and other factors including alternative investment opportunities.

As of July 28, 2013, there have been no repurchases of common stock on the \$2.0 million limit that was authorized on August 29, 2012.

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

18. Dividend Program

On June 12, 2013, we announced that our board of directors approved a 33% increase in payment of a quarterly cash dividend from \$0.03 to \$0.04 per share, commencing the first quarter of fiscal 2014. During the first quarter of fiscal 2014, dividend payments totaled \$489,000 compared with \$381,000 during the first quarter of fiscal 2013.

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

CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING INFORMATION

This report and the exhibits attached hereto contain “forward-looking statements” within the meaning of the federal securities laws, including the Private Securities Litigation Reform Act of 1995 (Section 27A of the Securities Act of 1933 and Section 27A of the Securities and Exchange Act of 1934). Such statements are inherently subject to risks and uncertainties. Further, forward looking statements are intended to speak only as of the date on which they are made, and we disclaim any duty to update such statements. Forward-looking statements are statements that include projections, expectations or beliefs about future events or results or otherwise are not statements of historical fact. Such statements are often but not always characterized by qualifying words such as “expect,” “believe,” “estimate,” “plan” and “project” and their derivatives, and include but are not limited to statements about expectations for our future operations, production levels, sales, gross profit margins, operating income, SG&A or other expenses, earnings, cash flow, and other performance or liquidity measures, as well as any statements regarding future economic or industry trends or future developments. Factors that could influence the matters discussed in such statements include the level of housing starts and sales of existing homes, consumer confidence, trends in disposable income, and general economic conditions. Decreases in these economic indicators could have a negative effect on our business and prospects. Likewise, increases in interest rates, particularly home mortgage rates, and increases in consumer debt or the general rate of inflation, could affect us adversely. Changes in consumer tastes or preferences toward products not produced by us could erode demand for our products. Changes in the value of the U.S. dollar versus other currencies can affect our financial results because a significant portion of our operations are located outside the United States. Strengthening of the U.S. dollar against other currencies could make our products less competitive on the basis of price in markets outside the United States, and strengthening of currencies in Canada and China can have a negative impact on our sales of products produced in those places. Also, economic and political instability in international areas could affect our operations or sources of goods in those areas, as well as demand for our products in international markets. Further information about these factors, as well as other factors that could affect our future operations or financial results and the matters discussed in forward-looking statements, is included in Item 1A “Risk Factors” section in our Form 10-K filed with the Securities and Exchange Commission on July 12, 2013 for the fiscal year ended April 28, 2013.

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

Results of Operations

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

Overview

Our fiscal year is the 52 or 53 week period ending on the Sunday closest to April 30. The three months ended July 28, 2013, and July 29, 2012, represent 13 week periods, respectively. Our operations are classified into two business segments: mattress fabrics and upholstery fabrics. The mattress fabrics segment manufactures, sources and sells fabrics to bedding manufacturers. The upholstery fabrics segment sources, manufactures and sells fabrics primarily to residential furniture manufacturers.

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

We reported net sales of \$70.1 million for the first quarter of fiscal 2014 compared with \$69.2 million for the first quarter of fiscal 2013. These results reflect continued favorable customer response to our designs and wide range of products. Product innovation and creativity are our top strategic priorities that is allowing us to develop new products and meet the changing style demands of our customers. As a result, an increasing percentage of our net sales are coming from recent product introductions.

We reported income before income taxes of \$5.5 million in the first quarter of fiscal 2014 compared with \$5.4 million for the first quarter of fiscal 2013. The results of the first quarter of fiscal 2014 include a charge of \$206,000 for the tentative settlement of ongoing litigation relating to environmental claims associated with a closed facility. In addition, we had lower selling, general, and administrative expenses (SG&A) in the first quarter of fiscal 2014 compared to the first quarter of fiscal 2013. SG&A decreased primarily due to lower unallocated corporate incentive compensation accruals, reflecting financial results that were not as high in relation to pre-established performance targets set at more challenging levels than in the prior year.

We reported net income of \$3.2 million, or \$0.26 per diluted share, in the first quarter of fiscal 2014, compared with \$3.5 million, or \$0.28 per diluted share, in the first quarter of fiscal 2013. Net income for the first quarter of fiscal 2014 included income tax expense of \$2.3 million, or 41.6% of income before income taxes, compared with income tax expense of \$1.8 million, or 34.4% of income before income taxes, for the first quarter of fiscal 2013.

At July 28, 2013, our cash and cash equivalents and short-term investments totaled \$27.6 million and exceeded our total debt (current maturities of long-term debt, long-term debt, and line of credit) of \$7.2 million. In August of 2013, we paid our required annual principal payment of \$2.2 million associated with our unsecured senior term notes, thus further lowering our total debt to approximately \$5.0 million. We have two remaining annual \$2.2 million payments due August 2014 and 2015.

Our cash and cash equivalents and short-term investments decreased slightly from \$28.8 million at April 28, 2013, after spending \$2.6 million on an asset purchase and consulting agreement associated with our mattress fabrics segment, \$884,000 on capital expenditures, and \$489,000 on dividend payments. This spending was partially offset by net cash provided by operating activities of \$2.7 million.

One June 12, 2013, we announced that our board of directors approved a 33% increase in our quarterly cash dividend from \$0.03 to \$0.04 per share, commencing the first quarter of fiscal 2014. During the first quarter of fiscal 2014, dividend payments totaled \$489,000 compared with \$381,000 during the first quarter of fiscal 2013.

Segment Analysis

The following tables set forth the company's statement of operations by segment for the three months ended July 28, 2013, and July 29, 2012.

CULP, INC.
STATEMENTS OF OPERATIONS BY SEGMENT
FOR THE THREE MONTHS ENDED JULY 28, 2013 AND JULY 29, 2012
(Unaudited)

(Amounts in thousands)

THREE MONTHS ENDED						
		Amounts			Percent of Total Sales	
Net Sales by Segment		July 28, 2013	July 29, 2012	% Over (Under)	July 28, 2013	July 29, 2012
Mattress Fabrics	\$	38,164	37,964	0.5%	54.4%	54.9%
Upholstery Fabrics		31,977	31,220	2.4%	45.6%	45.1%
Net Sales	\$	70,141	69,184	1.4%	100.0%	100.0%
Gross Profit by Segment					Gross Profit Margin	
Mattress Fabrics	\$	7,392	7,622	(3.0)%	19.4%	20.1%
Upholstery Fabrics		5,682	5,498	3.3%	17.8%	17.6%
Gross Profit		13,074	13,120	(0.4)%	18.6%	19.0%
Selling, General and Administrative expenses by Segment					Percent of Sales	
Mattress Fabrics	\$	2,374	2,391	(0.7)%	6.2%	6.3%
Upholstery Fabrics		3,266	3,340	(2.2)%	10.2%	10.7%
Unallocated Corporate expenses		1,460	1,910	(23.6)%	2.1%	2.8%
Selling, General and Administrative Expenses		7,100	7,641	(7.1)%	10.1%	11.0%
Operating Income (loss) by Segment					Operating Income (Loss) Margin	
Mattress Fabrics	\$	5,018	5,230	(4.1)%	13.1%	13.8%
Upholstery Fabrics		2,416	2,159	11.9%	7.6%	6.9%
Unallocated corporate expenses		(1,460)	(1,910)	(23.6)%	(2.1)%	(2.8)%
Operating Income		5,974	5,479	9.0%	8.5%	7.9%
Depreciation expense by Segment						
Mattress Fabrics	\$	1,149	1,092	5.2%		
Upholstery Fabrics		156	162	(3.7)%		
Depreciation expense		1,305	1,254	4.1%		

Three months ended July 28, 2013 compared with the Three Months ended July 29, 2012

Mattress Fabrics Segment

Net Sales

Mattress fabrics sales for the first quarter of fiscal 2014 were \$38.2 million, up slightly compared with \$38.0 million for the first quarter of fiscal 2013. We are pleased with the increase in our net sales, compared to a year ago, especially in light of the strong industry demand that occurred in the same period last year. Our net sales for the first quarter of fiscal 2014 were in line with relatively flat industry demand during a more challenging business environment than we experienced in the same period last year.

During the second quarter of fiscal 2014, we expect a normal seasonal slowdown, which will influence our net sales and operating efficiencies. Based on current business trends, we expect overall industry demand in the second quarter of fiscal 2014 to be less favorable than the second quarter of fiscal 2013.

Gross Profit and Operating Income

For the first quarter of fiscal 2014, the mattress fabrics segment reported a gross profit of \$7.4 million, or 19.4% of net sales, compared with \$7.6 million, or 20.1% of net sales, for the first quarter of fiscal 2013. SG&A for the first quarter of fiscal 2014 was \$2.4 million or 6.2% of net sales, compared with \$2.4 million, or 6.3% of net sales for the first quarter of fiscal 2013. Operating income was \$5.0 million for the first quarter of fiscal 2014 compared with \$5.2 million for the first quarter of fiscal 2013. Operating margins were 13.1% and 13.8% of net sales in the first quarter of fiscal 2014 and 2013, respectively.

As noted above, we expect overall industry demand to decline in the second quarter of fiscal 2014 compared to the second quarter of fiscal 2013 which we believe will make it very challenging for gross profit and operating income to meet the levels achieved a year ago.

Culp-Lava Applied Sewn Solutions (CLASS)

During the first quarter, we continued to make progress with CLASS, our recent business venture established to produce and market mattress covers. We have now completed most of the specialized training and development work necessary for production at our new Stokesdale, North Carolina, manufacturing facility. We are focused on improving our operating efficiencies as we work through the transition period. Additionally, we have the ability to adjust capacity in line with current and expected demand trends. We look forward to becoming a more mature business in the cut and sew operation that can efficiently react to the seasonality of the mattress industry and the long-term growth opportunities for CLASS.

Bodet & Horst

On May 8, 2013, we entered into an asset purchase and consulting agreement with Bodet & Horst GMBH & Co. KG and certain affiliates (“Bodet & Horst”) that provides for, among other things, the purchase of equipment and certain other assets from Bodet & Horst and the restructuring of existing consulting and non-compete agreements pursuant to an earlier asset purchase and consulting agreement with Bodet & Horst dated August 11, 2008. This agreement was accounted for as a business combination in accordance with ASC Topic 805, Business Combinations. We have agreed with Bodet & Horst to replace the existing non-compete agreement that prevented us from selling certain mattress fabrics and products to a leading manufacturer, which will now allow us to make such sales. In addition, the current consulting and non-compete agreement, under which Bodet & Horst agreed not to sell most mattress fabrics in North America, is replaced, expanded, and extended pursuant to the new asset purchase and consulting agreement. The purchase price for the equipment and the other certain assets was \$2.6 million in cash.

Segment assets

Segment assets consist of accounts receivable, inventory, property, plant and equipment, goodwill, a non-compete agreement and customer relationships associated with an acquisition.

As of July 28, 2013, accounts receivable and inventory totaled \$35.7 million compared with \$33.3 million at April 28, 2013. This increase is primarily due to the increase in this segment's inventory that reflects current and expected demand trends in the first quarter of fiscal 2014 compared with the fourth quarter of fiscal 2013.

As of July 28, 2013 and April 28, 2013, property, plant and equipment totaled \$28.6 million. The \$28.6 million at July 28, 2013, represents property, plant, and equipment of \$20.7 million and \$7.9 million located in the U.S. and Canada, respectively. The \$28.6 million at April 28, 2013 represents property, plant, and equipment of \$20.4 million and \$8.2 million located in the U.S. and Canada, respectively. The change in this segment's property, plant, and equipment balance is due to depreciation expense of \$1.1 million offset by capital spending of \$263,000 and \$890,000 in equipment acquired to the Bodet & Horst asset purchase agreement.

As of July 28, 2013 and April 28, 2013, the carrying value of the segment's goodwill was \$11.5 million.

As of July 28, 2013, and April 28, 2013, the carrying value of the non-compete agreement was \$1.1 million and \$185,000, respectively. As of July 28, 2013, the carrying value of the customer relationships was \$855,000. The increases in carrying values at July 28, 2013 are a result of the asset purchase agreement with Bodet & Horst, effective May 8, 2013.

Upholstery Fabrics Segment

Net Sales

Upholstery fabric net sales (which include both fabric and cut and sewn kits) for the first quarter of fiscal 2014 were \$32.0 million, a 2.4% increase compared with \$31.2 million in the first quarter of fiscal 2013. Our net sales in the first quarter of fiscal 2014 were better than expected, reflecting the continued favorable response from key customers to our innovative designs and new product introductions.

Net sales of our China produced fabrics continued to be the primarily catalyst of our sales growth in the first quarter. Net sales of upholstery fabrics produced outside our U.S. manufacturing operations were \$30.0 million in the first quarter of fiscal 2014, a 9% increase compared with \$27.6 million in the first quarter of fiscal 2013. Net sales of upholstery fabrics produced outside our U.S. manufacturing operations accounted for 94% of total upholstery fabric net sales during the first quarter of fiscal 2014 compared with 88% during the first quarter of fiscal 2013.

Net sales of upholstery fabrics produced by our U.S. manufacturing operation were \$2.0 million in the first quarter of fiscal 2014, a decrease of 45% compared with \$3.6 million in the first quarter of fiscal 2013. However, despite this decrease in net sales, our U.S. upholstery fabric operation remained profitable and reported a gross profit of \$109,000 during the first quarter of fiscal 2014 compared with \$437,000 during the first quarter of fiscal 2013. This continued profitability reflects our ability to manage our production costs and align them with current and expected demand trends.

Gross Profit and Operating Income

The upholstery fabrics segment reported a gross profit of \$5.7 million, or 18% of net sales, in the first quarter of fiscal 2014 compared with \$5.5 million, or 18% of net sales, in the first quarter of fiscal 2013. SG&A for the first quarter of fiscal 2014 was \$3.3 million, or 10.2% of net sales compared with \$3.3 million, or 10.7% of net sales in the first quarter of fiscal 2013. Operating income was \$2.4 million in the first quarter of fiscal 2014 compared with operating income of \$2.2 million in the first quarter of fiscal 2013. Operating margins were 7.6% and 6.9% of net sales in the first quarter of fiscal 2014 and 2013, respectively.

During the first quarter of fiscal 2014, we continued our efforts to develop our Culp Europe operation located in Poland. However, the ongoing uncertainties related to the European economy have affected our business. While this is creating challenges for the near term, we remain optimistic about the future opportunities for Culp Europe to enhance our global sales as business conditions improve.

Segment Assets

Segment assets consist of accounts receivable, inventory, and property, plant, and equipment. As of July 28, 2013, accounts receivable and inventory totaled \$30.5 million compared to \$28.5 million at April 28, 2013. This increase in accounts receivable and inventory reflect this segment's increased business volume in the first quarter of fiscal 2014 compared to the fourth quarter of fiscal 2013.

As of July 28, 2013, property, plant and equipment totaled \$1.5 million compared with \$1.2 million at April 28, 2013. The \$1.5 million at July 28, 2013, represents property, plant, and equipment located in the U.S. of \$1.1 million, located in China of \$371,000, and located in Poland of \$53,000. The \$1.2 million at April 28, 2013, represents property, plant, and equipment located in the U.S. of \$908,000, located in China of \$265,000, and located in Poland of \$57,000. The change in this segment's property, plant, and equipment balance is due to capital expenditures of \$390,000, offset by depreciation expense of \$156,000.

Other Income Statement Categories

Selling, General and Administrative Expenses

Selling, general, and administrative expenses (SG&A) for the company as a whole were \$7.1 million for the first quarter of fiscal 2014, a decrease 7% compared with \$7.6 million for the first quarter of fiscal 2013. As a percent of net sales, SG&A expenses were 10.0% in the first quarter of fiscal 2014 compared with 11% in the first quarter of fiscal 2013. This decrease is primarily due to lower unallocated corporate incentive compensation accruals, reflecting financial results that were not as high in relation to pre-established performance targets set at more challenging levels than the prior year.

Interest Expense (Income)

Interest expense for the first quarter of fiscal 2014 was \$140,000 compared to \$190,000 for the first quarter of fiscal 2013. This trend reflects lower outstanding balances of long-term debt.

Interest income was \$92,000 for the first quarter of fiscal 2014 compared to \$127,000 for the first quarter of fiscal 2013. This decrease reflects lower cash and cash equivalents and short-term investment balances held by our foreign subsidiaries during the first quarter of fiscal 2014 compared with the first quarter of fiscal 2013. Our cash and cash equivalents and short-term investment balances held by our foreign subsidiaries have higher interest rates as compared to our cash and cash equivalents and short-term investment balances held in the United States.

Other Expense

Other expense for the first quarter of fiscal 2014 was \$391,000 compared with other expense of \$44,000 for the first quarter of fiscal 2013. This increase primarily reflects a charge of \$206,000 for the tentative settlement of ongoing litigation relating to environmental claims associated with a closed facility and fluctuations in the foreign exchange rate for our subsidiaries domiciled in China. We have been able to mitigate the effects of foreign exchange rate fluctuations associated with our subsidiaries domiciled in Canada and Poland through maintenance of a natural hedge by keeping a balance of assets and liabilities denominated in foreign currencies other than the U.S. dollar. Although we will continue to try and maintain this natural hedge, there is no assurance that we will be able to continue to do so in the future reporting periods.

Income Taxes

Effective Income Tax Rate

We recorded income tax expense of \$2.3 million, or 41.6% of income before income tax expense, for the three month period ended July 28, 2013, compared to income tax expense of \$1.8 million, or 34.4% of income before income tax expense, for the three month period ended July 29, 2012. Our effective income tax rates for the three month periods ended July 28, 2013 and July 29, 2012 were based upon the estimated effective income tax rate applicable for the full year after giving effect to any significant items related specifically to interim periods. The effective income tax rate can be affected over the fiscal year by the mix and timing of actual earnings from our U.S. operations and foreign sources versus annual projections and changes in foreign currencies in relation to the U.S. dollar.

The income tax expense for the three month period ended July 28, 2013 is different from the amount obtained by applying our statutory rate of 34% to income before income taxes for the following reasons:

- The income tax rate increased 5% for adjustments primarily made to our state of North Carolina loss carryforwards for the decrease in future North Carolina corporate income tax rates commencing in fiscal 2015 and beyond. These adjustments totaled \$273,000 and represented a discrete event in which the full tax effects were recorded in the first quarter of fiscal 2014.
- The income tax rate decreased by 6% for taxable income subject to lower statutory income tax rates in foreign jurisdictions (Canada and China) compared with the statutory income tax rate of 34% for the United States.
- The income tax rate increased by 4% for an increase in unrecognized tax benefits.
- The income tax rate increased by 4.6% for stock-based compensation and other miscellaneous items.

The income tax expense for the three month period ended July 29, 2012 is different from the amount obtained by applying our statutory rate of 34% to income before income taxes for the following reasons:

- The income tax rate increased 5% for an increase in unrecognized tax benefits.
- The income tax rate was reduced by 5% for taxable income subject to lower statutory income tax rates in foreign jurisdictions (Canada and China) compared with the statutory income tax rate of 34% for the United States.
- The income tax rate was increased by 0.4% for stock-based compensation and other miscellaneous items.

Deferred Income Taxes

In accordance with ASC Topic 740, we evaluate our deferred income taxes to determine if a valuation allowance is required. ASC Topic 740 requires that companies assess whether a valuation allowance should be established based on the consideration of all available evidence using a “more likely than not” standard, with significant weight being given to evidence that can be objectively verified. Since the company operates in multiple jurisdictions, we assess the need for a valuation allowance on a jurisdiction-by-jurisdiction basis, taking into account the effects of local tax law. Based on our assessment at July 28, 2013, we recorded a partial valuation allowance of \$1.1 million, of which \$722,000 pertained to certain U.S. state net operating loss carryforwards and credits and \$328,000 pertained to loss carryforwards associated with our Culp Europe operation located in Poland. Based on our assessment at April 28, 2013, we recorded a partial valuation allowance of \$963,000, of which \$722,000 pertained to certain U.S. state net operating loss carryforwards and credits and \$241,000 pertained to loss carryforwards associated with our Culp Europe operation located in Poland.

No valuation allowance was recorded against our net deferred tax assets associated with our operations located in China and Canada at July 28, 2013 and April 28, 2013, respectively.

At July 28, 2013, the current deferred tax asset of \$7.7 million represents \$7.4 million and \$302,000 from our operations located in the U.S. and China, respectively. At April 28, 2013, the current deferred tax asset of \$7.7 million represents \$7.4 million and \$325,000 from our operations located in the U.S. and China, respectively. At July 28, 2013, the non-current deferred tax asset of \$651,000 pertains to our operations located China. At April 28, 2013, the non-current deferred tax asset of \$753,000 pertains to our operations located in China. At July 28, 2013, the non-current deferred tax liability of \$4.3 million represents \$3.2 million and \$1.1 million from operations located in the U.S. and Canada, respectively. At April 28, 2013, the non-current deferred tax liability of \$3.1 million represents \$2.0 million and \$1.1 million from our operations located in the U.S. and Canada, respectively.

Uncertainty In Income Taxes

At July 28, 2013, we had \$13.3 million of total gross unrecognized tax benefits, of which \$4.2 million represents the amount of gross unrecognized tax benefits that, if recognized, would favorably affect the income tax rate in future periods. Of the \$13.3 million in gross unrecognized tax benefits as of July 28, 2013, \$9.1 million were classified as net non-current deferred income taxes and \$4.2 million were classified as income taxes payable –long-term in the accompanying consolidated balance sheets.

We estimate that the amount of gross unrecognized tax benefits will increase by approximately \$838,000 for fiscal 2014. This increase primarily relates to double taxation under applicable tax treaties with foreign tax jurisdictions.

Income Taxes Paid

Although we reported income tax expense of \$2.3 million and \$1.8 million for the three months ending July 28, 2013 and July 29, 2012, respectively, we pay income taxes associated with our subsidiaries located in China and Canada. We had income tax payments of \$792,000 and \$1.0 million for the three months ended July 28, 2013 and July 29, 2012 respectively.

Liquidity and Capital Resources

Liquidity

Our sources of liquidity include cash and cash equivalents, short-term investments, cash flow from operations, and amounts available under our unsecured revolving credit lines. These sources have been adequate for day-to-day operations, capital expenditures, debt payments, common stock repurchases, and dividend payments. We believe our present cash and cash equivalents and short-term investment balance of \$27.6 million at July 28, 2013, cash flow from operations, and current availability under our unsecured revolving credit lines will be sufficient to fund our business needs and fiscal 2014 contractual obligations.

At July 28, 2013, our cash and cash equivalents and short-term investments totaled \$27.6 million, exceeded our total debt (current maturities of long-term debt, long-term debt, and line of credit) of \$7.2 million. In August of 2013, we paid our required annual principal payment of \$2.2 million associated with our unsecured senior term notes, thus further lowering our total debt to approximately \$5.0 million. We have two remaining annual \$2.2 million payments due August 2014 and 2015.

Our cash and cash equivalents and short-term investments decreased slightly from \$28.8 million at April 28, 2013, after spending \$2.6 million on an asset purchase and consulting agreement associated with our mattress fabrics segment, \$884,000 on capital expenditures, and \$489,000 on dividend payments. This spending was partially offset by net cash provided by operating activities of \$2.7 million.

On June 12, 2013, we announced that our board of directors approved a 33% increase in payment of a quarterly cash dividend from \$0.03 to \$0.04 per share, commencing the first quarter of fiscal 2014. During the first quarter of fiscal 2014, dividend payments totaled \$489,000 compared with \$381,000 during the first quarter of fiscal 2013.

Our cash and cash equivalents and short-term investment balance may be adversely affected by factors beyond our control, such as weakening industry demand and delays in receipt of payment on accounts receivable.

Working Capital

Accounts receivable at July 28, 2013, were \$24.5 million, an increase of \$4.5 million or 22% compared with \$20.0 million at July 29, 2012. This increase in accounts receivable is due to our days' sales outstanding increasing from 24 days during the first quarter of fiscal 2013 to 29 days during the first quarter of fiscal 2014. The increase in days' sales outstanding is primarily due to fewer customers associated with both our mattress and upholstery fabrics segments taking advantage of sales discounts in the first quarter of 2014 compared with the first quarter of fiscal 2013.

Inventories as of July 28, 2013 were \$41.8 million, a decrease of \$2.3 million, or 5%, compared with \$44.1 million at July 29, 2012. This decrease primarily represents improved inventory management in the first quarter of fiscal 2014 compared with the first quarter of fiscal 2013. Inventory turns for the first quarter of fiscal 2014 were 5.6 compared with 5.2 for the first quarter of fiscal 2013.

Accounts payable-trade as of July 28, 2013, was \$27.8 million, an increase of 2% compared with \$27.3 million at July 29, 2012.

Operating working capital (comprised of accounts receivable and inventories, less accounts payable-trade and capital expenditures) was \$38.4 million at July 28, 2013 compared with \$36.6 million at July 29, 2012. Working capital turnover was 7.1 and 8.5 during the quarters ended July 28, 2013, and July 29, 2012, respectively.

Financing Arrangements

Unsecured Term Notes

We entered into a note agreement dated August 11, 2008 that provided for the issuance of \$11.0 million of unsecured term notes with a fixed interest rate of 8.01% and a term of seven years. Principal payments of \$2.2 million per year are due on the notes beginning August 11, 2011. The remaining principal payments are payable over an average term 2.0 years through August 11, 2015. Any principal payments would be assessed a penalty as defined in the agreement. The agreement contains customary financial and other covenants as defined in the agreement.

Revolving Credit Agreement – United States

At July 28, 2013, we had an unsecured Amended and Restated Credit Agreement with Wells Fargo Bank, N.A. (“Wells Fargo”) that provided for a revolving loan commitment of \$7.6 million. This agreement provided for a pricing matrix to determine the interest rate payable on loans made under the agreement (applicable interest rate of 1.79% at July 28, 2013). At July 28, 2013 and April 28, 2013, there was a \$195,000 outstanding letter of credit (all of which related to workers compensation). At July 28, 2013 and April 28, 2013, there were no borrowings outstanding under the agreement.

On August 13, 2013, we entered into a Credit Agreement (“Credit Agreement”) with Wells Fargo that replaced the agreement noted above. This Credit Agreement contains terms and covenants similar to the previous agreement and extends the term of the credit facility through August 31, 2015. Interest is charged at a rate equal to the one-month LIBOR rate plus a spread based on our ratio of debt to EBITDA as defined in the agreement.

This Credit Agreement provides for an unsecured revolving loan commitment of \$10.0 million to be used to finance working capital and for general corporate purposes. The amount of borrowings that are outstanding under the revolving credit agreement with Culp Europe noted below decrease the \$10.0 million available under this Credit Agreement.

Revolving Credit Agreement – China

We have an unsecured credit agreement associated with our operations in China that provides for a line of credit of up to 40 million RMB (approximately \$6.5 million USD at July 28, 2013), expiring on June 8, 2014. This agreement has an interest rate determined by the Chinese government. There were no borrowings outstanding under the agreement as of July 28, 2013 and April 28, 2013.

Revolving Credit Agreement – Europe

As of July 28, 2013, we had an unsecured credit agreement associated with our operations in Poland that provided for a line of credit of up to 6.8 million Polish Zloty (approximately \$2.1 million USD at July 28, 2013). This agreement bears interest at WIBOR (Warsaw Interbank Offered Rate) plus 2% (applicable interest rate of 4.625% at July 28, 2013). At July 28, 2013, \$560,000 (1.8 million Polish Zloty) in borrowings was outstanding under this agreement. At April 28, 2013, \$561,000 (1.8 million Polish Zloty) in borrowings was outstanding under this agreement.

In connection with the Credit Agreement effective August 13, 2013 note above, the outstanding borrowings totaling \$560,000 at July 28, 2013, are due on August 31, 2015 and decrease the \$10.0 million available under the Credit Agreement.

Overall

Our loan agreements require, among other things, that we maintain compliance with certain financial covenants. At July 28, 2013, the company was in compliance with these financial covenants.

At July 28, 2013, the principal payment requirements of long-term debt during the next three years are: Year 1 – \$2.2 million; Year 2 - \$2.2 million; and Year 3 - \$2.2 million.

Capital Expenditures and Depreciation

Capital expenditures on a cash basis for the three months ended July 28, 2013 and July 29, 2012 were \$884,000 and \$1.0 million, respectively. In addition, we acquired equipment for our mattress fabrics segment totaling \$890,000 in connection with the Bodet & Horst asset purchase agreement. Capital expenditures including the assets purchased in connection with the Bodet & Host asset purchase agreement, for the three months ended July 28, 2013 and July 29, 2012, mostly related to our mattress fabrics segment. Depreciation expense was \$1.3 million for both the three months ended July 28, 2013 and July 29, 2012. Depreciation expense for the three months ended July 28, 2013 and July 29, 2012, primarily related to the mattress fabrics segment.

For fiscal 2014, we currently expect cash capital expenditures to be approximately \$6.0 million compared with \$4.4 million in fiscal 2013 and \$5.9 million in fiscal 2012. Planned capital expenditures for fiscal 2014 primarily relate to the mattress fabrics segment. For fiscal 2014, depreciation expense is projected to be \$5.6 million, which primarily relates to the mattress fabrics segment. These are management’s current expectations only, and changes in our business needs could cause changes in plans for capital expenditures and expectations for related depreciation expense.

Critical Accounting Policies and Recent Accounting Developments

As of July 28, 2013, there were no changes in the nature of our significant accounting policies or the application of those policies from those reported in our annual report on Form 10-K for the year ended April 28, 2013.

Refer to Note 2 located in the notes to the consolidated financial statements for recently adopted and issued accounting pronouncements since the filing of our Form 10-K for the year ended April 28, 2013.

Contractual Obligations

As of July 28, 2013, there were no significant or new contractual obligations from those reported in our annual report on Form 10-K for the year ended April 28, 2013, with the exception of open purchase commitments to acquire equipment with regard to the mattress fabrics segment totaling \$403,000 at July 28, 2013, compared with \$170,000 at April 28, 2013.

Inflation

Any significant increase in our raw material costs, utility/energy costs and general economic inflation could have a material adverse impact on the company, because competitive conditions have limited our ability to pass significant operating increases on to customers. As discussed in our Form 10-K for the year ended April 28, 2013 (see “Segment Analysis”), significant increases in raw material costs led to lower profit margins for both of our business segments during fiscal 2012 and 2011.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to market risk from changes in interest rates on our revolving credit lines. Our U.S. revolving credit agreement bears interest at a rate equal to the one-month LIBOR rate plus a spread based on our ratio of debt to EBITDA as defined in the agreement. Our revolving credit line associated with our China subsidiaries bears interest at a rate determined by the Chinese government. At July 28, 2013, there were no borrowings outstanding under our U.S. or China revolving credit lines. Our unsecured credit agreement associated with our operations located in Poland bears interest at WIBOR plus 2%. At July 28, 2013, \$560,000 was outstanding under this agreement, and this amount is required to be paid in full by August 31, 2015, when this agreement expires.

Except as noted above, we are not exposed to market risk from changes in interest rates on our long-term debt. Our unsecured term notes have a fixed interest rate of 8.01%.

We are exposed to market risk from changes in the value of foreign currencies for our subsidiaries domiciled in China, Canada, and Poland. We try to maintain a natural hedge by keeping a balance of our assets and liabilities denominated in the local currency of our subsidiaries domiciled in Canada and Poland, although there is no assurance that we will be able to continually maintain this natural hedge. Our foreign subsidiaries use the United States dollar as their functional currency. A substantial portion of the company's imports purchased outside the United States are denominated in U.S. dollars. A 10% change in the above exchange rates at July 28, 2013, would not have had a significant impact on our results of operations or financial position.

ITEM 4. CONTROLS AND PROCEDURES

We have conducted an evaluation of the effectiveness of our disclosure controls and procedures as of July 28, 2013, the end of the period covered by this report. This evaluation was conducted under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer. Based upon that evaluation, we have concluded that these disclosure controls and procedures are effective to ensure that information required to be disclosed in the reports filed by us and submitted under the Securities Exchange Act of 1934, as amended (the "Exchange Act") is recorded, processed, summarized, and reported as and when required. Further, we concluded that our disclosure controls and procedures are effective to ensure that information required to be disclosed in reports filed by us under the Exchange Act is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, in a manner to allow timely decisions regarding the required disclosures.

There has been no change in our internal control over financial reporting that occurred during the quarter ended July 28, 2013, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Part II - Other Information

Item 1. Legal Proceedings

There have not been any material changes to our legal proceedings during the three months ended July 28, 2013, except as disclosed in note 16 to the consolidated financial statements included in this report. Additional information about our legal proceedings is disclosed in the company's annual report on Form 10-K filed with the Securities and Exchange Commission on July 12, 2013 for the fiscal year ended April 28, 2013.

Item 1A. Risk Factors

There have not been any material changes to our risk factors during the three months ended July 28, 2013. Our risk factors are disclosed in the company's annual report on Form 10-K filed with the Securities and Exchange Commission on July 12, 2013 for the fiscal year ended April 28, 2013.

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

ISSUER PURCHASES OF EQUITY SECURITIES

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(d) Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (1)
April 29, 2013 to June 2, 2013	-	-	-	\$ 2,000,000
June 3, 2013 to June 30, 2013	-	-	-	\$ 2,000,000
July 1, 2013 to July 28, 2013	-	-	-	\$ 2,000,000
Total	-	-	-	\$ 2,000,000

- (1) On August 29, 2012, we announced that our board of directors approved a new authorization for us to acquire up to \$2.0 million of our common stock. As of July 28, 2013, there have been no common stock repurchases on the \$2.0 million authorized amount on August 29, 2012.

Item 6. Exhibits

The following exhibits are submitted as part of this report.

- 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 July 28, 2002, filed September 11, 2002 (Commission File No. 001-12597), and are incorporated herein by reference.
- 3 (ii) Restated and Amended Bylaws of the company, as amended November 12, 2007, were filed as Exhibit 3.1 to the company's Form 8-K dated November 12, 2007, and incorporated herein by reference.
- 10.1 Credit Agreement dated as of August 13, 2013, by and between Culp, Inc. and Wells Fargo, N.A..
- 31.1 Certification of Chief Executive Officer Pursuant to Section 302 of Sarbanes-Oxley Act of 2002.
- 31.2 Certification of Chief Financial Officer Pursuant to Section 302 of Sarbanes-Oxley Act of 2002.
- 32.1 Certification of Chief Executive Officer Pursuant to Section 906 of Sarbanes-Oxley Act of 2002.
- 32.2 Certification of Chief Financial Officer Pursuant to Section 906 of Sarbanes-Oxley Act of 2002.
- 101.INS ** XBRL Instance Document
- 101.SCH ** XBRL Taxonomy Extension Schema Document
- 101.CAL ** XBRL Taxonomy Extension Calculation Linkbase Document
- 101.LAB ** XBRL Taxonomy Extension Label Linkbase Document
- 101.PRE ** XBRL Taxonomy Extension Presentation Linkbase Document
- 101.DEF ** XBRL Taxonomy Extension Definition Linkbase Document

** In accordance with Rule 406T of Regulation S-T, this interactive data file is deemed not filed or part of the registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, is deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise is not subject to liability under these sections.

SIGNATURES

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

CULP, INC.
(Registrant)

Date: September 6, 2013

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

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

EXHIBIT INDEX

<u>Exhibit Number</u>	<u>Exhibit</u>
10.1	Credit Agreement dated as of August 13, 2013, by and between Culp, Inc. and Wells Fargo, N.A.
31.1	Certification of Chief Executive Officer Pursuant to Section 302 of Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer Pursuant to Section 302 of Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer Pursuant to Section 906 of Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer Pursuant to Section 906 of Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document

CREDIT AGREEMENT

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

RECITALS

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

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

ARTICLE IDEFINITIONS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

ARTICLE II

CREDIT TERMS

SECTION 2.1. LINE OF CREDIT.

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

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

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

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

SECTION 2.2. INTEREST/FEES.

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

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

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

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

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

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

ARTICLE III

REPRESENTATIONS AND WARRANTIES

Borrower represents and warrants to Bank as follows:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

ARTICLE IV

CONDITIONS

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

- (a) Approval of Bank Counsel. All legal matters incidental to the extension of credit by Bank shall be satisfactory to Bank's counsel.
- (b) Documentation. Bank shall have received, in form and substance satisfactory to Bank, each of the following, duly executed:

- (i) This Agreement and each promissory note or other instrument or document required hereby.
- (ii) Certificates of corporate resolutions and incumbency with respect to this Agreement and the Culp Europe Indebtedness.

(c) Financial Condition. There shall have been no Material Adverse Change, as determined by Bank, in the financial condition or business of Borrower, nor any material decline, as determined by Bank, in the market value of any collateral required hereunder or a substantial or material portion of the assets of Borrower.

(d) Insurance. Borrower shall have delivered to Bank evidence of insurance coverage on all Borrower's property, in form, substance, amounts, covering risks and issued by companies satisfactory to Bank.

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

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

ARTICLE V

AFFIRMATIVE COVENANTS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

ARTICLE VI

NEGATIVE COVENANTS

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

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

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

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

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

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

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

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

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

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

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

ARTICLE VII

EVENTS OF DEFAULT

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

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

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

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

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

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

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

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

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

ARTICLE VIII

MISCELLANEOUS

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

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

BORROWER: Culp, Inc.

1823 Eastchester Drive

P.O. Box 2686

High Point, North Carolina 27265

Attention: Kenneth R. Bowling

Vice President and Chief Financial Officer

Telecopier Number: (336) 887-7089

BANK: WELLS FARGO BANK, NATIONAL ASSOCIATION

100 North Main Street

MAC D4001-053

Winston-Salem, North Carolina 27101

Attention: Timothy Sechrest, Senior Vice President

Telecopier Number: (336) 732-4833

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

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

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

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

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

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

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

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

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

SECTION 8.11. ARBITRATION; WAIVER OF JURY TRIAL.

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

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

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

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

- (e) Discovery. In any arbitration proceeding, discovery will be permitted in accordance with the Rules. All discovery shall be expressly limited to matters directly relevant to the dispute being arbitrated and must be completed no later than 20 days before the hearing date. Any requests for an extension of the discovery periods, or any discovery disputes, will be subject to final determination by the arbitrator upon a showing that the request for discovery is essential for the party's presentation and that no alternative means for obtaining information is available.
- (f) Class Proceedings and Consolidations. No party hereto shall be entitled to join or consolidate disputes by or against others in any arbitration, except parties who have executed any Loan Document, or to include in any arbitration any dispute as a representative or member of a class, or to act in any arbitration in the interest of the general public or in a private attorney general capacity.
- (g) Payment Of Arbitration Costs And Fees. The arbitrator shall award all costs and expenses of the arbitration proceeding.
- (h) Miscellaneous. To the maximum extent practicable, the AAA, the arbitrators and the parties shall take all action required to conclude any arbitration proceeding within 180 days of the filing of the dispute with the AAA. No arbitrator or other party to an arbitration proceeding may disclose the existence, content or results thereof, except for disclosures of information by a party required in the ordinary course of its business or by applicable law or regulation. If more than one agreement for arbitration by or between the parties potentially applies to a dispute, the arbitration provision most directly related to the Loan Documents or the subject matter of the dispute shall control. This arbitration provision shall survive termination, amendment or expiration of any of the Loan Documents or any relationship between the parties.

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

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

CULP, INC.

WELLS FARGO BANK,
NATIONAL ASSOCIATION

By: /s/Kenneth R. Bowling

By: /s/ Timothy Sechrest

Name: Kenneth R. Bowling

Name: Timothy Sechrest

Title: VP and Chief Financial Officer

Title: Senior Vice President

CERTIFICATIONS

I, Franklin N. Saxon, certify that:

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

/s/ Franklin N. Saxon

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

Date: September 6, 2013

CERTIFICATIONS

I, Kenneth R. Bowling, certify that:

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

/s/ Kenneth R. Bowling

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

Date: September 6, 2013

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

In connection with the Quarterly Report of Culp, Inc. (the "Company") on Form 10-Q for the period ended July 28, 2013 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Franklin N. Saxon, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ Franklin N. Saxon

Franklin N. Saxon
President and Chief Executive Officer

September 6, 2013

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

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

In connection with the Quarterly Report of Culp, Inc. (the "Company") on Form 10-Q for the period ended July 28, 2013 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Kenneth R. Bowling, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ Kenneth R. Bowling

Kenneth R. Bowling
Vice President and Chief Financial Officer

September 6, 2013

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