

SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549

FORM 10-K

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

For the fiscal year ended May 3, 1998

Commission File No. 0-12781

CULP, INC.
(Exact name of registrant as specified in its charter)

NORTH CAROLINA 56-1001967
(State or other jurisdiction of (I.R.S. Employer Identification No.)
incorporation or other organization)

101 S. Main St., High Point, North Carolina 27261-2686
(Address of principal executive offices) (zip code)

(336) 889-5161
(Registrant's telephone number, including area code)

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

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

Common Stock, Par Value \$.05/Share

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

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

As of July 22, 1998, 12,995,021 shares of common stock were outstanding.
The aggregate market value of the voting stock held by non-affiliates of the
registrant on that date was \$130,949,382 based on the closing sales price of
such stock as quoted on the New York Stock Exchange (NYSE), assuming, for
purposes of this report, that all executive officers and directors of the
registrant are affiliates.

DOCUMENTS INCORPORATED BY REFERENCE

Part II

Portions of the Company's Annual Report to Shareholders for the fiscal
year ended May 3, 1998 are incorporated by reference into Items 5,6,7 and 8.

Part III

Portions of the Company's Proxy Statement dated July 31, 1998 in
connection with its Annual Meeting of Shareholders to be held on September 15,
1998 are incorporated by reference into Items 10, 11, 12 and 13.

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PART I

ITEM 1. BUSINESS

Overview

Culp, Inc. (the Company) manufactures and markets upholstery fabrics and mattress tickings primarily for use in the furniture (residential, commercial and juvenile) and bedding industries on a worldwide basis. The Company's executive offices are located in High Point, North Carolina. The Company was organized as a North Carolina corporation in 1972 and made its initial public offering in 1983. Since 1997, the Company has been listed on the New York Stock Exchange and traded under the symbol "CFI."

Culp believes it is the largest manufacturer and marketer of furniture upholstery fabrics in the world and is a leading global producer of mattress fabrics (known as mattress ticking). The Company's fabrics are used principally in the production of residential and commercial furniture and bedding products, including sofas, recliners, chairs, loveseats, sectionals, sofa-beds, office seating, panel systems and mattress sets. Culp markets one of the broadest product lines in its industry, with a wide range of fabric constructions, patterns, colors, textures and finishes. This breadth is made possible by Culp's extensive manufacturing capabilities that include a variety of weaving, printing and finishing operations and the ability to produce various yarns and unfinished base fabrics (known as greige goods) used in its products. Although most of the Company's competitors emphasize one particular type of fabric, Culp competes in every major category except leather, which accounts for a relatively small portion of the residential furniture market. Culp's staff of over 90 designers and support personnel utilize Computer Aided Design (CAD) systems to develop the Company's own patterns and styles. Culp's product line currently includes more than 3,000 upholstery fabric patterns and 1,000 mattress-ticking styles. Although Culp markets fabrics at most price levels, the Company has emphasized fabrics that have a broad appeal in the "good" and "better" price categories of furniture and bedding.

Culp markets its products worldwide, with sales to customers in over 50 countries. While total sales have grown from \$245.0 million in fiscal 1994 to \$476.7 million in fiscal 1998, the Company's international sales have increased from \$44.0 million to \$137.2 million during the same period. Although shipments to U.S.-based customers continue to account for most of the Company's sales, Culp's success in building a global presence has led to an increasing proportion of sales to international accounts (29% of net sales for fiscal 1998). The Company's network of approximately 30 international sales agents represents Culp's products in major furniture and bedding markets outside the United States.

Culp has seventeen (17) manufacturing facilities, with a combined total of 2.7 million square feet, that are located in North Carolina (10), South Carolina (2), Pennsylvania (2), Tennessee (1), Alabama (1) and Quebec, Canada (1). The Company's distribution system is designed to offer customers fast, responsive delivery. Products are shipped directly to customers from the Company's manufacturing facilities, as well as from three regional distribution facilities strategically located in High Point, North Carolina, Los Angeles, California, and Tupelo, Mississippi, which are areas of high concentration of furniture manufacturing. Additionally, the Company maintains an inventory of upholstery fabrics at a warehouse facility in Grand Rapids, Michigan to supply large commercial furniture manufacturers in that area, and an inventory at a distributor's warehouse facility in Malbork, Poland.

Culp's position as a leading global marketer of upholstery fabrics and mattress ticking has been achieved through internal expansion and strategic acquisitions. The most recent acquisitions include Rossville/Chromatex in fiscal 1994, Rayonese in fiscal 1995 and Phillips Mills, Wetumpka Yarn and Artee Industries in fiscal 1998.

Business Organization

Culp is structured in business units. Through fiscal 1998, this organization consisted of six groups: (i) Culp Textures, (ii) Rossville/Chromatex, (iii) Velvets/Prints, (iv) Culp Home Fashions, (v) Phillips Mills and (vi) Artee Industries. This structure has subsequently been reorganized into four groups: (i) Culp Decorative Fabrics, (ii) Culp Velvets/Prints, (iii) Culp Home Fashions and (iv) Culp Yarn. Since the new structure was not in place at all during fiscal 1998 and the identity of each of the previous business units has remained intact in the new structure, this discussion is based on the historical organization.

Business Units

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

Culp's Business Units

MAJOR PRODUCT CATEGORY -----	BUSINESS UNIT -----	FISCAL 1998 NET SALES (in millions) -----	PRODUCT LINES (BASE CLOTH, IF APPLICABLE) -----
Upholstery Fabrics	Culp Textures	\$ 92.7	Woven jacquards Woven dobbies
	Rossville/Chromatex	\$ 84.7	Woven jacquards Woven dobbies
	Velvets/Prints	\$171.4	Wet prints (flocks) Heat-transfer prints (jacquard, flock) Woven velvets Tufted velvets (woven polyester)
	Phillips Mills	\$ 32.7 (*)	Woven jacquards Wet prints (flocks) Heat-transfer prints (cotton) Woven velvets Tufted velvets
	Culp Home Fashions	\$ 87.3	Woven jacquards Heat-transfer prints (jacquard, knit, sheeting) Pigment prints (jacquard, knit, sheeting, non-woven)
Mattress Ticking			
Yarn	Artee Industries	\$ 7.9 (*)	Pre-dyed spun yarns Chenille yarns

*Partial year includes sales from date of acquisition

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

Rossville/Chromatex. Rossville/Chromatex was acquired in fiscal 1994 and includes manufacturing facilities in Chattanooga, Tennessee and West Hazleton, Pennsylvania. During the fourth quarter of fiscal 1998, Rossville/Chromatex relocated its Rossville, Georgia dobby manufacturing operation into a new leased facility in Chattanooga, Tennessee, which is located about two miles from the previous leased facility. The acquisition of Rossville/Chromatex expanded the Company's capacity for jacquard and dobby woven fabrics marketed principally for residential furniture. Although Rossville/Chromatex markets fabrics to many of the same customers served by Culp Textures, the patterns produced by Rossville/Chromatex have generally featured more textured and chenille yarns. Rossville/Chromatex has been particularly successful in spinning its own novelty yarns to produce textured fabrics that embody "country" patterns.

Velvets/Prints. Velvets/Prints, Culp's largest business unit, manufactures and markets a broad range of printed and velvet fabrics. These include wet-printed designs on flock base fabrics, heat-transfer prints on jacquard and flock base fabrics, woven velvets and tufted velvets. These fabrics typically offer manufacturers richly colored patterns and textured surfaces. Recent product development improvements in manufacturing processes have significantly enhanced the quality of printed flock fabrics which are principally used for residential furniture. These fabrics are also used for other upholstered products such as baby car seats. These fabrics are manufactured at Burlington, North Carolina, Anderson, South Carolina, and Lumberton, North Carolina, a new facility that opened during the first quarter of fiscal 1998. A portion of the Company's capital expenditures during fiscal 1997 and fiscal 1998 were directed toward expanding its capacity for printed fabrics. Culp installed in Burlington the Company's first flock coating line (which produces flock base or greige goods) to further vertically integrate its production of wet-printed flock fabrics. This operation began production in the fourth quarter of fiscal 1997.

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

Phillips Mills. Phillips Mills operates two manufacturing facilities in Monroe, North Carolina, which produce woven jacquards. Phillips Mills has a particularly strong competitive position in fabric designs and patterns associated with casual living styles that are popular with motion furniture. Additionally, this business unit includes a printed fabrics converting operation located in High Point.

Artee Industries. Artee Industries manufactures and markets a variety of pre-dyed spun yarns, including WrapSpun(TM), open-end spun, ring spun and chenille yarns. Artee Industries operates manufacturing facilities in Shelby, Cherryville, and Lincolnton, North Carolina and Wetumpka, Alabama. The Wetumpka facility was acquired in December 1997 and the other Artee plants were purchased in February 1998. Over half of the production of Artee Industries is used internally by other Culp business units. The external sales are directed to the upholstery fabric and apparel markets, and a portion of these shipments are to competitors of Culp. The acquisition of Artee Industries is expected to provide Culp more control over its supply of spun and chenille yarns and complement the Company's increased emphasis on developing new designs. An integral component of the design of fabrics with innovative designs, patterns and textures is the availability of different yarns, and the integration of Artee Industries will enhance the access of Culp designers to a broad variety of spun and chenille yarns. Culp also plans to utilize the resources of Artee Industries to accelerate the development of new yarns with innovative colors, textures and other design characteristics.

Business Strategy

The Company's plan to maintain leadership in the global upholstery fabric and mattress ticking markets is based on a business strategy that includes four main initiatives:

Enhance Customer Service and Increase Vertical Integration. Culp is continuing to enhance the competitive value of its upholstery fabrics and mattress ticking through a company-wide initiative to raise efficiency and improve customer service. Important aspects of this program have included attaining more consistent product quality, improving delivery standards and offering more innovative designs. The Company's ability to realize progress in these areas in the past has been aided significantly by becoming more vertically integrated through capital expansion projects and strategic acquisitions. Representative steps have included adding capacity for producing unfinished jacquard greige goods, extruding polypropylene yarn and most recently, manufacturing spun and specialty yarn.

Capitalize on New Product Categories. Culp's diverse manufacturing capabilities and increasing vertical integration have enabled the company to capitalize quickly on the increasing popularity of new product categories.

Expand International Sales. Culp's international sales of upholstery fabrics and mattress ticking has increased sharply in recent years. Factors contributing to this growth have been the expanding demand for home furnishings in many international areas and the ability of U.S.-based manufacturers of fabrics to provide products to these markets at competitive prices.

Pursue Additional Strategic Acquisitions. A meaningful portion of Culp's growth reflects the integration of strategic acquisitions of complementary businesses. The company believes that the continuing trend toward consolidation within the home furnishings industry is likely to offer additional opportunities to acquire complementary businesses on a selective basis. During fiscal 1998, Culp has completed the acquisition of Phillips Mills, which added capacity in jacquard, prints and velvets, as well as Wetumpka Yarn and Artee Industries, which combined represent Culp's entry into the filling yarn market.

Capital Expenditures

Since fiscal 1993, the Company has invested \$112 million in capital expenditures to expand its manufacturing capacity, install more efficient production equipment and vertically integrate its operations. These expenditures have included, among other things, the installation of narrow and wide-width weaving machines and additional printing equipment to support the growth in woven and printed upholstery fabrics and mattress ticking. The Company spent approximately \$35.9 million in capital expenditures during fiscal 1998 for expansion, vertical integration and modernization. This level of capital spending was well above the Company's historical rate of investment. The principal expansion project involved completion of various items related to the new wet-printing facility at Lumberton, North Carolina. Key projects relating to vertical integration included expanding yarn extrusion capacity and adding weaving capacity for jacquard greige goods. Projects to modernize existing facilities encompassed a number of smaller investments throughout the Company's operations.

The extent of these investments has meant considerable change in the Company's operations. All of the jacquard and dobby looms at the Pageland, South Carolina facility have been moved to allow for an improved product flow. A modern 290,000 square-foot weaving facility in Tennessee houses the Rossville/Chromatex line, and 60% of the planned additional yarn extrusion lines have become operational. Much of the Company's managerial focus has shifted to realizing higher efficiencies from the new investments made during fiscal 1998. As a result, the Company is currently planning on capital expenditures for fiscal 1999 less than half that spent in fiscal 1998.

Industry Segments

In June 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 131, "Disclosures about Segments of an Enterprise and Related Information," effective for periods beginning after December 15, 1997. The purpose of this standard is to disclose disaggregated information which provides information about the operating segments an enterprise engages in, consistent with the way management reviews financial information to make decisions about the enterprise's operating matters. The Company will comply with the requirements of this standard for fiscal year-end 1999. Based on a preliminary review, the Company anticipates reporting on three segments (upholstery fabrics, mattress ticking and yarn).

During fiscal 1998, 1997 and 1996, the Company was principally involved in designing, manufacturing and marketing of upholstery fabrics and mattress ticking used in the furniture (residential, commercial and juvenile) and bedding industries on a world-wide basis.

Overview of Industry

Culp markets products worldwide to a broad array of manufacturers that operate in three principal markets and several specialty markets:

Residential furniture. This market includes upholstered furniture sold to consumers. Products include sofas, sleep sofas, chairs, motion/recliners, sectionals and occasional furniture items.

Commercial furniture. This market includes upholstered office seating and modular office systems sold primarily for use in offices (including home offices) and other institutional settings.

Bedding. This market includes mattress sets as well as other related home furnishings.

Specialty markets. These markets include juvenile furniture (baby car seats and other baby items), hospitality (furniture used in hotels and other lodging establishments), "top of the bed" (comforters and bedspreads), outdoor furniture, recreational vehicle seating, automotive aftermarket (slip-on seat covers), retail fabric stores and specialty yarn.

Overview of Residential Furniture Industry

The upholstery fabric industry is highly competitive, particularly among manufacturers in similar market niches. American Furniture Manufacturers Association, a trade association, reports that manufacturers of residential furniture in the United States shipped products valued at approximately \$21.5 billion (wholesale) during 1997. Approximately 40% of this furniture is believed to consist of upholstered products. The upholstered furniture market has grown from \$5.4 billion in 1991 to \$8.7 billion in 1997. According to Furniture/Today, a leading trade publication, annual sales of upholstery fabrics in the United States for non-automotive applications approximate \$2 billion. Based on an outside survey conducted by an independent marketing survey firm, Culp estimates annual sales of upholstery fabrics outside the United States to be more than \$4 billion.

Trends in demand for upholstery fabric and mattress ticking generally parallel changes in consumer purchases of furniture and bedding. Factors influencing consumer purchases of home furnishings include the number of household formations, growth in the general population, the demographic profile of the population, consumer confidence, employment levels, the amount of disposable income, geographic mobility, housing starts and existing home sales. The long-term trend in demand for furniture and bedding has been one of moderate growth, although there have been some occasional periods of a modest downturn in sales due principally to changes in economic conditions. Periods of decline have been brief, and annual shipments have declined in only four of the past 25 years.

The Company believes that demographic trends support the outlook for continued long-term growth in the U.S. residential furniture and bedding industries. In particular, as "baby boomers" (people born between 1946 and 1964) mature to the 35-to-64 year age range over the next decade, they will be reaching their highest earning power. Consumers in these age groups tend to spend more on home furnishings, and the increasing number of these individuals favors higher demand for furniture and related home furnishings. Statistics also show that the average size of new homes has increased in recent years, and that is believed to have resulted in increased purchases of furniture per home.

There is an established trend toward consolidation at all levels within the home furnishings industry. Furniture/Today has reported that the ten largest residential furniture manufacturers accounted for over 35% of the industry's total shipments in 1997, up from a 23% share in 1985. This trend is expected to continue, particularly because of the need to invest increasing capital to maintain modern manufacturing and distribution facilities as well as to provide the sophisticated computer-based systems and processes necessary to interface in the supply chain between retailers and suppliers. This trend toward consolidation is resulting in fewer, but larger, customers for upholstery fabric manufacturers. The Company believes that this environment favors larger upholstery fabric manufacturers capable of supplying a broad range of product choices at the volumes required by major furniture manufacturers on a timely basis.

Today's furniture customers prefer more casual and comfortable furniture, including motion furniture, than did consumers ten years ago. In addition, customers are placing increasing emphasis on product quality. The increasing importance of product quality has allowed fabric manufacturers with

effective quality control systems to gain a competitive advantage. Modern furniture buyers are also demanding faster delivery. To meet this demand, the furniture industry as a whole has increased its focus on just-in-time manufacturing methods and shorter delivery lead times.

Although the demand for home furnishings in more developed geographic regions such as Western Europe is relatively mature, major areas such as Eastern Europe, the Middle East and certain portions of Asia have experienced rising sales of furniture and home furnishings. Consumers in these areas are often attracted to those designs and fashions that mirror American tastes, and U.S.-based manufacturers such as Culp have been able to capitalize on this preference. Production costs of fabrics involve a relatively low labor component, which provides an advantage for a company with modern, efficient manufacturing equipment and systems. The large size of the furniture market within the United States has helped establish an upholstery fabrics industry that features ready access to a variety of raw materials, larger manufacturers with lower costs resulting from economies of scale and the availability of new designs and patterns. The Company believes that these characteristics assist Culp in competing effectively in international markets.

Overview of Commercial Furniture Industry

The commercial furniture market in the United States represents annual shipments by manufacturers valued at approximately \$11 billion. Seating and office systems, which represent the primary uses of upholstery in this industry, represented annual sales of approximately \$6 billion annually. At the manufacturing level, the industry is highly concentrated. The top six manufacturers of commercial furniture account for an estimated 60% of total industry shipments. Although demand for commercial furniture can be affected by general economic trends, the historical pattern has been one of generally steady growth. According to industry sources, since 1971 office furniture shipments in the United States have increased at a compound annual rate of 10%. Although the nation's economy has experienced four economic recessions and five years of negative real GDP growth during the last three decades, office furniture shipments declined in only two years during that period (1975 and 1991).

Dealers aligned with specific furniture brands account for over half of industry shipments of commercial furniture. Some shift in the distribution of commercial furniture has occurred in recent years in conjunction with the growth in national and regional chains featuring office supplies.

Overview of Bedding Industry

According to data compiled by the International Sleep Products Association ("ISPA"), the domestic conventional bedding market, which generated estimated wholesale revenues of \$3.4 billion during calendar year 1997, includes approximately 800 manufacturers of mattress sets. The conventional bedding market accounts for greater than 85% of the entire bedding market in North America. Approximately 75% of the conventional bedding manufactured in the U.S. is sold to furniture stores and specialty sleep shops. Most of the remaining 25% is sold to department stores, national mass merchandisers, membership clubs and contract customers (including motels, hotels and hospitals). Approximately two-thirds of conventional bedding is sold for replacement purposes and the average time lapse between mattress purchases is approximately 10 to 12 years.

Products

As described above, the Company's products include principally upholstery fabrics and mattress ticking.

UPHOLSTERY FABRICS. The Company derives the majority of its revenues from the sale of upholstery fabrics primarily to the residential and commercial (contract) furniture markets. Sales of upholstery fabrics totaled 80% of sales for fiscal 1998. The Company has emphasized fabrics and patterns that have broad appeal at promotional to medium prices, generally ranging from \$2.25 per yard to \$9.25 per yard.

MATTRESS TICKING. The Company also manufactures mattress ticking (fabric used for covering mattresses and box springs) for sale to bedding manufacturers. Sales of mattress ticking constituted 18% of sales in fiscal 1998. The Company has emphasized fabrics and patterns which have broad appeal at prices generally ranging from \$1.20 to \$7.00 per yard.

The Company's upholstery fabrics and mattress ticking can each be broadly grouped under the three main categories of wovens, prints and velvets. The following table indicates the product lines within each of these categories, a brief description of their characteristics and identification of their principal end-use markets.

Culp Fabric Categories

Upholstery Fabrics	Characteristics	Principal Markets
Wovens:		
Jacquards	Elaborate, complex designs such as florals and tapestries in traditional, transitional and contemporary styles. Woven on intricate looms using a wide variety of synthetic and natural yarns.	Residential furniture Commercial furniture
Dobbies	Geometric designs such as plaids, stripes and solids in traditional and country styles. Woven on less complicated looms using a variety of weaving constructions and primarily synthetic yarns.	Residential furniture Commercial furniture
Prints:		
Wet prints	Contemporary patterns with deep, rich colors on a nylon flock base fabric for a very soft texture and excellent wearability. Produced by screen printing directly onto the base fabric.	Residential furniture Juvenile furniture
Heat-transfer prints	Sharp, intricate designs on flock or jacquard base fabrics. Plush feel (flocks), deep colors (jacquards) and excellent wearability. Produced by using heat and pressure to transfer color from printed paper onto base fabric.	Residential furniture Juvenile furniture
Velvets:		
Woven velvets	Basic designs such as plaids and semi-plains in traditional and contemporary styles with a plush feel. Woven with a short-cut pile using various weaving methods and synthetic yarns.	Residential furniture
Tufted velvets	Lower cost production process of velvets in which synthetic yarns are punched into a base polyester fabric for texture. Similar designs as woven velvets.	Residential furniture

Mattress Ticking	Characteristics	Principal Markets
Wovens: Jacquards	Florals and other intricate designs. Woven on complex looms using a wide variety of synthetic and natural yarns.	Bedding
Prints: Heat-transfer prints	Sharp, detailed designs. Produced by using heat and pressure to transfer color from printed paper onto base fabrics, including woven jacquards, knits and poly/cotton sheetings.	Bedding
Pigment prints	Variety of designs produced economically by screen printing pigments onto a variety of base fabrics, including jacquards, knits, poly/cotton sheeting and non-wovens.	Bedding

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

Manufacturing

Substantially all of the upholstery fabric and mattress ticking currently marketed by Culp is produced at thirteen of the Company's manufacturing facilities. These plants encompass a total of 2.2 million square feet and include yarn extrusion, spinning, dyeing and texturizing equipment, narrow and wide-width jacquard looms, dobby and woven velvet looms, tufting machines, printing equipment for pigment, heat-transfer and wet printing, fabric finishing equipment and various types of surface finishing equipment (such as washing, softening and embossing). Culp is actively pursuing ISO certification for its manufacturing facilities. ISO certification is an international recognition of a Company's ability to deliver high quality products and services. Culp's facilities at Stokesdale, North Carolina, which produces mattress ticking, and at Anderson, South Carolina, which produces woven velvet upholstery fabric, were awarded ISO-9002 certification during fiscal 1997. Additionally, the Company's facility at Pageland, South Carolina, which produces jacquard and dobby upholstery fabric, and the finishing facility in Burlington, North Carolina were awarded ISO-9002 certification in fiscal 1998. The Company is planning to complete the ISO certification process at its other facilities over the next several years.

The Company's woven fabrics are made from various types of synthetic and natural yarn, such as polypropylene, polyester, acrylic, rayon, nylon or cotton. Yarn is woven into various fabrics on jacquard, dobby or velvet weaving equipment. Once the weaving is completed, the fabric can be printed or finished using a variety of processes. The Company currently extrudes and spins a portion of its own needs for yarn and purchases the remainder from outside suppliers. Although the Company believes it will to continue to rely on suppliers for the majority of its yarn requirements, the percentage of internally generated yarn is expected to increase as additional extrusion equipment for polypropylene yarn is added over the next year. As a result of the acquisition of Artee Industries (including the purchase of Wetumpka Yarn) during fiscal 1998, Culp expects to satisfy internally a substantial amount of its needs for spun and chenille yarns. The Company also plans to continue supplying other fabric manufacturers with spun yarns manufactured by the Artee Industries business unit. Culp purchases a significant amount of greige goods (unfinished, uncolored base fabrics) from other suppliers to be printed at the Company's plants, but has increased its internal production capability for jacquard greige goods. The acquisition of

Rayonese in fiscal 1995 increased the Company's capacity to produce its own jacquard greige goods. Culp has installed additional airjet weaving machines at Rayonese to significantly increase its capacity for jacquard greige goods.

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

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

The Company's printing operations include pigment and heat-transfer methods, as well as wet printing. The Company also produces its own printed heat-transfer paper, another component of vertical integration. Wet printing is the most recent addition to the Company's printing capabilities. The start-up of the Lumberton, North Carolina facility during the first quarter of fiscal 1998 approximately doubled the Company's wet-printing capacity.

Product Design and Styling

Consumer tastes and preferences related to upholstered furniture and bedding change, albeit gradually, over time. The use of new fabrics and designs remains an important consideration for manufacturers to distinguish their products at retail and to capitalize on even small changes in preferred colors, patterns and textures. Culp's success is largely dependent on the Company's ability to market fabrics with appealing designs and patterns. Culp has a staff of over 90 designers and support personnel involved in the design and development of new patterns and styles, including designers with experience in designing products for specific international markets. Culp uses computer aided design (CAD) systems in the development of new fabrics which assists the Company in providing a very flexible design program. These systems have enabled the Company's designers to experiment with new ideas and involve customers more actively in the process. The use of CAD systems also has supported the Company's emphasis on integrating manufacturing considerations into the early phase of a new design. The completion of the Howard L. Dunn, Jr. design center in January 1998 has enabled most of the Company's designers to be located in the same facility to support the sharing of design ideas and CAD and other technologies. The design center has enhanced the Company's merchandising and marketing efforts by providing an environment in which customers can be shown new products as well as participate in product development initiatives.

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

Distribution

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

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

Sources and Availability of Raw Materials

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

Competition

In spite of the trend toward consolidation in the upholstery fabric market, the Company competes against a large number of producers, ranging from large manufacturers comparable in size to the Company to small producers and marketers of specialty fabrics. The Company believes its principal upholstery fabrics competitors are the Burlington House Fabrics division of Burlington Industries, Inc., Joan Fabrics Corporation (including its Mastercraft division), Microfibres, Inc., and Quaker Fabric Corporation. Conversely, the mattress ticking market is concentrated in a few relatively large suppliers.

The Company believes its principal mattress ticking competitors are Bekaert Textiles B.V., Blumenthal Print Works, Inc., Burlington House Fabrics division of Burlington Industries, Inc. and Tietex, Inc. Although the Company believes it is the largest supplier of furniture upholstery fabrics and a leading supplier of mattress ticking to the bedding industry, some of the Company's competitors are larger overall and have greater financial resources than the Company. Competition for the Company's products is based primarily on price, design, quality, timing of delivery and service.

Technology

Culp views the use of technology as a very important element in the Company's efforts to achieve higher levels of service to its customers and to produce and deliver its products in an efficient and cost-effective manner. Some of Culp's key initiatives in this area include:

- o The Company has created a home page on the Internet (www.Culp.com). Through the Internet and the Culp home page, customers can use a system known as CulpLink to view their current order status, shipping and invoice information, and twelve months of sales history. The CulpLink system was developed internally by the Company's MIS department and provides superior communication with customers throughout the world.
- o Culp has implemented significant upgrades to its design technology and has opened the state-of-the-art Howard L. Dunn, Jr. Design Center. The Company has used computer aided design (CAD) technology for many years, and recent upgrades in hardware and software in the CAD department have made the process of moving from design to a finished project both faster and simpler. The Company also is developing an image archiving system that will allow electronic storage of all artwork and easy access to artwork for designers.
- o Local Area Networks (LANs) have been installed at individual plants, and all of these are combined into one Wide Area Network (WAN), allowing easy information exchange between various Culp locations and communication with customers and suppliers through the Internet. Culp has installed fiber optic cable networks as the communication backbone throughout the Company, placing the Company in position to easily expand the user base and to take advantage of this faster data transfer medium for potential future uses such as video conferencing and transferring large files like those required for digital images.
- o The Company has recently completed the installation of new shop floor data collection systems to track inventory movement. This initiative includes the use of fixed laser scanners, hand-held radio frequency devices, and industrialized keyboards and display stations at key points throughout the manufacturing process to record the movement of goods through production and shipping. The Company makes extensive use of bar-coding to track products throughout its manufacturing and distribution systems, and the Company has recently installed new thermal transfer printers for high quality printing of bar-coded labels and work orders.

Environmental and Other Regulations

The Company is subject to various federal and state laws and regulations, including the Occupational Safety and Health Act and federal and state environmental laws, as well as similar laws governing its Rayonese facility in Canada. The Company periodically reviews its compliance with such laws and regulations in an attempt to minimize the risk of material violations.

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

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

Employees

As of May 3, 1998, the Company had approximately 4,300 employees, including the employees from Phillips Mills, Artee Industries and Wetumpka acquisitions. All of the hourly employees at the Company's facility in West Hazleton, Pennsylvania and all of the hourly employees at the Rayonese facility in Canada (approximately 12% of the Company's workforce) are represented by a union. The collective bargaining agreement with respect to the hourly employees at the Pennsylvania plant expires in 1999. Additionally, the collective bargaining agreement with respect to the Rayonese hourly employees expires in 1999. The Company is not aware of any efforts to organize any more of its employees and believes its relations with its employees are good.

Customers and Sales

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

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

Net Sales by Geographic Area
(dollars in thousands)

	Fiscal 1998 -----		Fiscal 1997 -----		Fiscal 1996 -----	
United States	\$339,492	71.2%	\$297,308	74.5%	\$274,270	78.0%
North America (excluding U.S.)	31,160	6.5	27,479	6.9	23,528	6.7
Europe	30,775	6.5	25,245	6.3	18,927	5.4
Middle East	34,412	7.2	23,505	5.9	15,609	4.4
Asia and Pacific Rim	32,344	6.8	19,646	4.9	12,124	3.4
South America	5,158	1.1	2,604	0.7	2,753	0.8
All other areas	3,374	0.7	3,092	0.8	4,456	1.3
	-----	-----	-----	-----	-----	-----
Subtotal	137,223	28.8	101,571	25.5	77,397	22.0
	-----	-----	-----	-----	-----	-----
Total	\$476,715	100.0%	\$398,879	100.0%	\$351,667	100.0%
	=====	=====	=====	=====	=====	=====

Backlog

Because a large portion of the Company's customers have an opportunity to cancel orders, it is difficult to predict the amount of the backlog that is "firm." Many customers may cancel orders before goods are placed into production, and some may cancel at a later time. In addition, the Company markets a significant portion of its sales through its Regional Warehouse System from in-stock order positions. On May 3, 1998, the portion of the backlog with confirmed shipping dates prior to June 7, 1998 was \$40.2 million, and on April 27, 1997, the portion of the backlog with confirmed shipping dates prior to June 2, 1997 was \$30.3 million.

Year 2000 Considerations

Management has developed a plan to modify the Company's information technology to recognize the year 2000. The plan has three distinct areas of focus - traditional information systems, technology used in support areas, and preparedness of suppliers and customers.

The initiative for traditional information systems started as far back as 1992 and has substantially completed all of the Company's operational systems (order entry, billing, sales, finished goods) and financial systems (payroll, human resources, accounts payable, accounts receivable, general ledger, fixed assets). Currently the Company is focused on the remaining systems that support the Company's manufacturing processes and plans to be substantially complete by May 1, 1999.

The second area of focus has been an assessment of non-traditional information technology which includes the electronics in equipment such as telephone switches and manufacturing equipment. A plan, targeted to be substantially complete by May 1, 1999, has been formed to evaluate all these components at every location.

The third area of focus is to communicate with suppliers and vendors to understand their level of compliance and assure a constant flow of materials to support business plans. Communication to date has shown a high level of awareness and planning by these parties.

The plan is being administered by a team of internal staff and management and the cost of this initiative, principally represented by internal resources, is not expected to be material to the Company's results of operations or financial position. This project is not expected to have a significant effect on the Company's operations, though no assurance can be given in this regard.

ITEM 2. PROPERTIES

The Company's headquarters are located in High Point, North Carolina, and the Company currently operates seventeen (17) manufacturing facilities and three (3) regional distribution facilities. The following is a summary of the Company's principal administrative, manufacturing and distribution facilities. The manufacturing facilities are organized by business unit.

Location -----	Principal Use -----	Approx. Total Area (Sq. Ft.) -----	Expiration of Lease (1) -----
o Headquarters and Distribution Centers:			
High Point, North Carolina	Corporate headquarters	37,000	2015
Burlington, North Carolina	Design Center	30,000	Owned
High Point, North Carolina	Regional distribution	65,000	2008
Los Angeles, California	Regional distribution	33,000	2007
Tupelo, Mississippi	Regional distribution	35,000	2002
o Culp Textures:			
Graham, North Carolina	Manufacturing	341,000	Owned
Burlington, North Carolina	Manufacturing and distribution	302,000	Owned
Pageland, South Carolina	Manufacturing	96,000	Owned
Burlington, North Carolina	Distribution and Yarn Warehouse	112,500	Owned
o Rossville/Chromatex:			
Chattanooga, Tennessee	Manufacturing and distribution	290,000	2018
West Hazleton, Pennsylvania	Manufacturing	110,000	2013
West Hazleton, Pennsylvania	Manufacturing and distribution	100,000	2008
o Velvets/Prints:			
Burlington, North Carolina	Manufacturing and distribution	275,000	2021
Lumberton, North Carolina	Manufacturing	107,000	Owned
Anderson, South Carolina	Manufacturing	99,000	Owned
o Culp Home Fashions:			
Stokesdale, North Carolina	Manufacturing and distribution	140,000	Owned
St. Jerome, Quebec, Canada	Manufacturing and distribution	202,000	Owned
o Phillips Mills:			
Monroe, North Carolina	Manufacturing	70,000	2007
Monroe, North Carolina	Manufacturing	70,000	2004
High Point, North Carolina	Sales, Design and Administration	12,000	2007
o Artee Industries:			
Shelby, North Carolina	Manufacturing	101,000	Owned
Lincolnton, North Carolina	Manufacturing	78,000	Owned
Cherryville, North Carolina	Manufacturing	135,000	Owned
Wetumpka, Alabama	Manufacturing	145,000	Owned

(1) Includes all options to renew

ITEM 3. LEGAL PROCEEDINGS

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

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

There were no matters submitted to a vote of shareholders during the fourth quarter ended May 3, 1998.

PART II

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

Information with respect to the market for the Company's common stock and related shareholder matters is included in the Company's Annual Report to Shareholders for the year ended May 3, 1998, in the Consolidated Statements of Shareholders' Equity (dividend information), in the Selected Quarterly Data under the caption "Stock Data," in the Selected Annual Data under the caption "Stock Data," in the Shareholder Information under the caption "Stock Listing" on the back cover page, which information is herein incorporated by reference.

ITEM 6. SELECTED FINANCIAL DATA

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

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

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

ITEM 8. CONSOLIDATED FINANCIAL STATEMENTS
AND SUPPLEMENTARY DATA

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

EXCEPT FOR SUCH PORTIONS OF THE COMPANY'S ANNUAL REPORT TO SHAREHOLDERS FOR THE YEAR ENDED MAY 3, 1998 THAT ARE EXPRESSLY INCORPORATED BY REFERENCE INTO THIS REPORT, SUCH REPORT IS NOT TO BE DEEMED FILED AS PART OF THIS FILING.

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

During the two years ended May 3, 1998 and any subsequent interim periods, there were no changes of accountants and/or disagreements on any matters of accounting principles or practices or financial statement disclosures.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

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

ITEM 11. EXECUTIVE COMPENSATION

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

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL
OWNERS AND MANAGEMENT

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

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

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

PART IV

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

a) DOCUMENTS FILED AS PART OF THIS REPORT:

1. Consolidated Financial Statements

The following consolidated financial statements of Culp, Inc. and subsidiary from the Company's Annual Report to Shareholders for the year ended May 3, 1998, are incorporated by reference into this report.

Item	Page of Annual Report to Shareholders [Exhibit 13(a)]
Consolidated Balance Sheets - May 3, 1998 and..... April 27, 1997	16
Consolidated Statements of Income - for the years ended May 3, 1998, April 27, 1997 and April 28, 1996.....	17
Consolidated Statements of Shareholders' Equity - for the years ended May 3, 1998, April 27, 1997 and April 28, 1996.....	18
Consolidated Statements of Cash Flows - for the years ended May 3, 1998, April 27, 1997, and April 28, 1996	19
Consolidated Notes to Financial Statements.....	20
Report of Independent Auditors	28

2. Financial Statement Schedules

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

3. Exhibits

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

- 3(i) Articles of Incorporation of the Company, as amended, were filed as Exhibit 3(i) to the Company's Form 10-Q for the quarter ended January 29, 1995, filed March 15, 1995, and are incorporated herein by reference.
- 3(ii) Restated and Amended Bylaws of the Company, as amended, were filed as Exhibit 3(b) to the Company's Form 10-K for the year ended April 28, 1991, filed July 25, 1991, and are incorporated herein by reference.
- 10(a) Loan Agreement dated December 1, 1988 with Chesterfield County, South Carolina relating to Series 1988 Industrial Revenue Bonds in the principal amount of \$3,377,000 was filed as Exhibit 10(n) to the Company's Form 10-K for the year ended April 29, 1989, and is incorporated herein by reference.
- 10(b) Loan Agreement dated November 1, 1988 with the Alamance County Industrial Facilities and Pollution Control Financing Authority relating to Series A and B Industrial Revenue Refunding Bonds in the principal amount of \$7,900,000, was filed as exhibit 10(o) to the Company's Form 10-K for the year ended April 29, 1990, and is incorporated herein by reference.
- 10(c) Loan Agreement dated January, 1990 with the Guilford County Industrial Facilities and Pollution Control Financing Authority, North Carolina, relating to Series 1989 Industrial Revenue Bonds in the principal amount of \$4,500,000, was filed as Exhibit 10(d) to the Company's Form 10-K for the year ended April 19, 1990, filed on July 15, 1990, and is incorporated herein by reference.
- 10(d) Loan Agreement dated as of December 1, 1993 between Anderson County, South Carolina and the Company relating to \$6,580,000 Anderson County, South Carolina Industrial Revenue Bonds (Culp, Inc. Project) Series 1993, was filed as Exhibit 10(o) to the Company's Form 10-Q for the quarter ended January 30, 1994, filed March 16, 1994, and is incorporated herein by reference.
- 10(e) Form of Severance Protection Agreement, dated September 21, 1989, was filed as Exhibit 10(f) to the Company's Form 10-K for the year ended April 29, 1990, filed on July 25, 1990, and is incorporated herein by reference. (*)
- 10(f) Lease Agreement, dated January 19, 1990, with Phillips Interests, Inc. was filed as Exhibit 10(g) to the Company's Form 10-K for the year ended April 29, 1990, filed on July 25, 1990, and is incorporated herein by reference.

- 10(g) Management Incentive Plan of the Company, dated August 1986 and amended July 1989, filed as Exhibit 10(o) to the Company's Form 10-K for the year ended May 3, 1992, filed on August 4, 1992, and is incorporated herein by reference. (*)
- 10(h) Lease Agreement, dated September 6, 1988, with Partnership 74 was filed as Exhibit 10(h) to the Company's Form 10-K for the year ended April 28, 1991, filed on July 25, 1990, and is incorporated herein by reference.
- 10(i) Amendment and Restatement of the Employee's Retirement Builder Plan of the Company dated May 1, 1981 with amendments dated January 1, 1990 and January 8, 1990 were filed as Exhibit 10(p) to the Company's Form 10-K for the year ended May 3, 1992, filed on August 4, 1992, and is incorporated herein by reference. (*)
- 10(j) First Amendment of Lease Agreement dated July 27, 1992 with Partnership 74 Associates was filed as Exhibit 10(n) to the Company's Form 10-K for the year ended May 2, 1993, filed on July 29, 1993, and is incorporated herein by reference.
- 10(k) Second Amendment of Lease Agreement dated April 16, 1993, with Partnership 52 Associates was filed as Exhibit 10(l) to the Company's Form 10-K for the year ended May 2, 1993, filed on July 29, 1993, and is incorporated herein by reference.
- 10(l) 1993 Stock Option Plan was filed as Exhibit 10(o) to the Company's Form 10-K for the year ended May 2, 1993, filed on July 29, 1993, and is incorporated herein by reference. (*)
- 10(m) First Amendment to Loan Agreement dated as of December 1, 1993 by and between The Guilford County Industrial Facilities and Pollution Control Financing Authority and the Company was filed as Exhibit 10(p) to the Company's Form 10-Q, filed on March 15, 1994, and is incorporated herein by reference.
- 10(n) First Amendment to Loan Agreement dated as of December 16, 1993 by and between The Alamance County Industrial Facilities and Pollution Control Financing Authority and the Company was filed as Exhibit 10(q) to the Company's Form 10-Q, filed on March 15, 1994, and is incorporated herein by reference.
- 10(o) First Amendment to Loan Agreement dated as of December 16, 1993 by and between Chesterfield County, South Carolina and the Company was filed as Exhibit 10(r) to the Company's Form 10-Q, filed on March 15, 1994, and is incorporated herein by reference.
- 10(p) Amendment to Lease dated as of November 4, 1994, by and between the Company and RDC, Inc. was filed as Exhibit 10(w) to the Company's Form 10-Q, for the quarter ended January 29, 1995, filed on March 15, 1995, and is incorporated herein by reference.

- 10(q) Amendment to Lease Agreement dated as of December 14, 1994, by and between the Company and Rossville Investments, Inc. (formerly known as A & E Leasing, Inc.). was filed as Exhibit 10(y) to the Company's Form 10-Q, for the quarter ended January 29, 1995, filed on March 15, 1995, and is incorporated herein by reference.
- 10(r) Interest Rate Swap Agreement between Company and First Union National Bank of North Carolina dated April 17, 1995, was filed as Exhibit 10(aa) to the Company's Form 10-K for the year ended April 30, 1995, filed on July 26, 1995, and is incorporated herein by reference.
- 10(s) Performance-Based Stock Option Plan, dated June 21, 1994, was filed as Exhibit 10(bb) to the Company's Form 10-K for the year ended April 30, 1995, filed on July 26, 1995, and is incorporated herein by reference. (*)
- 10(t) Interest Rate Swap Agreement between Company and First Union National Bank of North Carolina, dated May 31, 1995 was filed as exhibit 10(w) to the Company's Form 10-Q for the quarter ended July 30, 1995, filed on September 12, 1995, and is incorporated herein by reference.
- 10(u) Interest Rate Swap Agreement between Company and First Union National Bank of North Carolina, dated July 7, 1995 was filed as exhibit 10(x) to the Company's Form 10-Q for the quarter ended July 30, 1995, filed on September 12, 1995, and is incorporated herein by reference.
- 10(v) Second Amendment of Lease Agreement dated June 15, 1994 with Partnership 74 Associates was filed as Exhibit 10(v) to the Company's Form 10-Q for the quarter ended October 29, 1995, filed on December 12, 1995, and is incorporated herein by reference.
- 10(w) Lease Agreement dated November 1, 1993 by and between the Company and Chromatex, Inc. was filed as Exhibit 10(w) to the Company's Form 10-Q for the quarter ended October 29, 1995, filed on December 12, 1995, and is incorporated herein by reference.
- 10(x) Lease Agreement dated November 1, 1993 by and between the Company and Chromatex Properties, Inc. was filed as Exhibit 10(x) to the Company's Form 10-Q for the quarter ended October 29, 1995, filed on December 12, 1995, and is incorporated herein by reference.
- 10(y) Amendment to Lease Agreement dated May 1, 1994 by and between the Company and Chromatex Properties, Inc. was filed as Exhibit 10(y) to the Company's Form 10-Q for the quarter ended October 29, 1995, filed on December 12, 1995, and is incorporated herein by reference.
- 10(z) Canada-Quebec Subsidiary Agreement on Industrial Development (1991), dated January 4, 1995, was filed as Exhibit 10(z) to the Company's Form 10-Q for the quarter ended October 29, 1995, filed on December 12, 1995, and is incorporated herein by reference.

- 10(aa) Loan Agreement between Chesterfield County, South Carolina and the Company dated as of April 1, 1996 relating to Tax Exempt Adjustable Mode Industrial Development Bonds (Culp, Inc. Project) Series 1996 in the aggregate principal amount of \$6,000,000 was filed as Exhibit 10(aa) to the Company's Form 10-K for the year ended April 28, 1996, and is incorporated herein by reference.
- 10(bb) Loan Agreement between the Alamance County Industrial Facilities and Pollution Control Financing Authority, North Carolina and the Company, dated December 1, 1996, relating to Tax Exempt Adjustable Mode Industrial Development Revenue Bonds, (Culp, Inc. Project Series 1996) in the aggregate amount of \$6,000,000 was filed as Exhibit 10(cc) to the Company's Form 10-Q for the quarter ended January 26, 1997, and is incorporated herein by reference.
- 10(cc) Loan Agreement between Luzerne County, Pennsylvania and the Company, dated as of December 1, 1996, relating to Tax-Exempt Adjustable Mode Industrial Development Revenue Bonds (Culp, Inc. Project) Series 1996 in the aggregate principal amount of \$3,500,000 was filed as Exhibit 10(dd) to the Company's Form 10-Q for the quarter ended January 26, 1997, and is incorporated herein by reference.
- 10(dd) Second Amendment to Lease Agreement between Chromatex Properties, Inc. and the Company, dated April 17, 1997 was filed as Exhibit 10(dd) to the Company's Form 10-K for the year ended April 27, 1997, and is incorporated herein by reference.
- 10(ee) Lease Agreement between Joseph E. Proctor (doing business as JEPCO) and the Company, dated April 21, 1997 was filed as Exhibit 10(ee) to the Company's Form 10-K for the year ended April 27, 1997, and is incorporated herein by reference.
- 10(ff) \$125,000,000 Revolving Loan Facility dated April 23, 1997 by and among the Company and Wachovia Bank of Georgia, N.A., as agent, and First Union National Bank of North Carolina, as documentation agent was filed as Exhibit 10(ff) to the Company's Form 10-K for the year ended April 27, 1997, and is incorporated herein by reference.
- 10(gg) Revolving Line of Credit for \$4,000,000 dated April 23, 1997 by and between the Company and Wachovia Bank of North Carolina, N.A. was filed as Exhibit 10(gg) to the Company's Form 10-K for the year ended April 27, 1997, and is incorporated herein by reference.
- 10(hh) Reimbursement and Security Agreement between Culp, Inc. and Wachovia Bank of North Carolina, N.A., dated as of April 1, 1997, relating to \$3,337,000 Principal Amount, Chesterfield County, South Carolina Industrial Revenue Bonds (Culp, Inc. Project) Series 1988 was filed as Exhibit 10(hh) to the Company's Form 10-K for the year ended April 27, 1997, and is incorporated herein by reference.

Additionally, there are Reimbursement and Security Agreements between Culp, Inc. and Wachovia Bank of North Carolina, N.A., dated as of April 1, 1997 in the following amounts and with the following facilities:

\$7,900,000 Principal Amount, Alamance County Industrial Facilities and Pollution Control Financing Authority Industrial Revenue Refunding Bonds (Culp, Inc. Project) Series A and B.

\$4,500,000 Principal Amount, Guilford County Industrial Facilities and Pollution Control Financing Authority Industrial Development Revenue Bonds (Culp, Inc. Project) Series 1989.

\$6,580,000 Principal Amount, Anderson County South Carolina Industrial Revenue Bonds (Culp, Inc. Project) Series 1993.

\$6,000,000 Principal Amount, Chesterfield County, South Carolina Tax-Exempt Adjustable Mode Industrial Development Revenue Bonds (Culp, Inc. Project) Series 1996.

\$6,000,000 Principal Amount, The Alamance County Industrial Facilities and Pollution Control Financing Authority Tax-exempt Adjustable Mode Industrial Development Revenue Bonds (Culp, Inc. Project) Series 1996.

\$3,500,000 Principal Amount, Luzerne County Industrial Development Authority Tax-Exempt Adjustable Mode Industrial Development Revenue Bonds (Culp, Inc. Project) Series 1996.

- 10(ii) Loan Agreement and Reimbursement and Security Agreement dated July 1, 1997 with the Robeson County Industrial Facilities and Pollution Control Financing Authority relating to the issuance of Tax-Exempt Adjustable Mode Industrial Development Revenue Bonds (Culp, Inc. Project), Series 1997 in the aggregate principal amount of \$8,500,000 was filed as Exhibit 10(ii) to the Company's Form 10-Q for the quarter ended August 3, 1997, and is incorporated herein by reference.
- 10(jj) Asset Purchase Agreement dated as of August 4, 1997 by and between Culp, Inc., Phillips Weaving Mills, Inc., Phillips Printing Mills, Inc., Phillips Velvet Mills, Inc., Phillips Mills, Inc., Phillips Property Company, LLC, Phillips Industries, Inc. and S. Davis Phillips was filed as Exhibit (10jj) to the Company's Form 10-Q for the quarter ended November 2, 1997, and is incorporated herein by reference.
- 10(kk) Asset Purchase Agreement dated as of October 14, 1997 among Culp, Inc., Artee Industries, Incorporated, Robert T. Davis, Robert L. Davis, Trustee u/a dated 8/25/94, Robert L. Davis, Louis W. Davis, Kelly D. England, J. Marshall Bradley, Frankie S. Bradley and Mickey R. Bradley was filed as Exhibit 10(kk) to the Company's Form 10-Q for the quarter ended November 2, 1997, and is incorporated herein by reference.

- 10(11) Form of Note Purchase Agreement (providing for the issuance by Culp, Inc. of its \$20 million 6.76% Series A Senior Notes due 3/15/08 and its \$55 million 6.76% Series B Senior Notes due 3/15/10), each dated March 4, 1998, between Culp, Inc. and each of the following:
1. Connecticut General Life Insurance Company;
 2. The Mutual Life Insurance Company of New York;
 3. United of Omaha Life Insurance Company;
 4. Mutual of Omaha Insurance Company;
 5. The Prudential Insurance Company of America;
 6. Allstate Life Insurance Company;
 7. Life Insurance Company of North America; and
 8. CIGNA Property and Casualty Insurance Company
- 13(a) Copy of the Company's 1998 Annual Report to Shareholders, for the year ended May 3, 1998, furnished for information only except with respect to those portions incorporated by reference into this report.
- 22 List of subsidiaries of the Company.
- 24(a) Consent of Independent Public Auditors in connection with the registration statements of Culp, Inc. on Form S-8 (File Nos. 33-13310, 33-37027, 33-80206, 33-62843, and 333-27519), dated March 20, 1987, September 18, 1990, June 13, 1994, September 22, 1995, and May 21, 1997.
- 25(a) Power of Attorney of Harry R. Culp, dated July 6, 1998
- 25(b) Power of Attorney of Howard L. Dunn, Jr., dated July 6, 1998
- 25(c) Power of Attorney of Robert T. Davis, dated July 6, 1998
- 25(d) Power of Attorney of Earl M. Honeycutt, dated July 3, 1998
- 25(e) Power of Attorney of Patrick H. Norton, dated July 6, 1998
- 25(f) Power of Attorney of Earl N. Phillips, Jr., dated July 5, 1998
- 25(g) Power of Attorney of Bland W. Worley, dated July 8, 1998
- 25(h) Power of Attorney of Franklin N. Saxon, dated July 8, 1998
- 27 Financial Data Schedule

b) Reports on Form 8-K:

The Company filed the following report on Form 8-K during the quarter ended May 3, 1998:

- (1) Form 8-K dated February 18, 1998, included under Item 5, Other Events, included the Company's press release for quarterly earnings and the Financial Information Release relating to certain financial information for the quarter ended February 1, 1998.

c) Exhibits:

The exhibits to this Form 10-K are filed at the end of this Form 10-K immediately preceded by an index. A list of the exhibits begins on page 29 under the subheading "Exhibits Index".

d) Financial Statement Schedules:

See Item 14(a) (2)

SIGNATURES

Pursuant to the requirements of Section 13 of the Securities Exchange Act of 1934, CULP, INC. has caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on the 31st day of July, 1998.

CULP, INC.

By /s/ Robert G. Culp, III

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

By: /s/ Phillip W. Wilson

Phillip W. Wilson
(Vice President and Chief Financial and Accounting Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated on the 31st day of July, 1998.

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

* By Phillip W. Wilson, Attorney-in-Fact, pursuant to Powers of Attorney filed with the Securities and Exchange Commission.

EXHIBITS INDEX

Exhibit Number	Exhibit
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10(11)	<p>Form of Note Purchase Agreement (providing for the issuance by Culp, Inc. of its \$20 million 6.76% Series A Senior Notes due 3/15/08 and its \$55 million 6.76% Series B Senior Notes due 3/15/10), each dated March 4, 1998, between Culp, Inc. and each of the following:</p> <ol style="list-style-type: none"> 1. Connecticut General Life Insurance Company; 2. The Mutual Life Insurance Company of New York; 3. United of Omaha Life Insurance Company; 4. Mutual of Omaha Insurance Company; 5. The Prudential Insurance Company of America; 6. Allstate Life Insurance Company; 7. Life Insurance Company of North America; and 8. CIGNA Property and Casualty Insurance Company
13(a)	<p>Copy of the Company's 1998 Annual Report to Shareholders, for the year ended May 3, 1998, furnished for information only except with respect to those portions incorporated by reference into this report.</p>
22	<p>List of subsidiaries of the Company.</p>
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25(h)	<p>Power of Attorney of Franklin N. Saxon, dated July 8, 1998</p>

CULP, INC.

\$75,000,000

\$20,000,000 6.76% Series A Senior Notes due March 15, 2008

\$55,000,000 6.76% Series B Senior Notes due March 15, 2010

NOTE PURCHASE AGREEMENT

Dated as of March 4, 1998

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(Not a part of the Agreement)

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EXHIBIT 1B	--	Form of 6.76% Series B Senior Note due March 15, 2010
EXHIBIT 4.4(a)	--	Form of Opinion of Special Counsel for the Company
EXHIBIT 4.4(b)	--	Form of Opinion of Special Counsel for the Purchasers

CULP, INC.
101 South Main Street
High Point, North Carolina 27261-2686

\$20,000,000 6.76% Series A Senior Notes due March 15, 2008
\$55,000,000 6.76% Series B Senior Notes due March 15, 2010

Dated as of
March 4, 1998

TO EACH OF THE PURCHASERS LISTED IN
THE ATTACHED SCHEDULE A:

Ladies and Gentlemen:

CULP, INC., a North Carolina corporation (the "Company"), agrees with
you as follows:

SECTION 1. AUTHORIZATION OF NOTES.

The Company will authorize the issue and sale of \$20,000,000 aggregate principal amount of its 6.76% Series A Senior Notes due March 15, 2008 and \$55,000,000 aggregate principal amount of its 6.76% Series B Senior Notes due March 15, 2010 (respectively, the "Series A Notes" and the "Series B Notes" and collectively, the "Notes", such terms to include any such notes issued in substitution therefor pursuant to Section 13 of this Agreement or the Other Agreements (as hereinafter defined)). The Series A Notes shall be substantially in the form set out in Exhibit 1A, and the Series B Notes shall be substantially in the form set out in Exhibit 1B, in each case with such changes therefrom, if any, as may be approved by you and the Company. Certain capitalized terms used in this Agreement are defined in Schedule B; references to a "Schedule" or an "Exhibit" are, unless otherwise specified, to a Schedule or an Exhibit attached to this Agreement.

SECTION 2. SALE AND PURCHASE OF NOTES.

Subject to the terms and conditions of this Agreement, the Company will issue and sell to you and you will purchase from the Company, at the Closing provided for in Section 3, Notes in the principal amount and of the Series specified opposite your name in Schedule A at the

purchase price of 100% of the principal amount thereof. Contemporaneously with entering into this Agreement, the Company is entering into separate Note Purchase Agreements (the "Other Agreements") identical with this Agreement with each of the other purchasers named in Schedule A (the "Other Purchasers"), providing for the sale at such Closing to each of the Other Purchasers of Notes in the principal amount and of the Series specified opposite its name in Schedule A. Your obligation hereunder, and the obligations of the Other Purchasers under the Other Agreements, are several and not joint obligations, and you shall have no obligation under any Other Agreement and no liability to any Person for the performance or nonperformance by any Other Purchaser thereunder.

SECTION 3. CLOSING.

The sale and purchase of the Notes to be purchased by you and the Other Purchasers shall occur at the offices of Chapman and Cutler, 111 West Monroe Street, Chicago, Illinois 60603, at 10:00 A.M. Chicago time, at a closing (the "Closing") on March 26, 1998 or on such other Business Day thereafter on or prior to April 15, 1998 as may be agreed upon by the Company and you and the Other Purchasers. At the Closing the Company will deliver to you the Notes to be purchased by you in the form of a single Note (or such greater number of Notes in denominations of at least \$100,000 as you may request) dated the date of the Closing and registered in your name (or in the name of your nominee), against delivery by you to the Company or its order of immediately available funds in the amount of the purchase price therefor by wire transfer of immediately available funds for the account of the Company to account number 4023-001418 at Wachovia Bank, N.A., ABA Number 0531-00494, Winston-Salem, North Carolina. If at the Closing the Company shall fail to tender such Notes to you as provided above in this Section 3, or any of the conditions specified in Section 4 shall not have been fulfilled to your satisfaction, you shall, at your election, be relieved of all further obligations under this Agreement, without thereby waiving any rights you may have by reason of such failure or such nonfulfillment.

SECTION 4. CONDITIONS TO CLOSING.

Your obligation to purchase and pay for the Notes to be sold to you at the Closing is subject to the fulfillment to your satisfaction, prior to or at the Closing, of the following conditions:

Section 4.1. Representations and Warranties. The representations and warranties of the Company in this Agreement shall be correct when made and at the time of the Closing.

Section 4.2. Performance; No Default. The Company shall have performed and complied with all agreements and conditions contained in this Agreement required to be

performed or complied with by it prior to or at the Closing, and after giving effect to the issue and sale of the Notes (and the application of the proceeds thereof as contemplated by Schedule 5.14), no Default or Event of Default shall have occurred and be continuing. Neither the Company nor any Subsidiary shall have entered into any transaction since the date of the Memorandum that would have been prohibited by Section 10 hereof had such Sections applied since such date.

Section 4.3. Compliance Certificates.

(a) Officer's Certificate. The Company shall have delivered to you an Officer's Certificate, dated the date of the Closing, certifying that the conditions specified in Sections 4.1, 4.2 and 4.9 have been fulfilled.

(b) Secretary's Certificate. The Company shall have delivered to you a certificate certifying as to the resolutions attached thereto and other corporate proceedings relating to the authorization, execution and delivery of the Notes and the Agreements.

Section 4.4. Opinions of Counsel. You shall have received opinions in form and substance satisfactory to you, dated the date of the Closing (a) from Robinson, Bradshaw & Hinson, P.A., special counsel for the Company, and Ogilvy Renault, special Canadian counsel for the Company, covering the matters set forth in Exhibit 4.4(a) and covering such other matters incident to the transactions contemplated hereby as you or your counsel may reasonably request (and the Company hereby instructs its counsel to deliver such opinion to you) and (b) from Chapman and Cutler, your special counsel in connection with such transactions, substantially in the form set forth in Exhibit 4.4(b) and covering such other matters incident to such transactions as you may reasonably request.

Section 4.5. Purchase Permitted by Applicable Law, etc. On the date of the Closing your purchase of Notes shall (i) be permitted by the laws and regulations of each jurisdiction to which you are subject, without recourse to provisions (such as Section 1405(a)(8) of the New York Insurance Law) permitting limited investments by insurance companies without restriction as to the character of the particular investment, (ii) not violate any applicable law or regulation (including, without limitation, Regulation G, T or X of the Board of Governors of the Federal Reserve System) and (iii) not subject you to any tax, penalty or liability under or pursuant to any applicable law or regulation, which law or regulation was not in effect on the date hereof. If requested by you, you shall have received an Officer's Certificate certifying as to such matters of fact as you may reasonably specify to enable you to determine whether such purchase is so permitted.

Section 4.6. Sale of Other Notes. Contemporaneously with the Closing, the Company shall sell to the Other Purchasers, and the Other Purchasers shall purchase, the Notes to be purchased by them at the Closing as specified in Schedule A.

Section 4.7. Payment of Special Counsel Fees. Without limiting the provisions of Section 15.1, the Company shall have paid on or before the Closing the fees, charges and disbursements of your special counsel referred to in Section 4.4 to the extent reflected in a statement of such counsel rendered to the Company at least one Business Day prior to the Closing.

Section 4.8. Changes in Corporate Structure. The Company shall not have changed its jurisdiction of incorporation or been a party to any merger or consolidation and shall not have succeeded to all or any substantial part of the liabilities of any other entity, at any time following the date of the most recent financial statements referred to in Schedule 5.5.

Section 4.9. Proceedings and Documents. All corporate and other proceedings in connection with the transactions contemplated by this Agreement and all documents and instruments incident to such transactions shall be satisfactory to you and your special counsel, and you and your special counsel shall have received all such counterpart originals or certified or other copies of such documents as you or they may reasonably request.

SECTION 5. REPRESENTATIONS AND WARRANTIES OF THE COMPANY

The Company represents and warrants to you that:

Section 5.1. Organization; Power and Authority. The Company is a corporation duly organized, validly existing and in good standing under the laws of its jurisdiction of incorporation, and is duly qualified as a foreign corporation and is in good standing in each jurisdiction in which such qualification is required by law, other than those jurisdictions as to which the failure to be so qualified or in good standing could not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect. The Company has the corporate power and authority to own or hold under lease the properties it purports to own or hold under lease, to transact the business it transacts and proposes to transact, to execute and deliver this Agreement and the Other Agreements and the Notes and to perform the provisions hereof and thereof.

Section 5.2. Authorization, etc. This Agreement, the Other Agreements and the Notes have been duly authorized by all necessary corporate action on the part of the Company, and this Agreement constitutes, and upon execution and delivery thereof each Note will constitute, a legal, valid and binding obligation of the Company enforceable against the

Company in accordance with its terms, except as such enforceability may be limited by (i) applicable bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting the enforcement of creditors' rights generally and (ii) general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law).

Section 5.3. Disclosure. The Company, through its co-agents, First Union Capital Markets Corp. and Wachovia Bank, N.A., has delivered to you and each Other Purchaser a copy of a Private Placement Memorandum, dated January 1998 (the "Memorandum"), relating to the transactions contemplated hereby. The Memorandum fairly describes, in all material respects, the general nature of the business and principal properties of the Company and its Subsidiaries. This Agreement, the Schedules hereto, the Memorandum, the documents, certificates or other writings delivered to you by or on behalf of the Company in connection with the transactions contemplated hereby and the financial statements listed in Schedule 5.5, taken as a whole, do not contain any untrue statement of a material fact or omit to state any material fact necessary to make the statements therein not misleading in light of the circumstances under which they were made. Except as disclosed in the Memorandum or as expressly described in Schedule 5.3, or in one of the documents, certificates or other writings identified therein, or in the financial statements listed in Schedule 5.5, since April 27, 1997, there has been no event, act, condition or occurrence having a Material Adverse Effect.

Section 5.4. Organization and Ownership of Shares of Subsidiaries; Affiliates. (a) Schedule 5.4 contains (except as noted therein) complete and correct lists (i) of the Company's Subsidiaries, showing, as to each Subsidiary, the correct name thereof, the jurisdiction of its organization, and the percentage of shares of each class of its capital stock or similar equity interests outstanding owned by the Company and each other Subsidiary, (ii) of the Company's Affiliates, other than Subsidiaries, and (iii) of the Company's directors and senior officers.

(b) All of the outstanding shares of capital stock or similar equity interests of each Subsidiary shown in Schedule 5.4 as being owned by the Company and its Subsidiaries have been validly issued, are fully paid and nonassessable and are owned by the Company or another Subsidiary free and clear of any Lien (except as otherwise disclosed in Schedule 5.4).

(c) Each Subsidiary identified in Schedule 5.4 is a corporation or other legal entity duly organized, validly existing and in good standing under the laws of its jurisdiction of organization, and is duly qualified as a foreign corporation or other legal entity and is in good standing in each jurisdiction in which such qualification is required by law, other than those jurisdictions as to which the failure to be so qualified or in good standing could not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect. Each such Subsidiary has the corporate or other power and authority to own or hold under lease the

properties it purports to own or hold under lease and to transact the business it transacts and proposes to transact.

(d) No Subsidiary is a party to, or otherwise subject to any legal restriction or any agreement (other than this Agreement, the agreements listed on Schedule 5.4 and customary limitations imposed by corporate law statutes) restricting the ability of such Subsidiary to pay dividends out of profits or make any other similar distributions of profits to the Company or any of its Subsidiaries that owns outstanding shares of capital stock or similar equity interests of such Subsidiary.

Section 5.5. Financial Statements. The Company has delivered to each Purchaser copies of the financial statements of the Company and its Subsidiaries listed on Schedule 5.5. All of said financial statements (including in each case the related schedules and notes) fairly present in all material respects the consolidated financial position of the Company and its Subsidiaries as of the respective dates specified in such Schedule and the consolidated results of their operations and cash flows for the respective periods so specified and have been prepared in accordance with GAAP consistently applied throughout the periods involved except as set forth in the notes thereto (subject, in the case of any interim financial statements, to normal year-end adjustments).

Section 5.6. Compliance with Laws, Other Instruments, etc. The execution, delivery and performance by the Company of this Agreement and the Notes will not (i) contravene, result in any breach of, or constitute a default under, or result in the creation of any Lien in respect of any property of the Company or any Subsidiary under, any indenture, mortgage, deed of trust, loan, purchase or credit agreement, lease, corporate charter or by-laws, or any other agreement or instrument to which the Company or any Subsidiary is bound or by which the Company or any Subsidiary or any of their respective properties may be bound or affected, (ii) conflict with or result in a breach of any of the terms, conditions or provisions of any order, judgment, decree, or ruling of any court, arbitrator or Governmental Authority applicable to the Company or any Subsidiary or (iii) violate any provision of any statute or other rule or regulation of any Governmental Authority applicable to the Company or any Subsidiary.

Section 5.7. Governmental Authorizations, etc. No consent, approval or authorization of, or registration, filing or declaration with, any Governmental Authority is required in connection with the execution, delivery or performance by the Company of this Agreement or the Notes.

Section 5.8. Litigation; Observance of Agreements, Statutes and Orders. (a) There are no actions, suits or proceedings pending or, to the knowledge of the Company, threatened against or affecting the Company or any Subsidiary or any property of the Company or any Subsidiary in any court or before any arbitrator of any kind or before or by any Governmental

Authority that, individually or in the aggregate, could reasonably be expected to have a Material Adverse Effect.

(b) Neither the Company nor any Subsidiary is in default under any term of any agreement or instrument to which it is a party or by which it is bound, or any order, judgment, decree or ruling of any court, arbitrator or Governmental Authority or is in violation of any applicable law, ordinance, rule or regulation (including without limitation Environmental Laws) of any Governmental Authority, which default or violation, individually or in the aggregate, could reasonably be expected to have a Material Adverse Effect.

Section 5.9. Taxes. The Company and its Subsidiaries have filed all material tax returns that are required to have been filed in any jurisdiction, or have properly filed for extensions of time for the filing thereof, and have paid all taxes shown to be due and payable on such returns and all other taxes and assessments levied upon them or their properties, assets, income or franchises, to the extent such taxes and assessments have become due and payable and before they have become delinquent, except for any taxes and assessments (i) the amount of which is not individually or in the aggregate Material or (ii) the amount, applicability or validity of which is currently being contested in good faith by appropriate proceedings and with respect to which the Company or a Subsidiary, as the case may be, has established adequate reserves in accordance with GAAP. The Company knows of no basis for any other tax or assessment that could reasonably be expected to have a Material Adverse Effect. The charges, accruals and reserves on the books of the Company and its Subsidiaries in respect of Federal, state or other taxes for all fiscal periods are adequate. The Federal income tax liabilities of the Company and its Subsidiaries have been determined by the Internal Revenue Service and paid for all fiscal years up to and including fiscal year 1994.

Section 5.10. Title to Property; Leases. The Company and its Subsidiaries have good and sufficient title to their respective properties that individually or in the aggregate are Material, including all such properties reflected in the most recent audited balance sheet referred to in Section 5.5 or purported to have been acquired by the Company or any Subsidiary after said date (except as sold or otherwise disposed of in the ordinary course of business), in each case free and clear of Liens prohibited by this Agreement. All leases that individually or in the aggregate are Material are valid and subsisting and are in full force and effect in all Material respects.

Section 5.11. Licenses, Permits, etc. (a) The Company and its Subsidiaries own or possess all licenses, permits, franchises, authorizations, patents, copyrights, service marks, trademarks and trade names, or rights thereto, that individually or in the aggregate are Material, without known conflict with the rights of others.

(b) To the best knowledge of the Company, no product of the Company infringes in any Material respect any license, permit, franchise, authorization, patent, copyright, service mark, trademark, trade name or other right owned by any other Person.

(c) To the best knowledge of the Company, there is no Material violation by any Person of any right of the Company or any of its Subsidiaries with respect to any patent, copyright, service mark, trademark, trade name or other right owned or used by the Company or any of its Subsidiaries.

Section 5.12. Compliance with ERISA. (a) Neither the Company nor any ERISA Affiliate of the Company sponsors, contributes to, or has any liability with respect to any Plan subject to Title IV of ERISA. The Company and each ERISA Affiliate of the Company have operated and administered each Plan in compliance with all applicable laws except for such instances of noncompliance as have not resulted in and could not reasonably be expected to result in a Material Adverse Effect. Neither the Company nor any ERISA Affiliate of the Company has incurred any liability pursuant to Title I of ERISA or the penalty or excise tax provisions of the Code relating to employee benefit plans (as defined in Section 3 of ERISA), and no event, transaction or condition has occurred or exists that could reasonably be expected to result in the incurrence of any such liability by the Company or any ERISA Affiliate of the Company, or in the imposition of any Lien on any of the rights, properties or assets of the Company or any ERISA Affiliate of the Company, in either case pursuant to Title I of ERISA or to such penalty or excise tax provisions or to Section 401(a)(29) or 412 of the Code, other than such liabilities or Liens as would not be individually or in the aggregate Material.

(b) The expected post-retirement benefit obligation (determined as of the last day of the Company's most recently ended fiscal year in accordance with Financial Accounting Standards Board Statement No. 106, without regard to liabilities attributable to continuation coverage mandated by section 4980B of the Code) of the Company and its Subsidiaries is not Material.

(c) The execution and delivery of this Agreement and the issuance and sale of the Notes hereunder will not involve any transaction that is subject to the prohibitions of section 406 of ERISA or in connection with which a tax could be imposed pursuant to section 4975(c)(1)(A)-(D) of the Code. The representation by the Company in the first sentence of this Section 5.12(e) is made in reliance upon and subject to the accuracy of your representation in Section 6.2 as to the sources of the funds used to pay the purchase price of the Notes to be purchased by you.

Section 5.13. Private Offering by the Company. Neither the Company nor anyone acting on its behalf has offered the Notes or any similar securities for sale to, or solicited any offer to buy any of the same from, or otherwise approached or negotiated in respect thereof with,

any person other than you, the Other Purchasers and not more than 25 other Institutional Investors, each of which has been offered the Notes at a private sale for investment. Neither the Company nor anyone acting on its behalf has taken, or will take, any action that would subject the issuance or sale of the Notes to the registration requirements of Section 5 of the Securities Act.

Section 5.14. Use of Proceeds; Margin Regulations. The Company will apply the proceeds of the sale of the Notes as set forth in Schedule 5.14. No part of the proceeds from the sale of the Notes hereunder will be used, directly or indirectly, for the purpose of buying or carrying any margin stock within the meaning of Regulation G of the Board of Governors of the Federal Reserve System (12 CFR 207), or for the purpose of buying or carrying or trading in any securities under such circumstances as to involve the Company in a violation of Regulation X of said Board (12 CFR 224) or to involve any broker or dealer in a violation of Regulation T of said Board (12 CFR 220). Neither the Company nor any Subsidiary presently owns, legally or beneficially, or has any present intention to acquire, any margin stock. As used in this Section, the terms "margin stock" and "purpose of buying or carrying" shall have the meanings assigned to them in said Regulation G.

Section 5.15. Existing Indebtedness; Future Liens. (a) Except as described therein, Schedule 5.15 sets forth a complete and correct list of all outstanding Indebtedness of the Company and its Subsidiaries, excluding indebtedness having an unpaid principal amount of less than \$50,000, as of March 8, 1998, since which date there has been no Material change in the amounts, interest rates, sinking funds, installment payments or maturities of the Indebtedness of the Company or its Subsidiaries. Neither the Company nor any Subsidiary is in default and no waiver of default is currently in effect, in the payment of any principal or interest on any Indebtedness of the Company or such Subsidiary and no event or condition exists with respect to any Indebtedness of the Company or any Subsidiary that would permit (or that with notice or the lapse of time, or both, would permit) one or more Persons to cause such Indebtedness to become due and payable before its stated maturity or before its regularly scheduled dates of payment.

(b) Except as disclosed in Schedule 5.15, neither the Company nor any Subsidiary has agreed or consented to cause or permit in the future (upon the happening of a contingency or otherwise) any of its property, whether now owned or hereafter acquired, to be subject to a Lien not permitted by Section 10.2.

Section 5.16. Foreign Assets Control Regulations, etc. Neither the sale of the Notes by the Company hereunder nor its use of the proceeds thereof will violate the Trading with the Enemy Act, as amended, or any of the foreign assets control regulations of the United States Treasury Department (31 CFR, Subtitle B, Chapter V, as amended) or any enabling legislation or executive order relating thereto.

Section 5.17. Status under Certain Statutes. Neither the Company nor any Subsidiary is subject to regulation under the Investment Company Act of 1940, as amended, the Public Utility Holding Company Act of 1935, as amended, the ICC Termination Act of 1995, as amended, or the Federal Power Act, as amended.

Section 5.18. Environmental Matters. Neither the Company nor any Subsidiary has knowledge of any claim or has received any notice of any claim, and no proceeding has been instituted raising any claim against the Company or any of its Subsidiaries or, to the Company's knowledge, any of their respective real properties now or formerly owned, leased or operated by any of them or other assets, alleging any damage to the environment or violation of any Environmental Laws, except, in each case, such as could not reasonably be expected to result in a Material Adverse Effect. Except as otherwise disclosed to you in writing:

(a) neither the Company nor any Subsidiary has knowledge of any facts which would give rise to any claim, public or private, of violation of Environmental Laws or damage to the environment emanating from, occurring on or in any way related to real properties now or formerly owned, leased or operated by any of them or to other assets or their use, except, in each case, such as could not reasonably be expected to result in a Material Adverse Effect;

(b) neither the Company nor any of its Subsidiaries has stored any Hazardous Materials on real properties now or formerly owned, leased or operated by any of them nor has disposed of any Hazardous Materials in a manner contrary to any Environmental Laws in each case in any manner that could reasonably be expected to result in a Material Adverse Effect; and

(c) to the knowledge of the Company, all buildings on all real properties now owned, leased or operated by the Company or any of its Subsidiaries are in compliance with applicable Environmental Laws, except where failure to comply could not reasonably be expected to result in a Material Adverse Effect.

SECTION 6. REPRESENTATIONS OF THE PURCHASER.

Section 6.1. Purchase for Investment. You represent that you are purchasing the Notes for your own account or for one or more separate accounts maintained by you or for the account of one or more pension or trust funds and not with a view to the distribution thereof, provided that the disposition of your or their property shall at all times be within your or their control. You understand that the Notes have not been registered under the Securities Act and may be resold only if registered pursuant to the provisions of the Securities Act or if an exemption from registration is available, except under circumstances where neither such

registration nor such an exemption is required by law, and that the Company is not required to register the Notes.

Section 6.2. Source of Funds. You represent that at least one of the following statements is an accurate representation as to each source of funds (a "Source") to be used by you to pay the purchase price of the Notes to be purchased by you hereunder:

(a) the Source is an "insurance company general account" within the meaning of Department of Labor Prohibited Transaction Exemption ("PTE") 95-60 (issued July 12, 1995) and there is no employee benefit plan, treating as a single plan all plans maintained by the same employer or employee organization, with respect to which the amount of the general account reserves and liabilities for all contracts held by or on behalf of such plan, exceeds ten percent (10%) of the total reserves and liabilities of such general account (exclusive of separate account liabilities) plus surplus, as set forth in the NAIC Annual Statement filed with your state of domicile; or

(b) the Source is either (i) an insurance company pooled separate account, within the meaning of PTE 90-1 (issued January 29, 1990), or (ii) a bank collective investment fund, within the meaning of the PTE 91-38 (issued July 12, 1991) and, except as you have disclosed to the Company in writing pursuant to this paragraph (b), no employee benefit plan or group of plans maintained by the same employer or employee organization beneficially owns more than 10% of all assets allocated to such pooled separate account or collective investment fund; or

(c) the Source constitutes assets of an "investment fund" (within the meaning of Part V of the QPAM Exemption) managed by a "qualified professional asset manager" or "QPAM" (within the meaning of Part V of the QPAM Exemption), no employee benefit plan's assets that are included in such investment fund, when combined with the assets of all other employee benefit plans established or maintained by the same employer or by an affiliate (within the meaning of Section V(c)(1) of the QPAM Exemption) of such employer or by the same employee organization and managed by such QPAM, exceed 20% of the total client assets managed by such QPAM, the conditions of Part 1(c) and (g) of the QPAM Exemption are satisfied, neither the QPAM nor a person controlling or controlled by the QPAM (applying the definition of "control" in Section V(e) of the QPAM Exemption) owns a 5% or more interest in the Company and (i) the identity of such QPAM and (ii) the names of all employee benefit plans whose assets are included in such investment fund have been disclosed to the Company in writing pursuant to this paragraph (c); or

(d) the Source is a governmental plan; or

(e) the Source is one or more employee benefit plans, or a separate account or trust fund comprised of one or more employee benefit plans, each of which has been identified to the Company in writing pursuant to this paragraph (e); or

(f) the Source does not include assets of any employee benefit plan, other than a plan exempt from the coverage of ERISA.

As used in this Section 6.2, the terms "employee benefit plan", "governmental plan", "party in interest" and "separate account" shall have the respective meanings assigned to such terms in Section 3 of ERISA.

SECTION 7. INFORMATION AS TO COMPANY.

Section 7.1. Financial and Business Information. The Company shall deliver to each holder of Notes that is an Institutional Investor:

(a) Quarterly Statements -- within 60 days after the end of each quarterly fiscal period in each fiscal year of the Company (other than the last quarterly fiscal period of each such fiscal year), duplicate copies of:

(i) a consolidated balance sheet of the Company and its Subsidiaries as at the end of such quarter, and

(ii) consolidated statements of income, shareholders' equity and cash flows of the Company and its Subsidiaries for such quarter and (in the case of the second and third quarters) for the portion of the fiscal year ending with such quarter,

setting forth in each case in comparative form the figures for the corresponding periods in the previous fiscal year, all in reasonable detail, prepared in accordance with GAAP applicable to quarterly financial statements generally, and certified by a Senior Financial Officer as fairly presenting, in all material respects, the financial position of the companies being reported on and their results of operations and cash flows, subject to changes resulting from year-end adjustments, provided that delivery within the time period specified above of copies of the Company's Quarterly Report on Form 10-Q prepared in compliance with the requirements therefor and filed with the Securities and Exchange Commission shall be deemed to satisfy the requirements of this Section 7.1(a);

(b) Annual Statements -- within 105 days after the end of each fiscal year of the Company, duplicate copies of,

(i) a consolidated balance sheet of the Company and its Subsidiaries, as at the end of such year, and

(ii) consolidated statements of income, changes in shareholders' equity and cash flows of the Company and its Subsidiaries, for such year,

setting forth in each case in comparative form the figures for the previous fiscal year, all in reasonable detail, prepared in accordance with GAAP, and accompanied

(A) by an opinion thereon of independent certified public accountants of recognized national standing, which opinion shall state that such financial statements present fairly, in all material respects, the financial position of the companies being reported upon and their results of operations and cash flows and have been prepared in conformity with GAAP, and that the examination of such accountants in connection with such financial statements has been made in accordance with generally accepted auditing standards, and that such audit provides a reasonable basis for such opinion in the circumstances, and

(B) a certificate of such accountants stating that they have reviewed this Agreement and stating further whether, in making their audit, they have become aware of any condition or event that then constitutes a Default or an Event of Default, and, if they are aware that any such condition or event then exists, specifying the nature and period of the existence thereof (it being understood that such accountants shall not be liable, directly or indirectly, for any failure to obtain knowledge of any Default or Event of Default unless such accountants should have obtained knowledge thereof in making an audit in accordance with generally accepted auditing standards or did not make such an audit),

provided that the delivery within the time period specified above of the Company's Annual Report on Form 10-K for such fiscal year (together with the Company's annual report to shareholders, if any, prepared pursuant to Rule 14a-3 under the Exchange Act) prepared in accordance with the requirements therefor and filed with the Securities and Exchange Commission, together with the accountant's certificate described in clause (B) above, shall be deemed to satisfy the requirements of this Section 7.1(b);

(c) SEC and Other Reports -- promptly upon their becoming available, one copy of (i) each financial statement, report, notice or proxy statement sent by the Company or any Subsidiary to public securities holders generally, and (ii) each regular or

periodic report, each registration statement other than Registration Statements on Form S-8 (without exhibits except as expressly requested by such holder), and each prospectus and all amendments thereto filed by the Company or any Subsidiary with the Securities and Exchange Commission and of all press releases and other statements made available generally by the Company or any Subsidiary to the public concerning developments that are Material;

(d) Notice of Default or Event of Default -- promptly, and in any event within five days after a Responsible Officer becoming aware of the existence of any Default or Event of Default or that any Person has given any notice or taken any action with respect to a claimed default hereunder or that any Person has given any notice or taken any action with respect to a claimed default of the type referred to in Section 11(f), a written notice specifying the nature and period of existence thereof and what action the Company is taking or proposes to take with respect thereto;

(e) ERISA Matters -- promptly, and in any event within five days after a Responsible Officer becoming aware of any of the following, a written notice setting forth the nature thereof and the action, if any, that the Company or an ERISA Affiliate proposes to take with respect thereto:

(i) with respect to any Plan, any reportable event, as defined in section 4043(b) of ERISA and the regulations thereunder, for which notice thereof has not been waived pursuant to such regulations as in effect on the date hereof; or

(ii) the taking by the PBGC of steps to institute, or the threatening by the PBGC of the institution of, proceedings under section 4042 of ERISA for the termination of, or the appointment of a trustee to administer, any Plan, or the receipt by the Company or any ERISA Affiliate of a notice from a Multiemployer Plan that such action has been taken by the PBGC with respect to such Multiemployer Plan; or

(iii) any event, transaction or condition that could result in the incurrence of any liability by the Company or any ERISA Affiliate pursuant to Title I or IV of ERISA or the penalty or excise tax provisions of the Code relating to employee benefit plans, or in the imposition of any Lien on any of the rights, properties or assets of the Company or any ERISA Affiliate pursuant to Title I or IV of ERISA or such penalty or excise tax provisions, if such liability or Lien, taken together with any other such liabilities or Liens then existing, could reasonably be expected to have a Material Adverse Effect;

(f) Notices from Governmental Authority -- promptly, and in any event within 30 days of receipt thereof, copies of any notice to the Company or any Subsidiary from any Federal or state Governmental Authority relating to any order, ruling, statute or other law or regulation that could reasonably be expected to have a Material Adverse Effect; and

(g) Requested Information -- with reasonable promptness, such other data and information relating to the business, operations, affairs, financial condition, assets or properties of the Company or any of its Subsidiaries or relating to the ability of the Company to perform its obligations hereunder and under the Notes as from time to time may be reasonably requested by any such holder of Notes.

Section 7.2. Officer's Certificate. Each set of financial statements delivered to a holder of Notes pursuant to Section 7.1(a) or Section 7.1(b) hereof shall be accompanied by a certificate of a Senior Financial Officer setting forth:

(a) Covenant Compliance -- the information (including detailed calculations) required in order to establish whether the Company was in compliance with the requirements of Section 10.1 through Section 10.3, both inclusive, and Section 10.5 hereof during the quarterly or annual period covered by the statements then being furnished (including with respect to each such Section, where applicable, the calculations of the maximum or minimum amount, ratio or percentage, as the case may be, permissible under the terms of such Sections, and the calculation of the amount, ratio or percentage then in existence); and

(b) Event of Default -- a statement that such officer has reviewed the relevant terms hereof and has made, or caused to be made, under his or her supervision, a review of the transactions and conditions of the Company and its Subsidiaries from the beginning of the quarterly or annual period covered by the statements then being furnished to the date of the certificate and that such review shall not have disclosed the existence during such period of any condition or event that constitutes a Default or an Event of Default or, if any such condition or event existed or exists (including, without limitation, any such event or condition resulting from the failure of the Company or any Subsidiary to comply with any Environmental Law), specifying the nature and period of existence thereof and what action the Company shall have taken or proposes to take with respect thereto.

Section 7.3. Inspection. The Company shall permit the representatives of each holder of Notes that is an Institutional Investor:

(a) No Default -- if no Default or Event of Default then exists, at the expense of such holder and upon reasonable prior notice to the Company, to visit the principal executive office of the Company, to discuss the affairs, finances and accounts of the Company and its Subsidiaries with the Company's officers, and (with the consent of the Company, which consent will not be unreasonably withheld) its independent public accountants, and (with the consent of the Company, which consent will not be unreasonably withheld) to visit the other offices and properties of the Company and each Subsidiary, all at such reasonable times and as often as may be reasonably requested in writing; and

(b) Default -- if a Default or Event of Default then exists, at the expense of the Company to visit and inspect any of the offices or properties of the Company or any Subsidiary, to examine all their respective books of account, records, reports and other papers, to make copies and extracts therefrom, and to discuss their respective affairs, finances and accounts with their respective officers and independent public accountants (and by this provision the Company authorizes said accountants to discuss the affairs, finances and accounts of the Company and its Subsidiaries), all at such times and as often as may be requested.

SECTION 8. PREPAYMENT OF THE NOTES.

Section 8.1. Required Prepayments. (a) No regularly scheduled prepayment of principal of the Series A Notes is required prior to the date of their maturity.

(b) On March 15, 2006, and on the fifteenth day of each March thereafter to and including March 15, 2009, the Company will prepay \$11,000,000 principal amount (or such lesser principal amount as shall then be outstanding) of the Series B Notes at par and without payment of the Make-Whole Amount or any premium, provided that upon any partial prepayment of the Series B Notes pursuant to Section 8.2 or 8.3 or purchase of the Series B Notes permitted by Section 8.6, the principal amount of each required prepayment of the Series B Notes becoming due under this Section 8.1(b) on and after the date of such prepayment or purchase shall be reduced in the same proportion as the aggregate unpaid principal amount of the Series B Notes is reduced as a result of such prepayment or purchase.

Section 8.2. Change in Control. (a) Notice of Change in Control or Control Event. The Company will, within five Business Days after any Responsible Officer has knowledge of the occurrence of any Change in Control or Control Event, give written notice of such Change in Control or Control Event to each holder of Notes unless notice in respect of such Change in Control (or the Change in Control contemplated by such Control Event) shall have been given pursuant to subparagraph (b) of this Section. If a Change in Control has occurred, such notice

shall contain and constitute an offer to prepay Notes as described in subparagraph (c) of this Section and shall be accompanied by the certificate described in subparagraph (g) of this Section.

(b) Condition to Company Action. The Company will not take any action that consummates or finalizes a Change in Control unless (i) at least 30 days prior to such action it shall have given to each holder of Notes written notice containing and constituting an offer to prepay Notes as described in subparagraph (c) of this Section, accompanied by the certificate described in subparagraph (g) of this Section, and (ii) contemporaneously with such action, it prepays all Notes required to be prepaid in accordance with this Section.

(c) Offer to Prepay Notes. The offer to prepay Notes contemplated by subparagraphs (a) and (b) of this Section shall be an offer to prepay, in accordance with and subject to this Section, all, but not less than all, the Notes held by each holder (in this case only, "holder" in respect of any Note registered in the name of a nominee for a disclosed beneficial owner shall mean such beneficial owner) on a date specified in such offer (the "Proposed Prepayment Date"). If such Proposed Prepayment Date is in connection with an offer contemplated by subparagraph (a) of this Section, such date shall be not less than 15 days and not more than 30 days after the date of such offer (if the Proposed Prepayment Date shall not be specified in such offer, the Proposed Prepayment Date shall be the first Business Day after the 30th day after the date of such offer).

(d) Acceptance. A holder of Notes may accept the offer to prepay made pursuant to this Section by causing a notice of such acceptance to be delivered to the Company at least five days prior to the Proposed Prepayment Date. If the offer is so accepted by any holder of Notes, the Company at least four days prior to the Proposed Prepayment Date shall give written notice to each holder of Notes that has not so accepted the offer, in which notice the Company shall (i) state the aggregate outstanding principal amount of Notes in respect of which the offer has been accepted and (ii) renew the offer and extend the time for acceptance by stating that any holder of Notes may yet accept the offer, whether theretofore rejected or not, by causing a notice of such acceptance to be delivered to the Company at least two days prior to the Proposed Prepayment Date. A failure by a holder of Notes to respond to an offer to prepay made pursuant to this Section shall be deemed to constitute a rejection of such offer by such holder.

(e) Prepayment. Prepayment of the Notes to be prepaid pursuant to this Section shall be at 100% of the principal amount of such Notes, together with interest on such Notes accrued to the date of prepayment, but without Make-Whole Amount or other premium. The prepayment shall be made on the Proposed Prepayment Date except as provided in subparagraph (f) of this Section.

(f) Deferral Pending Change in Control. The obligation of the Company to prepay Notes pursuant to the offers required by subparagraph (b) and accepted in accordance with subparagraph (d) of this Section is subject to the occurrence of the Change in Control in respect of which such offers and acceptances shall have been made. In the event that such Change in Control has not occurred on the Proposed Prepayment Date in respect thereof, the prepayment shall be deferred until and shall be made on the date on which such Change in Control occurs. The Company shall keep each holder of Notes reasonably and timely informed of (i) any such deferral of the date of prepayment, (ii) the date on which such Change in Control and the prepayment are expected to occur, and (iii) any determination by the Company that efforts to effect such Change in Control have ceased or been abandoned (in which case the offers and acceptances made pursuant to this Section in respect of such Change in Control shall be deemed rescinded).

(g) Officer's Certificate. Each offer to prepay the Notes pursuant to this Section shall be accompanied by a certificate, executed by a Senior Financial Officer of the Company and dated the date of such offer, specifying: (i) the Proposed Prepayment Date; (ii) that such offer is made pursuant to this Section 8.2; (iii) the principal amount of each Note offered to be prepaid; (iv) the interest that would be due on each Note offered to be prepaid, accrued to the Proposed Prepayment Date; (v) that the conditions of this Section have been fulfilled; and (vi) in reasonable detail, the nature and date or proposed date of the Change in Control.

(h) "Change in Control" Defined. A "Change in Control" shall be deemed to have occurred if any Person or Persons acting in concert (other than the Culp Family), together with Affiliates thereof, shall in the aggregate, directly or indirectly, control or own (beneficially or otherwise) more than 50% (by number of shares) of the issued and outstanding Voting Stock of the Company. "Culp Family" means Robert G. Culp III, his spouse, his mother, his siblings, his lineal descendants and any trusts for the exclusive benefit of any such individual, so long as such individual has the exclusive right to control each such trust.

(i) "Control Event" Defined. "Control Event" means:

(i) the execution by the Company or any of its Subsidiaries or Affiliates of any agreement or letter of intent with respect to any proposed transaction or event or series of transactions or events which, individually or in the aggregate, may reasonably be expected to result in a Change in Control,

(ii) the execution of any written agreement which, when fully performed by the parties thereto, would result in a Change in Control, or

(iii) the making of any written offer by any person (as such term is used in section 13(d) and section 14(d)(2) of the Exchange Act as in effect on the date of the Closing) or related persons constituting a group (as such term is used in Rule 13d-5 under the Exchange Act as in effect on the date of the Closing) to the holders of the common stock of the Company, which offer, if accepted by the requisite number of holders, would result in a Change in Control.

Section 8.3. Optional Prepayments with Make-Whole Amount. The Company may, at its option, upon notice as provided below, prepay at any time all, or from time to time any part of, the Notes, in an amount not less than 10% of the aggregate principal amount of the Notes then outstanding in the case of a partial prepayment, at 100% of the principal amount so prepaid, plus the Make-Whole Amount and accrued interest determined for the prepayment date with respect to such principal amount. The Company will give each holder of Notes written notice of each optional prepayment under this Section 8.3 not less than 30 days and not more than 60 days prior to the date fixed for such prepayment. Each such notice shall specify such date, the aggregate principal amount of the Notes to be prepaid on such date, the principal amount of each Note held by such holder to be prepaid (determined in accordance with Section 8.4), and the interest to be paid on the prepayment date with respect to such principal amount being prepaid, and shall be accompanied by a certificate of a Senior Financial Officer as to the estimated Make-Whole Amount due in connection with such prepayment (calculated as if the date of such notice were the date of the prepayment), setting forth the details of such computation. Two Business Days prior to such prepayment, the Company shall deliver to each holder of Notes a certificate of a Senior Financial Officer specifying the calculation of such Make-Whole Amount as of the specified prepayment date. The calculations with respect to the Make-Whole Amount shall in any event be subject to the review and approval of the holders of the Notes and, in the case of any disagreement among such holders and the Company with respect to such calculations or method of computation thereof, the conclusion of such holders shall, in the absence of manifest error, be deemed, binding and conclusive.

Section 8.4. Allocation of Partial Prepayments. In the case of each partial prepayment of the Notes (other than a prepayment pursuant to Section 8.2), the principal amount of the Notes to be prepaid shall be allocated among all of the Notes of both Series at the time outstanding in proportion, as nearly as practicable, to the respective unpaid principal amounts thereof not theretofore called for prepayment.

Section 8.5. Maturity; Surrender, etc. In the case of each prepayment of Notes pursuant to this Section 8, the principal amount of each Note to be prepaid shall mature and become due and payable on the date fixed for such prepayment, together with interest on such principal amount accrued to such date and the applicable Make-Whole Amount, if any. From and after such date, unless the Company shall fail to pay such principal amount when so due and

payable, together with the interest and Make-Whole Amount, if any, as aforesaid, interest on such principal amount shall cease to accrue. Any Note paid or prepaid in full shall be surrendered to the Company and cancelled and shall not be reissued, and no Note shall be issued in lieu of any prepaid principal amount of any Note.

Section 8.6. Purchase of Notes. The Company will not and will not permit any Affiliate to purchase, redeem, prepay or otherwise acquire, directly or indirectly, any of the outstanding Notes except upon the payment or prepayment of the Notes in accordance with the terms of this Agreement and the Notes. The Company will promptly cancel all Notes acquired by it or any Affiliate pursuant to any payment, prepayment or purchase of Notes pursuant to any provision of this Agreement and no Notes may be issued in substitution or exchange for any such Notes.

Section 8.7. Make-Whole Amount. The term "Make-Whole Amount" means, with respect to any Note, an amount equal to the excess, if any, of the Discounted Value of the Remaining Scheduled Payments with respect to the Called Principal of such Note over the amount of such Called Principal, provided that the Make-Whole Amount may in no event be less than zero. For the purposes of determining the Make-Whole Amount, the following terms have the following meanings:

"Called Principal" means, with respect to any Note, the principal of such Note that is to be prepaid pursuant to Section 8.2 or has become or is declared to be immediately due and payable pursuant to Section 12.1, as the context requires.

"Discounted Value" means, with respect to the Called Principal of any Note, the amount obtained by discounting all Remaining Scheduled Payments with respect to such Called Principal from their respective scheduled due dates to the Settlement Date with respect to such Called Principal, in accordance with accepted financial practice and at a discount factor (applied on the same periodic basis as that on which interest on the Notes is payable) equal to the Reinvestment Yield with respect to such Called Principal.

"Reinvestment Yield" means, with respect to the Called Principal of any Note, 0.50% plus the yield to maturity implied by (i) the yields reported, as of 10:00 A.M. (New York City time) on the second Business Day preceding the Settlement Date with respect to such Called Principal, on the display designated as "Page PX1" on the Bloomberg Financial Markets Series Screen (or such other display as may replace Page PX1 on the Bloomberg Financial Markets Series Screen) for actively traded U.S. Treasury securities having a maturity equal to the Remaining Average Life of such Called Principal as of such Settlement Date, or (ii) if such yields are not reported as of such time or the yields reported as of such time are not ascertainable, the Treasury

Constant Maturity Series Yields reported, for the latest day for which such yields have been so reported as of the second Business Day preceding the Settlement Date with respect to such Called Principal, in Federal Reserve Statistical Release H.15 (519) (or any comparable successor publication) for actively traded U.S. Treasury securities having a constant maturity equal to the Remaining Average Life of such Called Principal as of such Settlement Date. Such implied yield will be determined, if necessary, by (a) converting U.S. Treasury bill quotations to bond-equivalent yields in accordance with accepted financial practice and (b) interpolating linearly between (1) the actively traded U.S. Treasury security with the average life closest to and greater than the Remaining Average Life and (2) the actively traded U.S. Treasury security with the average life closest to and less than the Remaining Average Life.

"Remaining Average Life" means, with respect to any Called Principal, the number of years (calculated to the nearest day) obtained by dividing (i) such Called Principal into (ii) the sum of the products obtained by multiplying (a) the principal component of each Remaining Scheduled Payment with respect to such Called Principal by (b) the number of years (calculated to the nearest day) that will elapse between the Settlement Date with respect to such Called Principal and the scheduled due date of such Remaining Scheduled Payment.

"Remaining Scheduled Payments" means, with respect to the Called Principal of any Note, all payments of such Called Principal and interest thereon that would be due after the Settlement Date with respect to such Called Principal if no payment of such Called Principal were made prior to its scheduled due date, provided that if such Settlement Date is not a date on which interest payments are due to be made under the terms of the Notes, then the amount of the next succeeding scheduled interest payment will be reduced by the amount of interest accrued to such Settlement Date and required to be paid on such Settlement Date pursuant to Section 8.2 or 12.1.

"Settlement Date" means, with respect to the Called Principal of any Note, the date on which such Called Principal is to be prepaid pursuant to Section 8.3 or has become or is declared to be immediately due and payable pursuant to Section 12.1, as the context requires.

SECTION 9. AFFIRMATIVE COVENANTS.

The Company covenants that so long as any of the Notes are outstanding:

Section 9.1. Compliance with Law. The Company will and will cause each of its Subsidiaries to comply with all laws, ordinances or governmental rules or regulations to which

each of them is subject, including, without limitation, Environmental Laws, and will obtain and maintain in effect all licenses, certificates, permits, franchises and other governmental authorizations necessary to the ownership of their respective properties or to the conduct of their respective businesses, in each case to the extent necessary to ensure that non-compliance with such laws, ordinances or governmental rules or regulations or failures to obtain or maintain in effect such licenses, certificates, permits, franchises and other governmental authorizations could not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect.

Section 9.2. Insurance. The Company will and will cause each of its Subsidiaries to maintain, with financially sound and reputable insurers, insurance with respect to their respective properties and businesses against such casualties and contingencies, of such types, on such terms and in such amounts (including deductibles, co-insurance and self-insurance, if adequate reserves are maintained with respect thereto) as is customary in the case of entities of established reputations engaged in the same or a similar business and similarly situated.

Section 9.3. Maintenance of Properties. The Company will and will cause each of its Subsidiaries to maintain and keep, or cause to be maintained and kept, their respective properties in reasonably good repair, working order and condition (other than ordinary wear and tear), so that the business carried on in connection therewith may be properly conducted at all times, provided that this Section shall not prevent the Company or any Subsidiary from discontinuing the operation and the maintenance of any of its properties if such discontinuance is desirable in the conduct of its business and the Company has concluded that such discontinuance could not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect.

Section 9.4. Payment of Taxes and Claims. The Company will and will cause each of its Subsidiaries to file all material tax returns required to be filed in any jurisdiction and to pay and discharge all taxes shown to be due and payable on such returns and all other taxes, assessments, governmental charges, or levies imposed on them or any of their properties, assets, income or franchises, to the extent such taxes and assessments have become due and payable and before they have become delinquent and all claims for which sums have become due and payable that have or might become a Lien on properties or assets of the Company or any Subsidiary, provided that neither the Company nor any Subsidiary need pay any such tax or assessment or claims if (i) the amount, applicability or validity thereof is contested by the Company or such Subsidiary on a timely basis in good faith and in appropriate proceedings, and the Company or a Subsidiary has established adequate reserves therefor in accordance with GAAP on the books of the Company or such Subsidiary or (ii) the nonpayment of all such taxes and assessments in the aggregate could not reasonably be expected to have a Material Adverse Effect.

Section 9.5. Corporate Existence, etc. The Company will at all times preserve and keep in full force and effect its corporate existence. Subject to Sections 10.4 and 10.5, the Company will at all times preserve and keep in full force and effect the corporate existence of each of its Subsidiaries (unless merged into the Company or a Subsidiary) and all rights and franchises of the Company and its Subsidiaries unless, in the good faith judgment of the Company, the termination of or failure to preserve and keep in full force and effect such corporate existence, right or franchise could not, individually or in the aggregate, have a Material Adverse Effect.

SECTION 10. NEGATIVE COVENANTS.

The Company covenants that so long as any of the Notes are outstanding:

Section 10.1. Consolidated Net Worth. The Company will not, at any time, permit Consolidated Net Worth to be less than the sum of (a) \$100,000,000, plus (b) 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 beginning with the fiscal quarter ended August 2, 1998.

Section 10.2. Limitations on Funded Debt and Priority Debt. (a) The Company will not, and will not permit any Subsidiary to, create, assume or incur or in any manner be or become liable in respect of any Funded Debt, except:

(1) Funded Debt evidenced by the Notes;

(2) Funded Debt of the Company and its Subsidiaries outstanding as of the date of this Agreement and reflected in Schedule 5.15 (other than Funded Debt to be repaid out of the proceeds of the sale of the Notes) and any renewals, extensions and refinancings thereof which, in any case, do not increase the principal amount thereof outstanding immediately prior to such renewal, extension or refinancing;

(3) Funded Debt of the Company and Priority Debt, provided that at the time of issuance thereof and after giving effect thereto and to the application of the proceeds thereof:

(i) Consolidated Funded Debt shall not exceed 60% of Total Capitalization, and

(ii) Priority Debt shall not exceed 15% of Consolidated Net Worth.

(b) Any Person which becomes a Subsidiary after the date hereof shall for all purposes of this Section 10.2 be deemed to have created, assumed or incurred at the time it becomes a Subsidiary all Funded Debt and Priority Debt of such corporation existing immediately after it becomes a Subsidiary.

Section 10.3. Liens. The Company will not, and will not permit any of its Subsidiaries to, directly or indirectly create, incur, assume or permit to exist (upon the happening of a contingency or otherwise) any Lien on or with respect to any property or asset (including, without limitation, any document or instrument in respect of goods or accounts receivable) of the Company or any such Subsidiary, whether now owned or held or hereafter acquired, or any income or profits therefrom, or assign or otherwise convey any right to receive income or profits, except:

(a) Liens for taxes, assessments or other governmental charges which are not yet due and payable or the payment of which is not at the time required by Section 9.4;

(b) any attachment or judgment Lien, unless the judgment it secures shall not, within 30 days after the entry thereof, have been discharged or execution thereof stayed pending appeal and with respect to which judgment adequate reserves have been established by the Company and its Subsidiaries in accordance with GAAP;

(c) statutory Liens of landlords and Liens of carriers, warehousemen, mechanics, materialmen and other similar Liens, in each case, incurred in the ordinary course of business for sums not yet due and payable or the payment of which is not at the time required by Section 9.4;

(d) leases or subleases granted to others, easements, rights-of-way, restrictions and other similar charges or encumbrances, in each case incidental to, and not interfering with, the ordinary conduct of the business of the Company or any of its Subsidiaries, provided that such Liens do not, in the aggregate, materially detract from the value of such property;

(e) Liens (other than any Lien imposed by ERISA) incurred or deposits made in the ordinary course of business (i) in connection with workers' compensation, unemployment insurance and other types of social security or retirement benefits, or (ii) to secure (or to obtain letters of credit that secure) the performance of tenders, statutory obligations, surety bonds, appeal bonds, bids, leases (other than Capital Leases), performance bonds, purchase, construction or sales contracts and other similar obligations, in each case not incurred or made in connection with the borrowing of

money, the obtaining of advances or credit or the payment of the deferred purchase price of property;

(f) Liens existing on the date of this Agreement and securing the Debt of the Company and its Subsidiaries referred to in Schedule 5.15 as secured Debt;

(g) Liens on property or assets of the Company or any of its Subsidiaries securing Debt owing to the Company or to any of its Wholly-Owned Subsidiaries;

(h) any Lien created to secure all or any part of the purchase price, or to secure Debt incurred or assumed to pay all or any part of the purchase price or cost of construction, of tangible property (or any improvement thereon) acquired or constructed by the Company or a Subsidiary after the date of the Closing, provided that

(i) any such Lien shall extend solely to the item or items of such property (or improvement thereon) so acquired or constructed and, if required by the terms of the instrument originally creating such Lien, other property (or improvement thereon) which is an improvement to or is acquired for specific use in connection with such acquired or constructed property (or improvement thereon) or which is real property being improved by such acquired or constructed property (or improvement thereon),

(ii) the principal amount of the Debt secured by any such Lien shall at no time exceed an amount equal to the lesser of (A) the cost to the Company or such Subsidiary of the property (or improvement thereon) so acquired or constructed and (B) the Fair Market Value (as determined in good faith by the board of directors of the Company) of such property (or improvement thereon) at the time of such acquisition or construction, and

(iii) any such Lien shall be created contemporaneously with, or within 18 months after, the acquisition or construction of such property;

(i) any Lien existing on property of a Person immediately prior to its being consolidated with or merged into the Company or a Subsidiary or its becoming a Subsidiary, or any Lien existing on any property acquired by the Company or any Subsidiary at the time such property is so acquired (whether or not the Debt secured thereby shall have been assumed), provided that (i) no such Lien shall have been created or assumed in contemplation of such consolidation or merger or such Person's becoming a Subsidiary or such acquisition of property, and (ii) each such Lien shall extend solely to the item or items of property so acquired and, if required by the terms of the instrument

originally creating such Lien, other property which is an improvement to or is acquired for specific use in connection with such acquired property;

(j) any Lien renewing, extending or refunding any Lien permitted by paragraphs (f), (h) or (i) of this Section, provided that (i) the principal amount of Debt secured by such Lien immediately prior to such extension, renewal or refunding is not increased or the maturity thereof reduced, (ii) such Lien is not extended to any other property, and (iii) immediately after such extension, renewal or refunding no Default or Event of Default would exist;

(k) other Liens not otherwise permitted by paragraphs (a) through (j), provided that after giving effect to the imposition of such Lien and the incurrence of the obligation secured thereby, Priority Debt shall not exceed 15% of Consolidated Net Worth.

Section 10.4. Merger, Consolidation, etc. The Company will not, and will not permit any of its Subsidiaries to, consolidate with or merge with any other corporation or convey, transfer or lease substantially all of its assets in a single transaction or series of transactions to any Person (except that a Subsidiary of the Company may (x) consolidate with or merge with, or convey, transfer or lease substantially all of its assets in a single transaction or series of transactions to, the Company or another Wholly-Owned Subsidiary of the Company and (y) convey, transfer or lease all of its assets in compliance with the provisions of Section 10.5), provided that the foregoing restriction does not apply to the consolidation or merger of the Company with, or the conveyance, transfer or lease of substantially all of the assets of the Company in a single transaction or series of transactions to, any Person so long as:

(a) the successor formed by such consolidation or the survivor of such merger or the Person that acquires by conveyance, transfer or lease substantially all of the assets of the Company as an entirety, as the case may be (the "Successor Corporation"), shall be a solvent corporation organized and existing under the laws of the United States of America, any State thereof or the District of Columbia;

(b) if the Company is not the Successor Corporation, such corporation shall have executed and delivered to each holder of Notes its assumption of the due and punctual performance and observance of each covenant and condition of this Agreement, the Other Agreements and the Notes (pursuant to such agreements and instruments as shall be reasonably satisfactory to the Required Holders), and the Company shall have caused to be delivered to each holder of Notes an opinion of nationally recognized independent counsel, or other independent counsel reasonably satisfactory to the Required Holders, to the effect that all agreements or instruments effecting such

assumption are enforceable in accordance with their terms and comply with the terms hereof; and

(c) immediately after giving effect to such transaction:

(i) no Default or Event of Default would exist, and

(ii) the Successor Corporation would be permitted by the provisions of Section 10.2 hereof to incur at least \$1.00 of additional Funded Debt owing to a Person other than a Subsidiary of the Successor Corporation.

No such conveyance, transfer or lease of substantially all of the assets of the Company shall have the effect of releasing the Company or any Successor Corporation from its liability under this Agreement or the Notes.

Section 10.5. Sale of Assets, etc. Except as permitted under Section 10.4, the Company will not, and will not permit any of its Subsidiaries to, make any Asset Disposition unless:

(a) in the good faith opinion of the Company, the Asset Disposition is in exchange for consideration having a Fair Market Value at least equal to that of the property exchanged and is in the best interest of the Company or such Subsidiary; and

(b) immediately prior to and after giving effect to the Asset Disposition, no Default or Event of Default would exist; and

(c) immediately after giving effect to the Asset Disposition, the Disposition Value of all property that was the subject of any Asset Disposition occurring in the then current fiscal year of the Company would not exceed 15% of Consolidated Assets as of the end of the then most recently ended fiscal quarter of the Company.

If the Net Proceeds Amount for any Transfer is applied to a Debt Prepayment Application or a Property Reinvestment Application within one year after such Transfer, then such Transfer, only for the purpose of determining compliance with subsection (c) of this Section as of a date on or after the Net Proceeds Amount is so applied, shall be deemed not to be an Asset Disposition.

Section 10.6. Transactions with Affiliates. The Company will not and will not permit any Subsidiary to enter into directly or indirectly any transaction or Material group of related transactions (including without limitation the purchase, lease, sale or exchange of properties of

any kind or the rendering of any service) with any Affiliate (other than the Company or another Subsidiary), except in the ordinary course and pursuant to the reasonable requirements of the Company's or such Subsidiary's business and upon fair and reasonable terms no less favorable to the Company or such Subsidiary than would be obtainable in a comparable arm's-length transaction with a Person not an Affiliate.

SECTION 11. EVENTS OF DEFAULT.

An "Event of Default" shall exist if any of the following conditions or events shall occur and be continuing:

(a) the Company defaults in the payment of any principal or Make-Whole Amount, if any, on any Note when the same becomes due and payable, whether at maturity or at a date fixed for prepayment or by declaration or otherwise; or

(b) the Company defaults in the payment of any interest on any Note for more than five Business Days after the same becomes due and payable; or

(c) the Company defaults in the performance of or compliance with any term contained in Sections 10.1 through 10.5, both inclusive, or Section 7.1(d); or

(d) the Company defaults in the performance of or compliance with any term contained herein (other than those referred to in paragraphs (a), (b) and (c) of this Section 11) and such default is not remedied within 30 days after the earlier of (i) a Responsible Officer obtaining actual knowledge of such default and (ii) the Company receiving written notice of such default from any holder of a Note (any such written notice to be identified as a "notice of default" and to refer specifically to this paragraph (d) of Section 11); or

(e) any representation or warranty made in writing by or on behalf of the Company or by any officer of the Company in this Agreement or in any writing furnished in connection with the transactions contemplated hereby proves to have been false or incorrect in any material respect on the date as of which made; or

(f) (i) the Company or any Subsidiary is in default (as principal or as guarantor or other surety) in the payment of any principal or premium or make-whole amount or interest on any Indebtedness that is outstanding in an aggregate principal amount of at least \$5,000,000 beyond any period of grace provided with respect thereto, or (ii) the Company or any Subsidiary is in default in the performance of or compliance with any term of any evidence of any Indebtedness in an aggregate outstanding principal

amount of at least \$5,000,000 or of any mortgage, indenture or other agreement relating thereto or any other condition exists, and as a consequence of such default or condition such Indebtedness has become, or has been declared (or one or more Persons are entitled to declare such Indebtedness to be), due and payable before its stated maturity or before its regularly scheduled dates of payment, or (iii) as a consequence of the occurrence or continuation of any event or condition (other than the passage of time or the right of the holder of Indebtedness to convert such Indebtedness into equity interests), (x) the Company or any Subsidiary has become obligated to purchase or repay Indebtedness before its regular maturity or before its regularly scheduled dates of payment in an aggregate outstanding principal amount of at least \$5,000,000, or (y) one or more Persons have the right to require the Company or any Subsidiary so to purchase or repay such Indebtedness; or

(g) the Company or any Subsidiary (i) is generally not paying, or admits in writing its inability to pay, its debts as they become due, (ii) files, or consents by answer or otherwise to the filing against it of, a petition for relief or reorganization or arrangement or any other petition in bankruptcy, for liquidation or to take advantage of any bankruptcy, insolvency, reorganization, moratorium or other similar law of any jurisdiction, (iii) makes an assignment for the benefit of its creditors, (iv) consents to the appointment of a custodian, receiver, trustee or other officer with similar powers with respect to it or with respect to any substantial part of its property, (v) is adjudicated as insolvent or to be liquidated, or (vi) takes corporate action for the purpose of any of the foregoing; or

(h) a court or governmental authority of competent jurisdiction enters an order appointing, without consent by the Company or any of its Subsidiaries, a custodian, receiver, trustee or other officer with similar powers with respect to it or with respect to any substantial part of its property, or constituting an order for relief or approving a petition for relief or reorganization or any other petition in bankruptcy or for liquidation or to take advantage of any bankruptcy or insolvency law of any jurisdiction, or ordering the dissolution, winding-up or liquidation of the Company or any of its Subsidiaries, or any such petition shall be filed against the Company or any of its Subsidiaries and such petition shall not be dismissed within 60 days; or

(i) a final judgment or judgments for the payment of money aggregating in excess of \$5,000,000 are rendered against one or more of the Company and its Subsidiaries and which judgments are not, within 60 days after entry thereof, bonded, discharged or stayed pending appeal; or

(j) if (i) any Plan shall fail to satisfy the minimum funding standards of ERISA or the Code for any plan year or part thereof or a waiver of such standards or extension of any amortization period is sought or granted under section 412 of the Code, (ii) a notice of intent to terminate any Plan shall have been or is reasonably expected to be filed with the PBGC or the PBGC shall have instituted proceedings under ERISA section 4042 to terminate or appoint a trustee to administer any Plan or the PBGC shall have notified the Company or any ERISA Affiliate that a Plan may become a subject of any such proceedings, (iii) the aggregate "amount of unfunded benefit liabilities" (within the meaning of section 4001(a)(18) of ERISA) under all Plans, determined in accordance with Title IV of ERISA, shall exceed \$5,000,000, (iv) the Company or any ERISA Affiliate shall have incurred or is reasonably expected to incur any liability pursuant to Title I or IV of ERISA or the penalty or excise tax provisions of the Code relating to employee benefit plans, (v) the Company or any ERISA Affiliate withdraws from any Multiemployer Plan, or (vi) the Company or any Subsidiary establishes or amends any employee welfare benefit plan that provides post-employment welfare benefits in a manner that would increase the liability of the Company or any Subsidiary thereunder; and any such event or events described in clauses (i) through (vi) above, either individually or together with any other such event or events, could reasonably be expected to have a Material Adverse Effect.

As used in Section 11(j), the terms "employee benefit plan" and "employee welfare benefit plan" shall have the respective meanings assigned to such terms in Section 3 of ERISA.

SECTION 12. REMEDIES ON DEFAULT, ETC.

Section 12.1. Acceleration.

(a) If an Event of Default with respect to the Company described in paragraph (g) or (h) of Section 11 has occurred, all the Notes then outstanding shall automatically become immediately due and payable.

(b) If any other Event of Default has occurred and is continuing, any holder or holders of more than 35% in principal amount of the Notes at the time outstanding may at any time at its or their option, by notice or notices to the Company, declare all the Notes then outstanding to be immediately due and payable.

(c) If any Event of Default described in paragraph (a) or (b) of Section 11 has occurred and is continuing, any holder or holders of Notes at the time outstanding affected by such Event of Default may at any time, at its or their option, by notice or

notices to the Company, declare all the Notes held by it or them to be immediately due and payable.

Upon any Note's becoming due and payable under this Section 12.1, whether automatically or by declaration, such Note will forthwith mature and the entire unpaid principal amount of such Note, plus (x) all accrued and unpaid interest thereon and (y) the Make-Whole Amount determined in respect of such principal amount (to the full extent permitted by applicable law), shall all be immediately due and payable, in each and every case without presentment, demand, protest or further notice, all of which are hereby waived. The Company acknowledges, and the parties hereto agree, that each holder of a Note has the right to maintain its investment in the Notes free from repayment by the Company (except as herein specifically provided for), and that the provision for payment of a Make-Whole Amount by the Company in the event that the Notes are prepaid or are accelerated as a result of an Event of Default, is intended to provide compensation for the deprivation of such right under such circumstances.

Section 12.2. Other Remedies. If any Default or Event of Default has occurred and is continuing, and irrespective of whether any Notes have become or have been declared immediately due and payable under Section 12.1, the holder of any Note at the time outstanding may proceed to protect and enforce the rights of such holder by an action at law, suit in equity or other appropriate proceeding, whether for the specific performance of any agreement contained herein or in any Note, or for an injunction against a violation of any of the terms hereof or thereof, or in aid of the exercise of any power granted hereby or thereby or by law or otherwise.

Section 12.3. Rescission. At any time after any Notes have been declared due and payable pursuant to clause (b) or (c) of Section 12.1, the holders of not less than 66-2/3% in principal amount of the Notes then outstanding, by written notice to the Company, may rescind and annul any such declaration and its consequences if (a) the Company has paid all overdue interest on the Notes, all principal of and Make-Whole Amount, if any, on any Notes that are due and payable and are unpaid other than by reason of such declaration, and all interest on such overdue principal and Make-Whole Amount, if any, and (to the extent permitted by applicable law) any overdue interest in respect of the Notes, at the Default Rate, (b) all Events of Default and Defaults, other than non-payment of amounts that have become due solely by reason of such declaration, have been cured or have been waived pursuant to Section 17, and (c) no judgment or decree has been entered for the payment of any monies due pursuant hereto or to the Notes. No rescission and annulment under this Section 12.3 will extend to or affect any subsequent Event of Default or Default or impair any right consequent thereon.

Section 12.4. No Waivers or Election of Remedies, Expenses, etc. No course of dealing and no delay on the part of any holder of any Note in exercising any right, power or remedy shall operate as a waiver thereof or otherwise prejudice such holder's rights, powers or

remedies. No right, power or remedy conferred by this Agreement or by any Note upon any holder thereof shall be exclusive of any other right, power or remedy referred to herein or therein or now or hereafter available at law, in equity, by statute or otherwise. Without limiting the obligations of the Company under Section 15, the Company will pay to the holder of each Note on demand such further amount as shall be sufficient to cover all costs and expenses of such holder incurred in any enforcement or collection under this Section 12, including, without limitation, reasonable attorneys' fees, expenses and disbursements.

SECTION 13. REGISTRATION; EXCHANGE; SUBSTITUTION OF NOTES.

Section 13.1. Registration of Notes. The Company shall keep at its principal executive office a register for the registration and registration of transfers of Notes. The name and address of each holder of one or more Notes, each transfer thereof and the name and address of each transferee of one or more Notes shall be registered in such register. Prior to due presentment for registration of transfer, the Person in whose name any Note shall be registered shall be deemed and treated as the owner and holder thereof for all purposes hereof, and the Company shall not be affected by any notice or knowledge to the contrary. The Company shall give to any holder of a Note that is an Institutional Investor promptly upon request therefor, a complete and correct copy of the names and addresses of all registered holders of Notes.

Section 13.2. Transfer and Exchange of Notes. Upon surrender of any Note at the principal executive office of the Company for registration of transfer or exchange (and in the case of a surrender for registration of transfer, duly endorsed or accompanied by a written instrument of transfer duly executed by the registered holder of such Note or its attorney duly authorized in writing and accompanied by the address for notices of each transferee of such Note or part thereof), the Company shall execute and deliver, at the Company's expense (except as provided below), one or more new Notes (as requested by the holder thereof) in exchange therefor, in an aggregate principal amount equal to the unpaid principal amount of, and of the same Series as, the surrendered Note. Each such new Note shall be payable to such Person as such holder may request and shall be substantially in the form of Exhibit 1. Each such new Note shall be dated and bear interest from the date to which interest shall have been paid on the surrendered Note or dated the date of the surrendered Note if no interest shall have been paid thereon. The Company may require payment of a sum sufficient to cover any stamp tax or governmental charge imposed in respect of any such transfer of Notes. Notes shall not be transferred in denominations of less than \$100,000, provided that if necessary to enable the registration of transfer by a holder of its entire holding of Notes, one Note may be in a denomination of less than \$100,000. Any transferee, by its acceptance of a Note registered in its name (or the name of its nominee), shall be deemed to have made the representation set forth in Section 6.2.

Section 13.3. Replacement of Notes. Upon receipt by the Company of evidence reasonably satisfactory to it of the ownership of and the loss, theft, destruction or mutilation of any Note (which evidence shall be, in the case of an Institutional Investor, notice from such Institutional Investor of such ownership and such loss, theft, destruction or mutilation), and

(a) in the case of loss, theft or destruction, of indemnity reasonably satisfactory to it (provided that if the holder of such Note is, or is a nominee for, an original Purchaser or another holder of a Note with a minimum net worth of at least \$100,000,000, such Person's own unsecured agreement of indemnity shall be deemed to be satisfactory), or

(b) in the case of mutilation, upon surrender and cancellation thereof,

the Company at its own expense shall execute and deliver, in lieu thereof, a new Note, dated and bearing interest from the date to which interest shall have been paid on, and of the same Series as, such lost, stolen, destroyed or mutilated Note or dated the date of such lost, stolen, destroyed or mutilated Note if no interest shall have been paid thereon.

SECTION 14. PAYMENTS ON NOTES.

Section 14.1. Place of Payment. Subject to Section 14.2, payments of principal, Make-Whole Amount, if any, and interest becoming due and payable on the Notes shall be made in the Borough of Manhattan, City and State of New York, at the principal office of Citibank, N.A. in such jurisdiction. The Company may at any time, by notice to each holder of a Note, change the place of payment of the Notes so long as such place of payment shall be either the principal office of the Company in such jurisdiction or the principal office of a bank or trust company in such jurisdiction.

Section 14.2. Home Office Payment. So long as you or your nominee shall be the holder of any Note, and notwithstanding anything contained in Section 14.1 or in such Note to the contrary, the Company will pay all sums becoming due on such Note for principal, Make-Whole Amount, if any, and interest by the method and at the address specified for such purpose below your name in Schedule A, or by such other method or at such other address as you shall have from time to time specified to the Company in writing for such purpose, without the presentation or surrender of such Note or the making of any notation thereon, except that upon written request of the Company made concurrently with or reasonably promptly after payment or prepayment in full of any Note, you shall surrender such Note for cancellation, reasonably promptly after any such request, to the Company at its principal executive office or at the place of payment most recently designated by the Company pursuant to Section 14.1. Prior to any sale or other disposition of any Note held by you or your nominee you will surrender such Note to the

Company in exchange for a new Note or Notes pursuant to Section 13.2. The Company will afford the benefits of this Section 14.2 to any Institutional Investor that is the direct or indirect transferee of any Note purchased by you under this Agreement and that has made the same agreement relating to such Note as you have made in this Section 14.2.

SECTION 15. EXPENSES, ETC.

Section 15.1. Transaction Expenses. Whether or not the transactions contemplated hereby are consummated, the Company will pay all costs and expenses (including reasonable attorneys' fees of a special counsel and, if reasonably required, local or other counsel) incurred by you and each Other Purchaser or holder of a Note in connection with such transactions and in connection with any amendments, waivers or consents under or in respect of this Agreement or the Notes (whether or not such amendment, waiver or consent becomes effective), including, without limitation: (a) the costs and expenses incurred in enforcing or defending (or determining whether or how to enforce or defend) any rights under this Agreement or the Notes or in responding to any subpoena or other legal process or informal investigative demand issued in connection with this Agreement or the Notes, or by reason of being a holder of any Note, and (b) the costs and expenses, including financial advisors' fees, incurred in connection with the insolvency or bankruptcy of the Company or any Subsidiary or in connection with any work-out or restructuring of the transactions contemplated hereby and by the Notes. The Company will pay, and will save you and each other holder of a Note harmless from, all claims in respect of any fees, costs or expenses, if any, of brokers and finders (other than those retained by you).

Section 15.2. Survival. The obligations of the Company under this Section 15 will survive the payment or transfer of any Note, the enforcement, amendment or waiver of any provision of this Agreement or the Notes, and the termination of this Agreement.

SECTION 16. SURVIVAL OF REPRESENTATIONS AND WARRANTIES; ENTIRE AGREEMENT.

All representations and warranties contained herein shall survive the execution and delivery of this Agreement and the Notes, the purchase or transfer by you of any Note or portion thereof or interest therein and the payment of any Note, and may be relied upon by any subsequent holder of a Note, regardless of any investigation made at any time by or on behalf of you or any other holder of a Note. All statements contained in any certificate or other instrument delivered by or on behalf of the Company pursuant to this Agreement shall be deemed representations and warranties of the Company under this Agreement. Subject to the preceding sentence, this Agreement and the Notes embody the entire agreement and understanding between you and the Company and supersede all prior agreements and understandings relating to the subject matter hereof.

Section 17.1. Requirements. This Agreement and the Notes may be amended, and the observance of any term hereof or of the Notes may be waived (either retroactively or prospectively), with (and only with) the written consent of the Company and the Required Holders, except that (a) no amendment or waiver of any of the provisions of Section 1, 2, 3, 4, 5, 6 or 21 hereof, or any defined term (as it is used therein), will be effective as to you unless consented to by you in writing, and (b) no such amendment or waiver may, without the written consent of the holder of each Note at the time outstanding affected thereby, (i) subject to the provisions of Section 12 relating to acceleration or rescission, change the amount or time of any prepayment or payment of principal of, or reduce the rate or change the time of payment or method of computation of interest or of the Make-Whole Amount on, the Notes, (ii) change the percentage of the principal amount of the Notes the holders of which are required to consent to any such amendment or waiver, or (iii) amend any of Sections 8, 11(a), 11(b), 12, 17 or 20.

Section 17.2. Solicitation of Holders of Notes.

(a) Solicitation. The Company will provide each holder of the Notes (irrespective of the amount of Notes then owned by it) with sufficient information, sufficiently far in advance of the date a decision is required, to enable such holder to make an informed and considered decision with respect to any proposed amendment, waiver or consent in respect of any of the provisions hereof or of the Notes. The Company will deliver executed or true and correct copies of each amendment, waiver or consent effected pursuant to the provisions of this Section 17 to each holder of outstanding Notes promptly following the date on which it is executed and delivered by, or receives the consent or approval of, the requisite holders of Notes.

(b) Payment. The Company will not directly or indirectly pay or cause to be paid any remuneration, whether by way of supplemental or additional interest, fee or otherwise, or grant any security, to any holder of Notes as consideration for or as an inducement to the entering into by any holder of Notes or any waiver or amendment of any of the terms and provisions hereof unless such remuneration is concurrently paid, or security is concurrently granted, on the same terms, ratably to each holder of Notes then outstanding even if such holder did not consent to such waiver or amendment.

Section 17.3. Binding Effect, etc. Any amendment or waiver consented to as provided in this Section 17 applies equally to all holders of Notes and is binding upon them and upon each future holder of any Note and upon the Company without regard to whether such Note has been marked to indicate such amendment or waiver. No such amendment or waiver will extend to or affect any obligation, covenant, agreement, Default or Event of Default not expressly amended or waived or impair any right consequent thereon. No course of dealing between the Company

and the holder of any Note nor any delay in exercising any rights hereunder or under any Note shall operate as a waiver of any rights of any holder of such Note. As used herein, the term "this Agreement" and references thereto shall mean this Agreement as it may from time to time be amended or supplemented.

Section 17.4. Notes Held by Company, etc. Solely for the purpose of determining whether the holders of the requisite percentage of the aggregate principal amount of Notes then outstanding approved or consented to any amendment, waiver or consent to be given under this Agreement or the Notes, or have directed the taking of any action provided herein or in the Notes to be taken upon the direction of the holders of a specified percentage of the aggregate principal amount of Notes then outstanding, Notes directly or indirectly owned by the Company or any of its Affiliates shall be deemed not to be outstanding.

SECTION 18. NOTICES.

All notices and communications provided for hereunder shall be in writing and sent (a) by telefacsimile if the sender on the same day sends a confirming copy of such notice by a recognized overnight delivery service (charges prepaid), or (b) by registered or certified mail with return receipt requested (postage prepaid), or (c) by a recognized overnight delivery service (with charges prepaid). Any such notice must be sent:

(i) if to you or your nominee, to you or it at the address specified for such communications in Schedule A, or at such other address as you or it shall have specified to the Company in writing,

(ii) if to any other holder of any Note, to such holder at such address as such other holder shall have specified to the Company in writing, or

(iii) if to the Company, to the Company at its address set forth at the beginning hereof to the attention of Chief Financial Officer, or at such other address as the Company shall have specified to the holder of each Note in writing.

Notices under this Section 18 will be deemed given only when actually received.

SECTION 19. REPRODUCTION OF DOCUMENTS.

This Agreement and all documents relating thereto, including, without limitation, (a) consents, waivers and modifications that may hereafter be executed, (b) documents received by you at the Closing (except the Notes themselves), and (c) financial statements, certificates and other information previously or hereafter furnished to you, may be reproduced by you by any

photographic, photostatic, microfilm, microcard, miniature photographic or other similar process and you may destroy any original document so reproduced. The Company agrees and stipulates that, to the extent permitted by applicable law, any such reproduction shall be admissible in evidence as the original itself in any judicial or administrative proceeding (whether or not the original is in existence and whether or not such reproduction was made by you in the regular course of business) and any enlargement, facsimile or further reproduction of such reproduction shall likewise be admissible in evidence. This Section 19 shall not prohibit the Company or any other holder of Notes from contesting any such reproduction to the same extent that it could contest the original, or from introducing evidence to demonstrate the inaccuracy of any such reproduction.

SECTION 20. CONFIDENTIAL INFORMATION.

For the purposes of this Section 20, "Confidential Information" means information delivered to you by or on behalf of the Company or any Subsidiary in connection with the transactions contemplated by or otherwise pursuant to this Agreement that is proprietary in nature and that was clearly marked or labeled or otherwise adequately identified when received by you as being confidential information of the Company or such Subsidiary, provided that such term does not include information that (a) was publicly known or otherwise known to you prior to the time of such disclosure, (b) subsequently becomes publicly known through no act or omission by you or any person acting on your behalf, (c) otherwise becomes known to you other than through disclosure by the Company or any Subsidiary or (d) constitutes financial statements delivered to you under Section 7.1 that are otherwise publicly available. You will maintain the confidentiality of such Confidential Information in accordance with procedures adopted by you in good faith to protect confidential information of third parties delivered to you, provided that you may deliver or disclose Confidential Information to (i) your directors, officers, employees, agents, attorneys and affiliates (to the extent such disclosure reasonably relates to the administration of the investment represented by your Notes), (ii) your financial advisors and other professional advisors who agree to hold confidential the Confidential Information substantially in accordance with the terms of this Section 20, (iii) any other holder of any Note, (iv) any Institutional Investor to which you sell or offer to sell such Note or any part thereof or any participation therein (if such Person has agreed in writing prior to its receipt of such Confidential Information to be bound by the provisions of this Section 20), (v) any Person from which you offer to purchase any security of the Company (if such Person has agreed in writing prior to its receipt of such Confidential Information to be bound by the provisions of this Section 20), (vi) any federal or state regulatory authority having jurisdiction over you, (vii) the National Association of Insurance Commissioners or any similar organization, or any nationally recognized rating agency that requires access to information about your investment portfolio or (viii) any other Person to which such delivery or disclosure may be necessary or appropriate (w) to effect compliance with any law, rule, regulation or order applicable to you, (x) in response

to any subpoena or other legal process, (y) in connection with any litigation to which you are a party or (z) if an Event of Default has occurred and is continuing, to the extent you may reasonably determine such delivery and disclosure to be necessary or appropriate in the enforcement or for the protection of the rights and remedies under your Notes and this Agreement. Each holder of a Note, by its acceptance of a Note, will be deemed to have agreed to be bound by and to be entitled to the benefits of this Section 20 as though it were a party to this Agreement. On reasonable request by the Company in connection with the delivery to any holder of a Note of information required to be delivered to such holder under this Agreement or requested by such holder (other than a holder that is a party to this Agreement or its nominee), such holder will enter into an agreement with the Company embodying the provisions of this Section 20.

SECTION 21. SUBSTITUTION OF PURCHASER.

You shall have the right to substitute any one of your Affiliates as the purchaser of the Notes that you have agreed to purchase hereunder, by written notice to the Company, which notice shall be signed by both you and such Affiliate, shall contain such Affiliate's agreement to be bound by this Agreement and shall contain a confirmation by such Affiliate of the accuracy with respect to it of the representations set forth in Section 6. Upon receipt of such notice, wherever the word "you" is used in this Agreement (other than in this Section 21), such word shall be deemed to refer to such Affiliate in lieu of you. In the event that such Affiliate is so substituted as a purchaser hereunder and such Affiliate thereafter transfers to you all of the Notes then held by such Affiliate, upon receipt by the Company of notice of such transfer, wherever the word "you" is used in this Agreement (other than in this Section 21), such word shall no longer be deemed to refer to such Affiliate, but shall refer to you, and you shall have all the rights of an original holder of the Notes under this Agreement.

SECTION 22. MISCELLANEOUS.

Section 22.1. Successors and Assigns. All covenants and other agreements contained in this Agreement by or on behalf of any of the parties hereto bind and inure to the benefit of their respective successors and assigns (including, without limitation, any subsequent holder of a Note) whether so expressed or not.

Section 22.2. Payments Due on Non-Business Days. Anything in this Agreement or the Notes to the contrary notwithstanding, any payment of principal of or Make-Whole Amount or interest on any Note that is due on a date other than a Business Day shall be made on the next succeeding Business Day without including the additional days elapsed in the computation of the interest payable on such next succeeding Business Day.

Section 22.3. Severability. Any provision of this Agreement that is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof, and any such prohibition or unenforceability in any jurisdiction shall (to the full extent permitted by law) not invalidate or render unenforceable such provision in any other jurisdiction.

Section 22.4. Construction. Each covenant contained herein shall be construed (absent express provision to the contrary) as being independent of each other covenant contained herein, so that compliance with any one covenant shall not (absent such an express contrary provision) be deemed to excuse compliance with any other covenant. Where any provision herein refers to action to be taken by any Person, or which such Person is prohibited from taking, such provision shall be applicable whether such action is taken directly or indirectly by such Person.

Section 22.5. Counterparts. This Agreement may be executed in any number of counterparts, each of which shall be an original but all of which together shall constitute one instrument. Each counterpart may consist of a number of copies hereof, each signed by less than all, but together signed by all, of the parties hereto.

Section 22.6. Governing Law. This Agreement shall be construed and enforced in accordance with, and the rights of the parties shall be governed by, the law of the State of New York excluding choice-of-law principles of the law of such State that would require the application of the laws of a jurisdiction other than such State.

* * * * *

If you are in agreement with the foregoing, please sign the form of agreement on the accompanying counterpart of this Agreement and return it to the Company, whereupon the foregoing shall become a binding agreement between you and the Company.

Very truly yours,

CULP, INC.

By

Name:
Title:

The foregoing is hereby agreed to as of the date thereof.

[VARIATION]

By

Name:
Title:

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INFORMATION RELATING TO PURCHASERS

NAME AND ADDRESS OF PURCHASER	PRINCIPAL AMOUNT OF NOTES TO BE PURCHASED	
	SERIES A	SERIES B
CONNECTICUT GENERAL LIFE INSURANCE COMPANY c/o CIGNA Investments, Inc. 900 Cottage Grove Road Hartford, Connecticut 06152-2307 Attention: Private Securities Division S-307 Fax: 860-726-7203	\$-0-	\$6,500,000 \$3,100,000 \$3,100,000 \$3,100,000

Payments

All payments on or in respect of the Notes to be by Federal Funds Wire Transfer to:

Chase NYC/CTR/
BNF=CIGNA Private Placements/AC=9009001802
ABA #021000021
OB I=[name of company; description of security; interest rate; maturity date; PPN; due date and application (as among principal, premium and interest of the payment being made); contact name and phone.]

Address for Notices Related to Payments:

CIG & Co.
c/o CIGNA Investments, Inc.
Attention: Securities Processing S-309
900 Cottage Grove Road
Hartford, Connecticut 06152-2309

and

CIG & Co.
c/o CIGNA Investments, Inc.
Attention: Private Securities S-307
Operations Group

SCHEDULE A
(to Note Purchase Agreement)

900 Cottage Grove Road
Hartford, Connecticut 06152-2307
Fax: 860-726-7203

with a copy to:

Chase Manhattan Bank, N.A.
Private Placement Servicing
P. O. Box 1508
Bowling Green Station
New York, New York 10081
Attention: CIGNA Private Placements
Fax: 212-552-3107/1005

Address for All Other Notices:

CIG & Co.
c/o CIGNA Investments, Inc.
Attention: Private Securities Division S-307
900 Cottage Grove Road
Hartford, Connecticut 06152-2307
Fax: 860-726-7203

Name of Nominee in which Notes are to be issued: CIG & Co.

Taxpayer I.D. Number for CIG & Co.: 13-3574027

NAME AND ADDRESS OF PURCHASER	PRINCIPAL AMOUNT OF NOTES TO BE PURCHASED	
	SERIES A	SERIES B
LIFE INSURANCE COMPANY OF NORTH AMERICA c/o CIGNA Investments, Inc. 900 Cottage Grove Road Hartford, Connecticut 06152-2307 Attention: Private Securities Division S-307 Fax: 860-726-7203	\$-0-	\$3,100,000

Payments

All payments on or in respect of the Notes to be by Federal Funds Wire Transfer to:

Chase NYC/CTR/
BNF=CIGNA Private Placements/AC=9009001802
ABA #021000021
OBI=[name of company; description of security; interest rate; maturity date; PPN; due date and application (as among principal, premium and interest of the payment being made); contact name and phone.]

Address for Notices Related to Payments:

CIG & Co.
c/o CIGNA Investments, Inc.
Attention: Securities Processing S-309
900 Cottage Grove Road
Hartford, Connecticut 06152-2309

and

CIG & Co.
c/o CIGNA Investments, Inc.
Attention: Private Securities S-307
Operations Group
900 Cottage Grove Road

Hartford, Connecticut 06152-2307
Fax: 860-726-7203

with a copy to:

Chase Manhattan Bank, N.A.
Private Placement Servicing
P. O. Box 1508
Bowling Green Station
New York, New York 10081
Attention: CIGNA Private Placements
Fax: 212-552-3107/1005

Address for All Other Notices:

CIG & Co.
c/o CIGNA Investments, Inc.
Attention: Private Securities Division S-307
900 Cottage Grove Road
Hartford, Connecticut 06152-2307
Fax: 860-726-7203

Name of Nominee in which Notes are to be issued: CIG & Co.

Taxpayer I.D. Number for CIG & Co.: 13-3574027

NAME AND ADDRESS OF PURCHASER	PRINCIPAL AMOUNT OF NOTES TO BE PURCHASED	
	SERIES A	SERIES B
CIGNA PROPERTY AND CASUALTY INSURANCE COMPANY c/o CIGNA Investments, Inc. 900 Cottage Grove Road Hartford, Connecticut 06152-2307 Attention: Private Securities Division S-307 Fax: 860-726-7203	\$-0-	\$3,100,000

Payments

All payments on or in respect of the Notes to be by Federal Funds Wire Transfer to:

Chase NYC/CTR/
BNF=CIGNA Private Placements/AC=9009001802
ABA #021000021
OB1=[name of company; description of security; interest rate; maturity date; PPN; due date and application (as among principal, premium and interest of the payment being made); contact name and phone.]

Address for Notices Related to Payments:

CIG & Co.
c/o CIGNA Investments, Inc.
Attention: Securities Processing S-309
900 Cottage Grove Road
Hartford, Connecticut 06152-2309

and

CIG & Co.
c/o CIGNA Investments, Inc.
Attention: Private Securities S-307
Operations Group
900 Cottage Grove Road

Hartford, Connecticut 06152-2307
Fax: 860-726-7203

with a copy to:

Chase Manhattan Bank, N.A.
Private Placement Servicing
P. O. Box 1508
Bowling Green Station
New York, New York 10081
Attention: CIGNA Private Placements
Fax: 212-552-3107/1005

Address for All Other Notices:

CIG & Co.
c/o CIGNA Investments, Inc.
Attention: Private Securities Division S-307
900 Cottage Grove Road
Hartford, Connecticut 06152-2307
Fax: 860-726-7203

Name of Nominee in which Notes are to be issued: CIG & Co.

Taxpayer I.D. Number for CIG & Co.: 13-3574027

NAME AND ADDRESS OF PURCHASER	PRINCIPAL AMOUNT OF NOTES TO BE PURCHASED	
	SERIES A	SERIES B
CONNECTICUT GENERAL LIFE INSURANCE COMPANY, on behalf of one or more separate accounts c/o CIGNA Investments, Inc. 900 Cottage Grove Road Hartford, Connecticut 06152-2307 Attention: Private Securities Division S-307 Fax: 860-726-7203	\$-0-	\$3,000,000

Payments

All payments on or in respect of the Notes to be by Federal Funds Wire Transfer to:

Chase NYC/CTR/
BNF=CIGNA Private Placements/AC=9009001802
ABA #021000021
OBI=[name of company; description of security; interest rate; maturity date; PPN; due date and application (as among principal, premium and interest of the payment being made); contact name and phone.]

Address for Notices Related to Payments:

CIG & Co.
c/o CIGNA Investments, Inc.
Attention: Securities Processing S-309
900 Cottage Grove Road
Hartford, Connecticut 06152-2309

and

CIG & Co.
c/o CIGNA Investments, Inc.
Attention: Private Securities S-307
Operations Group

900 Cottage Grove Road
Hartford, Connecticut 06152-2307
Fax: 860-726-7203

with a copy to:

Chase Manhattan Bank, N.A.
Private Placement Servicing
P. O. Box 1508
Bowling Green Station
New York, New York 10081
Attention: CIGNA Private Placements
Fax: 212-552-3107/1005

Address for All Other Notices:

CIG & Co.
c/o CIGNA Investments, Inc.
Attention: Private Securities Division S-307
900 Cottage Grove Road
Hartford, Connecticut 06152-2307
Fax: 860-726-7203

Name of Nominee in which Notes are to be issued: CIG & Co.

Taxpayer I.D. Number for CIG & Co.: 13-3574027

NAME AND ADDRESS OF PURCHASER	PRINCIPAL AMOUNT OF NOTES TO BE PURCHASED	
	SERIES A	SERIES B
THE MUTUAL LIFE INSURANCE COMPANY OF NEW YORK 1740 Broadway New York, New York 10019 Attention: MONY Capital Management Unit Telecopy Number: (212) 708-2491	\$-0-	\$19,000,000

Payments

All payments on or in respect of the Notes to be by bank wire transfer of Federal or other immediately available funds (identifying each payment as "Culp, Inc. 6.76% Senior Notes Series B due 2010, PPN 230215 A@ 4, principal, premium or interest") to:

Chase Manhattan Bank
ABA #021000021
for credit to Private Income Processing Account No. 544-755102

Notices

All notices of payment on or in respect of the Notes and written confirmation of each such payment to:

IF BY REGISTERED MAIL, CERTIFIED MAIL OR FEDERAL EXPRESS:

The Chase Manhattan Bank
4 New York Plaza, 13th Floor
New York, New York 10004
Attention: Income Processing - J. Piperato, 13th Floor

IF BY REGULAR MAIL:

The Chase Manhattan Bank
Dept. 3492
P. O. Box 50000

Newark, NJ 07101-8006

WITH A SECOND COPY TO:

Telecopy Confirms and Notices:

(212) 708-2152

Attention: Securities Custody Division M.D. 6-39A

Mailing Confirms and Notices:

The Mutual Life Insurance Company of New York

1740 Broadway

New York, New York 10019

Attention: Securities Custody Division M.D. 6-39A

All notices and communications other than those in respect to payments to be addressed as first provided above.

Name of Nominee in which Notes are to be issued: J. ROMEO & Co.

Taxpayer I.D. Number: 13-1632487

NAME AND ADDRESS OF PURCHASER	PRINCIPAL AMOUNT OF NOTES TO BE PURCHASED	
	SERIES A	SERIES B
THE MUTUAL LIFE INSURANCE COMPANY OF NEW YORK (For the account of a Separate Account) 1740 Broadway New York, New York 10019 Attention: MONY Capital Management Unit Telecopy Number: (212) 708-2491	\$-0-	\$1,000,000

Payments

All payments on or in respect of the Notes to be by bank wire transfer of Federal or other immediately available funds (identifying each payment as "Culp, Inc. 6.76% Senior Notes Series B due 2010, PPN 230215 A@4, principal, premium or interest") to:

Bank of New York
New York, New York
ABA #021000018
for credit to HARE & Co. Account No. BNF 10C566
Attention: P&I Dept.

Notices

All notices of payment on or in respect of the Notes and written confirmation of each such payment to:

HARE & Co.
c/o Bank of New York
P. O. Box 11203
New York, New York 10249
Attention: P&I Dept.

All notices and communications other than those in respect to payments to be addressed as first provided above.

Name of Nominee in which Notes are to be issued: HARE & Co.

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NAME AND ADDRESS OF PURCHASER	PRINCIPAL AMOUNT OF NOTES TO BE PURCHASED	
	SERIES A	SERIES B
UNITED OF OMAHA LIFE INSURANCE COMPANY Mutual of Omaha Plaza Omaha, Nebraska 68175-1011 Attention: 4-Investment Loan Administration	\$-0-	\$5,000,000

Payments

All payments on or in respect of the Notes to be by bank wire transfer of Federal or other immediately available funds (identifying each payment as "Culp, Inc. 6.76% Senior Notes Series B due 2010, PPN 230215 A@4, principal, premium or interest") to:

Chase Manhattan Bank
 ABA #021000021
 Private Income Processing

for credit to: United of Omaha Life Insurance Company
 Account Number 900-9000200
 a/c: G07097
 Cusip/PPN: _____
 Interest Amount: _____
 Principal Amount: _____

Notices

All notices of payments, on or in respect of the Notes and written confirmation of each such payment, corporate actions and reorganization notifications to:

The Chase Manhattan Bank
 4 New York Plaza-13th Floor
 New York, New York 10004
 Attention: Investment Processing-J. Pipperato
 a/c: G07097

All other notices and communications (i.e., quarterly/annual reports, tax filings, modifications, waivers regarding the indenture) to be addressed as first provided above.

Name of Nominee in which Notes are to be issued: None

Taxpayer I.D. Number: 47-0322111

NAME AND ADDRESS OF PURCHASER	PRINCIPAL AMOUNT OF NOTES TO BE PURCHASED	
	SERIES A	SERIES B
MUTUAL OF OMAHA INSURANCE COMPANY Mutual of Omaha Plaza Omaha, Nebraska 68175-1011 Attention: 4-Investment Loan Administration	\$-0-	\$5,000,000

Payments

All payments on or in respect of the Notes to be by bank wire transfer of Federal or other immediately available funds (identifying each payment as "Culp, Inc. 6.76% Senior Notes Series B due 2010, PPN 230215 A@4, principal, premium or interest") to:

Chase Manhattan Bank
ABA #021000021
Private Income Processing

for credit to: Mutual of Omaha Insurance Company
Account #900-9000200
a/c: G07096
Cusip/PPN: _____
Interest Amount: _____
Principal Amount: _____

Notices

All notices of payments, on or in respect of the Notes and written confirmation of each such payment, corporate actions and reorganization notifications to:

The Chase Manhattan Bank
4 New York Plaza-13th Floor
New York, New York 10004
Attention: Investment Processing-J. Pipperato
a/c: G07096

All other notices and communications (i.e., quarterly/annual reports, tax filings, modifications, waivers regarding the indenture) to be addressed as first provided above.

Name of Nominee in which Notes are to be issued: None

Taxpayer I.D. Number: 47-0246511

NAME AND ADDRESS OF PURCHASER	PRINCIPAL AMOUNT OF NOTES TO BE PURCHASED	
	SERIES A	SERIES B
THE PRUDENTIAL INSURANCE COMPANY OF AMERICA c/o Prudential Capital Group One Gateway Center, 11th Floor 7-45 Raymond Boulevard West Newark, New Jersey 07102-5311 Attention: Managing Director Telephone: (973) 802-9182 Facsimile: (973) 802-3200	\$8,000,000 \$2,000,000	\$-0-

Payments

All payments on or in respect of the Notes to be by bank wire transfer of Federal or other immediately available funds (identifying each payment as "Culp, Inc. 6.76% Series A Senior Notes due 2008, PPN 230215 A*6, INV 5900 in the case of the Note in the original principal amount of \$8,000,000 and INV 5901 in the case of the Note in the original principal amount of \$2,000,000, and the due date and application (among principal, interest and Make-Whole Amount)") to:

Bank of New York
New York, New York 10015
ABA #021-000-018
for credit to Account Number 890-0304-391,
Prudential Managed Account
(in the case of payments on account of the Note originally issued in the principal amount of \$8,000,000) and Account Number 890-0304-944,
PRIVEST Portfolio Account (in the case of payments on account of the Note originally issued in the principal amount of \$2,000,000)

Notices

All notices and communications to be addressed as first provided above, except notices with respect to payments, and written confirmation of each such payment to be addressed to:

The Prudential Insurance Company of America
Three Gateway Center

100 Mulberry Street
Newark, New Jersey 07102-4077
Attention: Manager, Billings and Collections
Telephone: (973) 802-5260
Facsimile: (973) 802-8055

Recipient of telephonic prepayment notices: Manager, Trade Management -
Telephone: (973) 802-7398; Facsimile: (973) 802-9425.

Name of Nominee in which Notes are to be issued: None

Taxpayer I.D. Number: 22-1211670

NAME AND ADDRESS OF PURCHASER	PRINCIPAL AMOUNT OF NOTES TO BE PURCHASED	
	SERIES A	SERIES B
ALLSTATE LIFE INSURANCE COMPANY 3075 Sanders Road, STE G3A Northbrook, Illinois 60062-7127 Attention: Private Placements Department Telephone Number: (847) 402-4394 Telecopier Number: (847) 402-3092	\$10,000,000	\$-0-

Payments

All payments on or in respect of the Notes to be made by Fedwire transfer of immediately available funds (identifying each payment with name of the Issuer (and the Credit, if any), the Private Placement Number preceded by "DPP" and the payment as principal, interest or premium) in the exact format as follows:

- BBK = Harris Trust and Savings Bank
ABA #071000288
- BNF = Allstate Life Insurance Company
Collection Account #168-117-0
- ORG = Culp Inc.
- OBI = DPP - PPN 230215 A* 6 --
Payment Due Date (MM/DD/YY) --
P _____ (enter "P" and the amount of principal being
remitted, for example, P5000000.00) --
I _____ (enter "I" and the amount of interest being
remitted, for example, I225000.00)

Notices

All notices of scheduled payments and written confirmation of each such payment, to be addressed:

Allstate Insurance Company
 Investment Operations--Private Placements
 3075 Sanders Road, STE G4A

Northbrook, Illinois 60062-7127
Telephone: (847) 402-2769
Telecopy: (847) 326-5040

All financial reports, compliance certificates and all other written communications, including notice of prepayments to be addressed as first provided above.

Name of Nominee in which Notes are to be issued: None

Taxpayer I.D. Number: 36-2554642

DEFINED TERMS

As used herein, the following terms have the respective meanings set forth below or set forth in the Section hereof following such term:

"Affiliate" means, at any time, and with respect to any Person, (a) any other Person that at such time directly or indirectly through one or more intermediaries Controls, or is Controlled by, or is under common Control with, such first Person, and (b) any Person beneficially owning or holding, directly or indirectly, 10% or more of any class of voting or equity interests of the Company or any Subsidiary or any corporation of which the Company and its Subsidiaries beneficially own or hold, in the aggregate, directly or indirectly, 10% or more of any class of voting or equity interests. As used in this definition, "Control" means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a Person, whether through the ownership of voting securities, by contract or otherwise. Unless the context otherwise clearly requires, any reference to an "Affiliate" is a reference to an Affiliate of the Company.

"Asset Disposition" means any Transfer except:

(a) any transfer from a Subsidiary to the Company or a Wholly-Owned Subsidiary so long as immediately before and immediately after the consummation of any such Transfer and after giving effect thereto, no Default or Event of Default exists; and

(b) any Transfer made in the ordinary course of business and involving only property that is either (i) inventory held for sale or (ii) equipment, fixtures, supplies or materials no longer required in the operation of the business of the Company or any of its Subsidiaries or that is obsolete; and

(c) the conveyance by the Company to The Industrial Development Board of the City of Chattanooga (the "Board") of the Company's Rossville, Georgia, plant and related personal property (the "Project"), so long as the (i) the Board leases the Project back to the Company for payments in a nominal amount in lieu of ad valorem taxes for the period ending December 31, 2000; (ii) the Company has the right to terminate the lease at any time upon written notice; (iii) the Company has the right to purchase the Project from the Board upon any lease termination (whether at maturity or upon early termination by the Company) for a purchase price of \$1.00; and (iv) the Company's cost basis in the Project at the time of such sale does not exceed \$20,000,000 in the aggregate.

"Business Day" means (a) for the purposes of Section 8.6 only, any day other than a Saturday, a Sunday or a day on which commercial banks in New York City are generally closed,

SCHEDULE B
(to Note Purchase Agreement)

and (b) for the purposes of any other provision of this Agreement, any day other than a Saturday, a Sunday or a day on which commercial banks in New York, New York, or Charlotte, North Carolina, are generally closed.

"Capital Lease" means, at any time, a lease with respect to which the lessee is required concurrently to recognize the acquisition of an asset and the incurrence of a liability in accordance with GAAP.

"Capital Lease Obligation" means, with respect to any Person and a Capital Lease, the amount of the obligation of such Person as the lessee under such Capital Lease which would, in accordance with GAAP, appear as a liability on a balance sheet of such Person.

"Change in Control" has the meaning set forth in Section 8.2.

"Closing" is defined in Section 3.

"Code" means the Internal Revenue Code of 1986, as amended from time to time, and the rules and regulations promulgated thereunder from time to time.

"Company" means Culp, Inc., a North Carolina corporation.

"Confidential Information" is defined in Section 20.

"Consolidated Assets" means, at any time, the total assets of the Company and its Subsidiaries which would be shown as assets on a consolidated balance sheet of the Company and its Subsidiaries as of such time prepared in accordance with GAAP, after eliminating all amounts properly attributable to minority interests, if any, in the stock and surplus of Subsidiaries.

"Consolidated Funded Debt" means, as of any date of determination, the total of all Funded Debt of the Company and its Subsidiaries outstanding on such date, after eliminating all offsetting debits and credits between the Company and its Subsidiaries and all other items required to be eliminated in the course of the preparation of consolidated financial statements of the Company and its Subsidiaries in accordance with GAAP.

"Consolidated Net Income" means, with reference to any period, the net income (or loss) of the Company and its Subsidiaries for such period (taken as a cumulative whole), as determined in accordance with GAAP, after eliminating all offsetting debits and credits between the Company and its Subsidiaries and all other items required to be eliminated in the course of

the preparation of consolidated financial statements of the Company and its Subsidiaries in accordance with GAAP, provided that there shall be excluded:

(a) the income (or loss) of any Person accrued prior to the date it becomes a Subsidiary or is merged into or consolidated with the Company or a Subsidiary, and the income (or loss) of any Person, substantially all of the assets of which have been acquired in any manner, realized by such other Person prior to the date of acquisition,

(b) the income (or loss) of any Person (other than a Subsidiary) in which the Company or any Subsidiary has an ownership interest, except to the extent that any such income has been actually received by the Company or such Subsidiary in the form of cash dividends or similar cash distributions,

(c) the undistributed earnings of any Subsidiary to the extent that the declaration or payment of dividends or similar distributions by such Subsidiary is not at the time permitted by the terms of its charter or any agreement, instrument, judgment, decree, order, statute, rule or governmental regulation applicable to such Subsidiary,

(d) any restoration to income of any contingency reserve, except to the extent that provision for such reserve was made out of income accrued during such period,

(e) any aggregate net gain (but not any aggregate net loss) during such period arising from the sale, conversion, exchange or other disposition of capital assets (such term to include, without limitation, (i) all non-current assets and, without duplication, (ii) the following, whether or not current: all fixed assets, whether tangible or intangible, all inventory sold in conjunction with the disposition of fixed assets, and all Securities),

(f) any gains resulting from any write-up of any assets (but not any loss resulting from any write-down of any assets),

(g) any net gain from the collection of the proceeds of life insurance policies,

(h) any gain arising from the acquisition of any Security, or the extinguishment, under GAAP, of any Debt, of the Company or any Subsidiary,

(i) any net income or gain (but not any net loss) during such period from (i) any change in accounting principles in accordance with GAAP, (ii) any prior period adjustments resulting from any change in accounting principles in accordance with GAAP, (iii) any extraordinary items, or (iv) any discontinued operations or the disposition thereof,

(j) any deferred credit representing the excess of equity in any Subsidiary at the date of acquisition over the cost of the investment in such Subsidiary,

(k) in the case of a successor to the Company by consolidation or merger or as a transferee of its assets, any earnings of the successor corporation prior to such consolidation, merger or transfer of assets, and

(l) any portion of such net income that cannot be freely converted into United States Dollars.

"Consolidated Net Worth" means, at any time,

(a) the sum of (i) the par value (or value stated on the books of the corporation) of the capital stock (but excluding, Redeemable Preferred Stock, treasury stock and capital stock subscribed and unissued) of the Company and its Subsidiaries plus (ii) the amount of the paid-in capital and retained earnings of the Company and its Subsidiaries, in each case as such amounts would be shown on a consolidated balance sheet of the Company and its Subsidiaries as of such time prepared in accordance with GAAP, minus

(b) to the extent included in clause (a), all amounts properly attributable to minority interests, if any, in the stock and surplus of Subsidiaries.

"Control Event" has the meaning set forth in Section 8.2

"Current Maturities of Funded Debt" means, at any time and with respect to any item of Funded Debt, the portion of such Funded Debt outstanding at such time which by the terms of such Funded Debt or the terms of any instrument or agreement relating thereto is due on demand or within one year from such time (whether by sinking fund, other required prepayment or final payment at maturity) and is not directly or indirectly renewable, extendible or refundable at the option of the obligor under an agreement or firm commitment in effect at such time to a date one year or more from such time.

"Consolidated Total Capitalization" means, at any time, the sum of Consolidated Net Worth and Consolidated Funded Debt.

"Debt" means, with respect to any Person, without duplication,

(a) its liabilities for borrowed money and its redemption obligations in respect of Redeemable Preferred Stock;

(b) its liabilities for the deferred purchase price of property acquired by such Person (excluding accounts payable arising in the ordinary course of business but including, without limitation, all liabilities created or arising under any conditional sale or other title retention agreement with respect to any such property);

(c) its Capital Lease Obligations;

(d) all liabilities for borrowed money secured by any Lien with respect to any property owned by such Person (whether or not it has assumed or otherwise become liable for such liabilities); and

(e) any Guaranty of such Person with respect to liabilities of a type described in any of clauses (a) through (d) hereof.

Debt of any Person shall include all obligations of such Person of the character described in clauses (a) through (e) to the extent such Person remains legally liable in respect thereof notwithstanding that any such obligation is deemed to be extinguished under GAAP.

"Debt Prepayment Application" means, with respect to any Transfer of property, the application by the Company or its Subsidiaries of cash in an amount equal to the Net Proceeds Amount with respect to such Transfer to pay Senior Funded Debt of the Company (other than Senior Funded Debt owing to the Company, any of its Subsidiaries or any Affiliate and Funded Debt in respect of any revolving credit or similar credit facility providing the Company or any of its Subsidiaries with the right to obtain loans or other extensions of credit from time to time, except to the extent that in connection with such payment of Senior Funded Debt the availability of credit under such credit facility is permanently reduced by an amount not less than the amount of such proceeds applied to the payment of such Senior Funded Debt), provided that in the course of making such application the Company shall prepay each outstanding Note in accordance with Section 8.3 in a principal amount which, when added to the Make-Whole Amount applicable thereto, equals the Ratable Portion for such Note. As used in this definition, "Ratable Portion" for any Note means an amount equal to the product of (x) the Net Proceeds Amount being so applied to the payment of Senior Funded Debt multiplied by (y) a fraction the numerator of which is the outstanding principal amount of such Note and the denominator of which is the aggregate principal amount of Senior Funded Debt of the Company and its Subsidiaries.

"Default" means an event or condition the occurrence or existence of which would, with the lapse of time or the giving of notice or both, become an Event of Default.

"Default Rate" means that rate of interest that is the greater of (i) 8.76% per annum or (ii) 2% over the rate of interest publicly announced by Harris Trust and Savings Bank in Chicago, Illinois, as its "base" or "prime" rate.

"Disposition Value" means, at any time, with respect to any property

(a) in the case of property that does not constitute Subsidiary Stock, the book value thereof, valued at the time of such disposition in accordance with GAAP, and

(b) in the case of property that constitutes Subsidiary Stock, an amount equal to that percentage of book value of the assets of the Subsidiary that issued such stock as is equal to the percentage that the book value of such Subsidiary Stock represents of the book value of all of the outstanding capital stock of such Subsidiary (assuming, in making such calculations, that all Securities convertible into such capital stock are so converted and giving full effect to all transactions that would occur or be required in connection with such conversion) determined at the time of the disposition thereof, in accordance with GAAP.

"Environmental Laws" means any and all Federal, state, local, and foreign statutes, laws, regulations, ordinances, rules, judgments, orders, decrees, permits, concessions, grants, franchises, licenses, agreements or governmental restrictions relating to pollution and the protection of the environment or the release of any materials into the environment, including but not limited to those related to hazardous substances or wastes, air emissions and discharges to waste or public systems.

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended from time to time, and the rules and regulations promulgated thereunder from time to time in effect.

"ERISA Affiliate" means any trade or business (whether or not incorporated) that is treated as a single employer together with the Company under section 414 of the Code.

"Event of Default" is defined in Section 11.

"Exchange Act" means the Securities Exchange Act of 1934, as amended.

"Fair Market Value" means, at any time and with respect to any property, the sale value of such property that would be realized in an arm's-length sale at such time between an informed and willing buyer and an informed and willing seller (neither being under a compulsion to buy or sell).

"Funded Debt" means, with respect to any Person, all Debt of such Person which by its terms or by the terms of any instrument or agreement relating thereto matures, or which is otherwise payable or unpaid, one year or more from, or is directly or indirectly renewable or extendible at the option of the obligor in respect thereof to a date one year or more (including, without limitation, an option of such obligor under a revolving credit or similar agreement obligating the lender or lenders to extend credit over a period of one year or more) from, the date of the creation thereof, provided that Funded Debt shall include, as at any date of determination, Current Maturities of Funded Debt. In the case of the Company "Funded Debt" shall exclude (i) indebtedness under any revolving credit agreement as to which there has been no principal balance outstanding during a period of 30 consecutive days within the period of 12 consecutive months ending with the date of determination of Funded Debt, and (ii) that portion of the proceeds of the issuance of Funded Debt of the Company consisting of industrial development revenue bonds which is held by the trustee for such bonds pending withdrawal and application by the Company.

"GAAP" means generally accepted accounting principles as in effect from time to time in the United States of America.

"Governmental Authority" means

(a) the government of

(i) the United States of America or any State or other political subdivision thereof, or

(ii) any jurisdiction in which the Company or any Subsidiary conducts all or any part of its business, or which asserts jurisdiction over any properties of the Company or any Subsidiary, or

(b) any entity exercising executive, legislative, judicial, regulatory or administrative functions of, or pertaining to, any such government.

"Guaranty" means, with respect to any Person, any obligation (except the endorsement in the ordinary course of business of negotiable instruments for deposit or collection) of such Person guaranteeing or in effect guaranteeing (whether by reason of being a general partner of a partnership or otherwise) any indebtedness, dividend or other obligation of any other Person in any manner, whether directly or indirectly, including (without limitation) obligations incurred through an agreement, contingent or otherwise, by such Person:

(a) to purchase such indebtedness or obligation or any property constituting security therefor;

(b) to advance or supply funds (i) for the purchase or payment of such indebtedness or obligation, or (ii) to maintain any working capital or other balance sheet condition or any income statement condition of any other Person or otherwise to advance or make available funds for the purchase or payment of such indebtedness or obligation;

(c) to lease properties or to purchase properties or services primarily for the purpose of assuring the owner of such indebtedness or obligation of the ability of any other Person to make payment of the indebtedness or obligation; or

(d) otherwise to assure the owner of such indebtedness or obligation against loss in respect thereof.

In any computation of the indebtedness or other liabilities of the obligor under any Guaranty, the indebtedness or other obligations that are the subject of such Guaranty shall be assumed to be direct obligations of such obligor.

"Hazardous Material" means any and all pollutants, toxic or hazardous wastes or any other substances that might pose a hazard to health or safety, the removal of which may be required or the generation, manufacture, refining, production, processing, treatment, storage, handling, transportation, transfer, use, disposal, release, discharge, spillage, seepage, or filtration of which is or shall be restricted, prohibited or penalized by any applicable law (including, without limitation, asbestos, urea formaldehyde foam insulation and polychlorinated biphenyls).

The term "holder" means, with respect to any Note, the Person in whose name such Note is registered in the register maintained by the Company pursuant to Section 13.1.

"Indebtedness" with respect to any Person means, at any time, without duplication,

(a) its liabilities for borrowed money and its redemption obligations in respect of mandatorily redeemable Preferred Stock;

(b) its liabilities for the deferred purchase price of property acquired by such Person (excluding accounts payable arising in the ordinary course of business but including all liabilities created or arising under any conditional sale or other title retention agreement with respect to any such property);

(c) all liabilities appearing on its balance sheet in accordance with GAAP in respect of Capital Leases;

(d) all liabilities for borrowed money secured by any Lien with respect to any property owned by such Person (whether or not it has assumed or otherwise become liable for such liabilities);

(e) all its liabilities in respect of letters of credit or instruments serving a similar function issued or accepted for its account by banks and other financial institutions (whether or not representing obligations for borrowed money);

(f) Swaps of such Person; and

(g) any Guaranty of such Person with respect to liabilities of a type described in any of clauses (a) through (f) hereof.

Indebtedness of any Person shall include all obligations of such Person of the character described in clauses (a) through (g) to the extent such Person remains legally liable in respect thereof notwithstanding that any such obligation is deemed to be extinguished under GAAP.

"Institutional Investor" means (a) any original purchaser of a Note, (b) any holder of a Note holding more than 5% of the aggregate principal amount of the Notes then outstanding, and (c) any bank, trust company, savings and loan association or other financial institution, any pension plan, any investment company, any insurance company, any broker or dealer, or any other similar financial institution or entity, regardless of legal form.

"Lien" means, with respect to any Person, any mortgage, lien, pledge, charge, security interest or other encumbrance, or any interest or title of any vendor, lessor, lender or other secured party to or of such Person under any conditional sale or other title retention agreement or Capital Lease, upon or with respect to any property or asset of such Person (including in the case of stock, stockholder agreements, voting trust agreements and all similar arrangements).

"Make-Whole Amount" is defined in Section 8.7.

"Material" means material in relation to the business, operations, affairs, financial condition, assets, properties, or prospects of the Company and its Subsidiaries taken as a whole.

"Material Adverse Effect" means a material adverse effect on (a) the business, operations, affairs, financial condition, assets or properties of the Company and its Subsidiaries

taken as a whole, or (b) the ability of the Company to perform its obligations under this Agreement and the Notes, or (c) the validity or enforceability of this Agreement or the Notes.

"Memorandum" is defined in Section 5.3.

"Multiemployer Plan" means any Plan that is a "multiemployer plan" (as such term is defined in section 4001(a)(3) of ERISA).

"Net Proceeds Amount" means, with respect to any Transfer of any Property by any Person, an amount equal to the difference of

(a) the aggregate amount of the consideration (valued at the Fair Market Value of such consideration at the time of the consummation of such Transfer) received by such Person in respect of such Transfer, minus

(b) all ordinary and reasonable out-of-pocket costs and expenses actually incurred by such Person in connection with such Transfer.

"Notes" is defined in Section 1.

"Officer's Certificate" means a certificate of a Senior Financial Officer or of any other officer of the Company whose responsibilities extend to the subject matter of such certificate.

"Other Agreements" is defined in Section 2.

"Other Purchasers" is defined in Section 2.

"PBG" means the Pension Benefit Guaranty Corporation referred to and defined in ERISA or any successor thereto.

"Person" means an individual, partnership, corporation, limited liability company, association, trust, unincorporated organization, or a government or agency or political subdivision thereof.

"Plan" means an "employee benefit plan" (as defined in section 3(3) of ERISA) that is or, within the preceding five years, has been established or maintained, or to which contributions are or, within the preceding five years, have been made or required to be made, by the Company or any ERISA Affiliate or with respect to which the Company or any ERISA Affiliate may have any liability.

"Preferred Stock" means, in respect of any corporation, shares of the capital stock of such corporation that are entitled to preference or priority over any other shares of the capital stock of such corporation in respect of payment of dividends or distribution of assets upon liquidation.

"Priority Debt" means, without duplication, the sum of (i) all Debt of the Company secured by any Lien with respect to any property owned by the Company or any of its Subsidiaries other than Liens permitted by paragraphs (a) through (j), both inclusive, of Section 10.3, and (ii) all Debt of Subsidiaries (except Debt held by the Company or a Wholly-Owned Subsidiary).

"property" or "properties" means, unless otherwise specifically limited, real or personal property of any kind, tangible or intangible, choate or inchoate.

"Property Reinvestment Application" means, with respect to any Transfer of property of a same or similar nature, the application of an amount equal to the Net Proceeds Amount with respect to such Transfer to the acquisition by the Company or any Subsidiary of operating assets of the Company or any Subsidiary to be used in the ordinary course of business of such Person.

"Proposed Prepayment Date" is defined in Section 8.2

"QPAM Exemption" means Prohibited Transaction Class Exemption 84-14 issued by the United States Department of Labor.

"Redeemable" means, with respect to the capital stock of any Person, each share of such Person's capital stock that is:

(a) redeemable, payable or required to be purchased or otherwise retired or extinguished, or convertible into Debt of such Person (i) at a fixed or determinable date, whether by operation of sinking fund or otherwise, (ii) at the option of any Person other than such Person, or (iii) upon the occurrence of a condition not solely within the control of such Person; or

(b) convertible into other Redeemable capital stock.

"Required Holders" means, at any time, the holders of at least 66-2/3% in principal amount of the Notes at the time outstanding (exclusive of Notes then owned by the Company, any of its Subsidiaries, or any of its Affiliates).

"Responsible Officer" means any Senior Financial Officer and any other officer of the Company with responsibility for the administration of the relevant portion of this agreement.

"Securities Act" means the Securities Act of 1933, as amended from time to time.

"Senior Financial Officer" means the chief financial officer, principal accounting officer, treasurer or comptroller of the Company.

"Senior Funded Debt" means (a) any Funded Debt of the Company (other than Subordinated Debt) and (b) any Funded Debt of any Subsidiary.

"Subordinated Debt" means any Debt that is in any manner subordinated in right of payment or security in any respect to Debt evidenced by the Notes.

"Subsidiary" means, as to any Person, any corporation, association or other business entity in which such Person or one or more of its Subsidiaries or such Person and one or more of its Subsidiaries owns sufficient equity or voting interests to enable it or them (as a group) ordinarily, in the absence of contingencies, to elect a majority of the directors (or Persons performing similar functions) of such entity, and any partnership or joint venture if more than a 50% interest in the profits or capital thereof is owned by such Person or one or more of its Subsidiaries or such Person and one or more of its Subsidiaries (unless such partnership can and does ordinarily take major business actions without the prior approval of such Person or one or more of its Subsidiaries). Unless the context otherwise clearly requires, any reference to a "Subsidiary" is a reference to a Subsidiary of the Company.

"Subsidiary Stock" means, with respect to any Person, the stock (or any options or warrants to purchase stock or other Securities exchangeable for or convertible into stock) of any Subsidiary of such Person.

"Successor Corporation" has the meaning set forth in Section 10.4.

"Swaps" means, with respect to any Person, payment obligations with respect to interest rate swaps, currency swaps and similar obligations obligating such Person to make payments, whether periodically or upon the happening of a contingency. For the purposes of this Agreement, the amount of the obligation under any Swap shall be the amount determined in respect thereof as of the end of the then most recently ended fiscal quarter of such Person, based on the assumption that such Swap had terminated at the end of such fiscal quarter, and in making such determination, if any agreement relating to such Swap provides for the netting of amounts payable by and to such Person thereunder or if any such agreement provides for the simultaneous

payment of amounts by and to such Person, then in each such case, the amount of such obligation shall be the net amount so determined.

"Transfer" means, with respect to any Person, any transaction in which such Person sells, conveys, transfers or leases (as lessor) any of its property, including, without limitation, Subsidiary Stock. For purposes of determining the application of the Net Proceeds Amount in respect of any Transfer, the Company may designate any Transfer as one or more separate Transfers each yielding a separate Net Proceeds Amount. In any such case, the Disposition Value of any property subject to each such separate Transfer shall be determined by ratably allocating the aggregate Disposition Value of all property subject to all such separate Transfers to each such separate Transfer on a proportionate basis.

"Voting Stock" shall mean Securities of any class or classes, the holders of which are ordinarily, in the absence of contingencies, entitled to elect a majority of the corporate directors (or Persons performing similar functions).

"Wholly-Owned Subsidiary" means any Subsidiary of the Company all of the equity interests (except directors' qualifying shares) and voting interests and Debt of which are owned by any one or more of the Company and the Company's other Wholly-Owned Subsidiaries at such time.

SUBSIDIARIES, AFFILIATES, ETC.

I.

NAME OF SUBSIDIARY	JURISDICTION OF INCORPORATION	% HELD BY COMPANY
3096726 Canada Inc.	Canada (federal)	100
Rayonese Textile, Inc.	Canada (federal)	100(1)
Culp International, Inc.	Virgin Islands	100

II. AFFILIATES OTHER THAN SUBSIDIARIES:

Robert G. Culp, III

Robert G. Culp, Jr. Family Trust

Wingel & Company (as trustee of the Robert G. Culp, III Family Trust)

Other members of the Culp Family (as defined in the Agreement)

(1) Held by 3096726 Canada, Inc.

SCHEDULE 5.4
(to Note Purchase Agreement)

III. COMPANY'S DIRECTORS AND SENIOR OFFICERS:

Robert G. Culp, III: Director (Chairman) and Chief Executive Officer

Howard L. Dunn, Jr.: Director, President and Chief Operating Officer

Franklin N. Saxon: Director, Senior Vice President, Chief Financial
Officer, Treasurer and Secretary

Kenneth M. Ludwig: Senior Vice President (Human Resources)

Harry R. Culp: Director

Earl N. Honeycutt Director

Patrick H. Norton: Director

Earl N. Phillips, Jr.: Director

Bland W. Worley: Director

Baxter P. Freeze: Director

IV. AGREEMENTS RESTRICTING PAYMENT BY

Subsidiaries of Dividends or Distribution of Profits to the Company:

None.

FINANCIAL STATEMENTS
DELIVERED TO PURCHASERS
(PER THE OFFERING MEMORANDUM)

Unaudited balance sheets as of November 2, 1997, October 27, 1996 and April 27, 1997.

Unaudited statements of income for the three and six months ended November 2, 1997 and October 27, 1996.

Unaudited Statements of cash flows for the six months ended November 2, 1997 and October 27, 1996.

Unaudited statements of shareholders equity as of November 2, 1997.

Audited consolidated balance sheets as of April 27, 1997, April 28, 1996, April 30, 1995, May 1, 1994, May 2, 1993 and May 3, 1992.

Audited consolidated statements of income for the years ended April 27, 1997, April 28, 1996, April 30, 1995, May 1, 1994, May 2, 1993, May 3, 1992 and April 28, 1991.

Audited consolidated statements of shareholders equity for the years ended April 27, 1997, April 28, 1996, April 30, 1995, May 1, 1994, May 2, 1993, May 3, 1992 and April 28, 1991.

Audited consolidated statement of cash flows for the years ended April 27, 1997, April 28, 1996, April 30, 1995, May 1, 1994, May 2, 1993, May 3, 1992 and April 28, 1991.

SCHEDULE 5.5
(to Note Purchase Agreement)

USES OF PROCEEDS

To repay certain existing indebtedness of the Company and for other general corporate purposes.

SCHEDULE 5.14
(to Note Purchase Agreement)

INDEBTEDNESS

(OUTSTANDING AMOUNTS INDICATED ARE AS OF MARCH 8, 1998
ALL ITEMS UNSECURED EXCEPT AS OTHERWISE INDICATED BY ASTERISK.)

I. IRB'S

Luzerne County, PA*	\$3,500,000
Alamance County, NC (1986)*	\$ 100,000
Chesterfield County, SC (1988)*	\$2,252,000
Chesterfield County, SC (1996)*	\$6,000,000
Anderson County, SC*	\$6,580,000
Guilford County, NC*	\$3,825,000
Robeson County, NC*	\$8,500,000
Alamance County, NC (1993)*	\$2,755,000
Canadian Government Loan	\$ 936,000

II. BANK DEBT

Syndicated Credit Facility	\$109,524,000
\$6 Million Revolving Credit Line Wachovia Bank, NA	1,394,000
\$15 Million Revolving Credit Line Wachovia/First Unio	6,500,000

III. SELLER FINANCING

Seller Note Payable (Dave Phillips Non-Compete)	\$5,100,000
Seller Note Payable (Artee Industries, Inc. Purchase)	\$1,600,000

SCHEDULE 5.15
(to Note Purchase Agreement)

IV. LETTERS OF CREDIT

BENEFICIARY	SERIAL #	ORIGINATION DATE	MATURITY DATE	AMOUNT
Wachovia				
Hartford Fire Insurance Co.	49635	07/14/94	05/01/98	\$ 400,000
First Citizens Bank & Trust as Trustee for IRBs:				
Chesterfield County, SC (1996)	68485	04/01/96	03/01/01	\$6,300,000
Alamance County, NC (1993)	68486	04/01/96	03/01/01	\$2,890,863
Anderson County, SC	68487	04/01/96	03/01/01	\$6,904,493
Chesterfield County, SC (1988)	68488	04/01/96	03/01/01	\$2,363,057
Guilford County, NC	68489	04/01/96	03/01/01	\$3,978,000
Luzerne County, PA	80881	12/04/96	03/01/01	\$3,675,000
Robeson County, NC	87474	07/17/97	03/01/01	\$8,925,000
Textilmaschinen Fabrik Agent Batson Yarns	93930	12/16/97	05/31/98	\$ 311,819
Guilford County, North Carolina	74539	09/11/96	09/06/98	\$ 13,500
First Union				
S.C. Workers' Compensation Commission	S028117	11/01/90	11/01/98	\$ 400,000

V. HEDGE CONTRACTS

INTEREST RATE SWAPS			
BANK	REFERENCE #	MATURITY DATE	AMOUNT
First Union National Bank	8394/8861	04/19/00	\$15,000,000
First Union National Bank	9606/1028	06/03/02	\$5,000,000
First Union National Bank	11036/12132	07/01/02	\$5,000,000

VI. FOREIGN CURRENCY FORWARD CONTRACTS

BANK	REFERENCE #	MATURITY DATE	AMOUNT	CURRENCY
Wachovia Bank, NA	78150	03/31/98	\$1,500,000	CND
Wachovia Bank, NA	78151	04/30/98	\$1,500,000	CND

VII. FOREIGN CURRENCY OPTION CONTRACTS

BANK	REFERENCE #	MATURITY DATE	AMOUNT	CURRENCY
First Union National Bank	13758-9	3/12/98	\$10,074,000	BEF
First Union National Bank	15240-1	5/27/98	\$ 8,562,900	BEF
First Union National Bank	15240-1	6/15/98	\$ 8,562,900	BEF

[FORM OF SERIES A NOTE]

CULP, INC.

6.76% SERIES A SENIOR NOTE DUE March 15, 2008

No. A- _____
\$ _____

[Date]
PPN 230215 A*6

FOR VALUE RECEIVED, the undersigned, CULP, INC. (herein called the "Company"), a corporation organized and existing under the laws of the State of North Carolina, hereby promises to pay to [_____], or registered assigns, the principal sum of [_____] DOLLARS on March 15, 2008, with interest (computed on the basis of a 360-day year of twelve 30-day months) (a) on the unpaid balance thereof at the rate of 6.76% per annum from the date hereof, payable semiannually, on the 15th day of March and September in each year, commencing with the March or September next succeeding the date hereof, until the principal hereof shall have become due and payable, and (b) to the extent permitted by law on any overdue payment (including any overdue prepayment) of principal, any overdue payment of interest and any overdue payment of any Make-Whole Amount (as defined in the Note Purchase Agreements referred to below), payable semiannually as aforesaid (or, at the option of the registered holder hereof, on demand), at a rate per annum from time to time equal to the greater of (i) 8.76% or (ii) 2% over the rate of interest publicly announced by Citibank, N.A. from time to time in New York, New York, as its "base" or "prime" rate.

Payments of principal of, interest on and any Make-Whole Amount with respect to this Note are to be made in lawful money of the United States of America at the principal place of Citibank, N.A., in the Borough of Manhattan, City and State of New York.

This Note is one of the Notes of two Series of Senior Notes (herein called the "Notes") issued pursuant to separate Note Purchase Agreements, dated as of March 4, 1998 (as from time to time amended, the "Note Purchase Agreements"), between the Company and the respective Purchasers named therein and is entitled to the benefits thereof. Each holder of this Note will be deemed, by its acceptance hereof, (i) to have agreed to the confidentiality provisions set forth in Section 20 of the Note Purchase Agreements and (ii) to have made the representation set forth in Section 6.2 of the Note Purchase Agreements.

This Note is a registered Note and, as provided in the Note Purchase Agreements, upon surrender of this Note for registration of transfer, duly endorsed, or accompanied by a written instrument of transfer duly executed, by the registered holder hereof or such holder's attorney duly authorized in writing, a new Note for a like principal amount will be issued to, and

EXHIBIT 1A
(to Note Purchase Agreement)

registered in the name of, the transferee. Prior to due presentment for registration of transfer, the Company may treat the person in whose name this Note is registered as the owner hereof for the purpose of receiving payment and for all other purposes, and the Company will not be affected by any notice to the contrary.

This Note is subject to optional prepayment, in whole or from time to time in part, at the times and on the terms specified in the Note Purchase Agreements, but not otherwise.

If an Event of Default, as defined in the Note Purchase Agreements, occurs and is continuing, the principal of this Note may be declared or otherwise become due and payable in the manner, at the price (including any applicable Make-Whole Amount) and with the effect provided in the Note Purchase Agreements.

This Note shall be construed and enforced in accordance with, and the rights of the parties shall be governed by, the law of the State of New York excluding choice-of-law principles of the law of such State that would require the application of the laws of a jurisdiction other than such State.

CULP, INC.

By
Name:
Title:

E-1A-88

[FORM OF SERIES B NOTE]

CULP, INC.

6.76% SERIES B SENIOR NOTE DUE March 15, 2010

No. B- _____
\$ _____

[Date]
PPN 230215 A@4

FOR VALUE RECEIVED, the undersigned, CULP, INC. (herein called the "Company"), a corporation organized and existing under the laws of the State of North Carolina, hereby promises to pay to [_____], or registered assigns, the principal sum of [_____] DOLLARS on March 15, 2010, with interest (computed on the basis of a 360-day year of twelve 30-day months) (a) on the unpaid balance thereof at the rate of 6.76% per annum from the date hereof, payable semiannually, on the 15th day of March and September in each year, commencing with the March or September next succeeding the date hereof, until the principal hereof shall have become due and payable, and (b) to the extent permitted by law on any overdue payment (including any overdue prepayment) of principal, any overdue payment of interest and any overdue payment of any Make-Whole Amount (as defined in the Note Purchase Agreements referred to below), payable semiannually as aforesaid (or, at the option of the registered holder hereof, on demand), at a rate per annum from time to time equal to the greater of (i) 8.76% or (ii) 2% over the rate of interest publicly announced by Citibank, N.A. from time to time in New York, New York, as its "base" or "prime" rate.

Payments of principal of, interest on and any Make-Whole Amount with respect to this Note are to be made in lawful money of the United States of America at the principal place of business of Citibank, N.A. in the Borough of Manhattan, City and State of New York.

This Note is one of the Notes of two Series of Senior Notes (herein called the "Notes") issued pursuant to separate Note Purchase Agreements, dated as of March 4, 1998 (as from time to time amended, the "Note Purchase Agreements"), between the Company and the respective Purchasers named therein and is entitled to the benefits thereof. Each holder of this Note will be deemed, by its acceptance hereof, (i) to have agreed to the confidentiality provisions set forth in Section 20 of the Note Purchase Agreements and (ii) to have made the representation set forth in Section 6.2 of the Note Purchase Agreements.

This Note is a registered Note and, as provided in the Note Purchase Agreements, upon surrender of this Note for registration of transfer, duly endorsed, or accompanied by a written instrument of transfer duly executed, by the registered holder hereof or such holder's attorney

EXHIBIT 1B
(to Note Purchase Agreement)

duly authorized in writing, a new Note for a like principal amount will be issued to, and registered in the name of, the transferee. Prior to due presentment for registration of transfer, the Company may treat the person in whose name this Note is registered as the owner hereof for the purpose of receiving payment and for all other purposes, and the Company will not be affected by any notice to the contrary.

The Company will make required prepayments of principal on the dates and in the amounts specified in the Note Purchase Agreements. This Note is also subject to optional prepayment, in whole or from time to time in part, at the times and on the terms specified in the Note Purchase Agreements, but not otherwise.

If an Event of Default, as defined in the Note Purchase Agreements, occurs and is continuing, the principal of this Note may be declared or otherwise become due and payable in the manner, at the price (including any applicable Make-Whole Amount) and with the effect provided in the Note Purchase Agreements.

This Note shall be construed and enforced in accordance with, and the rights of the parties shall be governed by, the law of the State of New York excluding choice-of-law principles of the law of such State that would require the application of the laws of a jurisdiction other than such State.

CULP, INC.

By
Name:
Title:

E-1B-90

FORM OF OPINION OF SPECIAL COUNSEL
FOR THE COMPANY AND SPECIAL CANADIAN
COUNSEL FOR THE COMPANY

The closing opinions of Robinson, Bradshaw & Hinson, P.A., special counsel for the Company, and Ogilvy Renault, special Canadian Counsel for the Company which are called for by Section 4.4(a) of the Note Purchase Agreements, shall be dated the date of Closing and addressed to the Purchasers, shall be satisfactory in scope and form to the Purchasers and shall be to the effect that:

1. The Company is a corporation duly incorporated, validly existing and in good standing under the laws of the State of North Carolina, has the corporate power and the corporate authority to execute and perform the Note Purchase Agreements and to issue the Notes and has the full corporate power and the corporate authority to conduct the activities in which it is now engaged and is duly licensed or qualified and is in good standing as a foreign corporation in each jurisdiction in which the character of the properties owned or leased by it or the nature of the business transacted by it makes such licensing or qualification necessary.

2. Each Subsidiary is a corporation duly incorporated, validly existing and in good standing under the laws of its jurisdiction of incorporation and is duly licensed or qualified and is in good standing in each jurisdiction in which the character of the properties owned or leased by it or the nature of the business transacted by it makes such licensing or qualification necessary and all of the issued and outstanding shares of capital stock of each such Subsidiary have been duly issued, are fully paid and nonassessable and are owned by the Company, by one or more Subsidiaries, or by the Company and one or more Subsidiaries.

3. Each Note Purchase Agreement has been duly authorized by all necessary corporate action on the part of the Company, has been duly executed and delivered by the Company and constitutes the legal, valid and binding contract of the Company enforceable in accordance with its terms, subject to bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance and similar laws affecting creditors' rights generally, and general principles of equity (regardless of whether the application of such principles is considered in a proceeding in equity or at law).

4. The Notes have been duly authorized by all necessary corporate action on the part of the Company, have been duly executed and delivered by the Company and constitute the legal, valid and binding obligations of the Company enforceable in accordance with their terms, subject to bankruptcy, insolvency, reorganization,

EXHIBIT 4.4(a)
(to Note Purchase Agreement)

moratorium, fraudulent conveyance and similar laws affecting creditors' rights generally, and general principles of equity (regardless of whether the application of such principles is considered in a proceeding in equity or at law).

5. No approval, consent or withholding of objection on the part of, or filing, registration or qualification with, any governmental body, Federal or state, is necessary in connection with the execution and delivery by the Company of the Note Purchase Agreements or the Notes.

6. The issuance and sale of the Notes and the execution, delivery and performance by the Company of the Note Purchase Agreements do not conflict with or result in any breach of any of the provisions of or constitute a default under or result in the creation or imposition of any Lien upon any of the property of the Company pursuant to the provisions of the Articles of Incorporation or By-laws of the Company or any agreement or other instrument known to such counsel after due inquiry to which the Company is a party or by which the Company may be bound.

7. The issuance, sale and delivery of the Notes under the circumstances contemplated by the Note Purchase Agreements do not, under existing law, require the registration of the Notes under the Securities Act of 1933, as amended, or the qualification of an indenture under the Trust Indenture Act of 1939, as amended.

8. The issuance of the Notes and the use of the proceeds of the sale of the Notes in accordance with the provisions of and as contemplated by the Note Purchase Agreements do not violate the provisions of Regulations G, T, U or X of the Board of Governors of the Federal Reserve System.

9. There is no litigation pending or, to the best knowledge of such counsel, threatened against or affecting the Company or any Subsidiary, which in such counsel's opinion could reasonably be expected to have a Material Adverse Effect.

The opinions of Robinson, Bradshaw & Hinson, P.A. and Ogilvy Renault shall cover such other matters relating to the sale of the Notes as the Purchasers may reasonably request. With respect to matters of fact on which such opinions are based, such counsel shall be entitled to rely on appropriate certificates of public officials and officers of the Company and its Subsidiaries.

FORM OF OPINION OF SPECIAL COUNSEL
FOR THE PURCHASERS

The closing opinion of Chapman and Cutler, special counsel for the Purchasers, called for by Section 4.4(b) of the Note Purchase Agreements, shall be dated the date of the Closing and addressed to the Purchasers, shall be satisfactory in form and substance to the Purchasers and shall be to the effect that:

1. The Company is a corporation, validly existing and in good standing under the laws of the State of North Carolina and has the corporate power and the corporate authority to execute and deliver the Note Purchase Agreements and to issue the Notes.

2. Each Note Purchase Agreement has been duly authorized by all necessary corporate action on the part of the Company, has been duly executed and delivered by the Company and constitutes the legal, valid and binding contract of the Company enforceable in accordance with its terms, subject to bankruptcy, insolvency, fraudulent conveyance and similar laws affecting creditors' rights generally, and general principles of equity (regardless of whether the application of such principles is considered in a proceeding in equity or at law).

3. The Notes have been duly authorized by all necessary corporate action on the part of the Company, have been duly executed and delivered by the Company and constitute the legal, valid and binding obligations of the Company enforceable in accordance with their terms, subject to bankruptcy, insolvency, fraudulent conveyance and similar laws affecting creditors' rights generally, and general principles of equity (regardless of whether the application of such principles is considered in a proceeding in equity or at law).

4. The issuance, sale and delivery of the Notes under the circumstances contemplated by the Note Purchase Agreements do not, under existing law, require the registration of the Notes under the Securities Act of 1933, as amended, or the qualification of an indenture under the Trust Indenture Act of 1939, as amended.

The opinion of Chapman and Cutler shall also state that the opinion of Robinson, Bradshaw & Hinson, P.A., special counsel for the Company, is satisfactory in scope and form to Chapman and Cutler and that, in their opinion, the Purchasers are justified in relying thereon.

In rendering the opinion set forth in paragraph 1 above, Chapman and Cutler may rely, as to matters referred to in paragraph 1, solely upon an examination of the Articles of Incorporation certified by, and a certificate of good standing of the Company from, the Secretary of State of the

EXHIBIT 4.4(b)
(to Note Purchase Agreement)

State of North Carolina, the By-laws of the Company and the General Business Corporation Act of the State of North Carolina. The opinion of Chapman and Cutler is limited to the laws of the State of New York, the General Business Corporation Act of the State of North Carolina and the Federal laws of the United States.

With respect to matters of fact upon which such opinion is based, Chapman and Cutler may rely on appropriate certificates of public officials and officers of the Company and upon representations of the Company and the Purchasers delivered in connection with the issuance and sale of the Notes.

E-4.4(b)-94

focus
on style

1998
Annual
Report

(CULP LOGO APPEARS HERE)

THE CULP TEAM OF MORE THAN 4,300 ASSOCIATES MARKETS OVER 3,000 PATTERNS OF UPHOLSTERY FABRICS FOR FURNITURE AND OVER 1,000 STYLES OF MATTRESS TICKING TO AN INTERNATIONAL ARRAY OF CUSTOMERS. WE ARE A FULLY INTEGRATED MARKETER WITH MANUFACTURING PLANTS IN NORTH AND SOUTH CAROLINA, ALABAMA, TENNESSEE, PENNSYLVANIA AND CANADA.

(Photo appears here)

DESIGN MEANS BUSINESS AT CULP

Culp
FABRICS

Culp indeed is focused on design. The new Howard L. Dunn, Jr. design center is the latest tangible expression of how important the creation of new patterns, textures and styles is to our business. This report provides a timely opportunity to take you on a tour of this revolutionary new complex. The opportunity to unite virtually all of our design resources excited us, and that vision is now reality. Come with us as we share our report on another record year for Culp and the actions we are taking to enhance our position as the world's largest marketer of upholstery fabrics for furniture and a leading supplier of mattress ticking.

highlights

Culp invested \$95 million for acquisitions and capital expenditures to support the company's ongoing long-term growth initiative.

Net sales for 1998 reached a new high of \$476.7 million. Net income also set a new annual record for the ninth consecutive year of \$15.5 million, or \$1.19 per share diluted.

International sales for 1998 rose 35% and accounted for \$137.2 million, or 29%, of net sales.

Opening of the new Howard L. Dunn, Jr. design center provided a single location for most of the company's design resources.

Completion of a private placement of \$75 million senior unsecured notes in April 1998 increased flexibility for funding future capital needs.

(Photo of fabrics)

(Amounts in thousands, except per share data)	1998	1997	percent change	five-year growth rate

STATEMENTS OF INCOME				
Net sales	\$476,715	398,879	19.5%	18.9%
Gross profit	83,561	72,485	15.3	21.0
Income from operations	30,574	27,427	11.5	30.8
Net income	15,513	13,770	12.7	28.1
Average shares outstanding (diluted)	13,042	11,929	9.3	3.3
PER SHARE				
Net income (diluted)	\$ 1.19	1.15	3.5%	23.8%
Cash dividends	0.14	0.13	7.7	16.9
Book value	10.11	8.79	15.0	15.1
BALANCE SHEET				
Working capital	\$102,730	69,777	47.2%	24.1%
Total assets	354,815	243,952	45.4	27.2
Funded debt	151,616	65,623	131.0	41.7
Shareholders' equity	131,519	110,789	18.7	19.3
RATIOS				
Gross profit margin	17.5%	18.2%		
Operating income margin	6.4	6.9		
Net income margin	3.3	3.5		
Return on average equity	13.0	15.2		
Funded debt to capital	53.5	37.2		

(Throughout this annual report, 1998, 1997, 1996, 1995 and 1994 are used to refer, respectively, to the company's fiscal years that ended in those same calendar periods.)

NET SALES
(\$ MILLIONS)

(A bar graph appears here with the following plot points.)

94	95	96	97	98
\$245.0	\$308.0	\$351.7	\$398.9	\$476.7

NET INCOME
(\$ MILLIONS)

(A bar graph appears here with the following plot points.)

94	95	96	97	98
\$7.7	\$9.8	\$11.0	\$13.8	\$15.5

NET INCOME
PER SHARE
(DILUTED)

(A bar graph appears here with the following plot points.)

94	95	96	97	98
0.68	0.86	0.94	1.15	1.19

CASH DIVIDENDS
PER SHARE

(A bar graph appears here with the following plot points.)

94	95	96	97	98
0.08	0.10	0.11	0.13	0.14

TO
OUR
FELLOW
SHAREHOLDERS

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"Build it, and they will come," is the memorable line from the movie Field of Dreams. We aren't expecting "Shoeless" Joe Jackson to appear out of the mists at Culp, but we are excited about our longer term opportunities as a result of the considerable capital investments we made during 1998. Our plans for building an integrated marketing organization began taking shape years ago; and several developments during 1998 marked notable steps toward that goal that will provide significant benefits to our customers, associates and, most importantly, our shareholders. 1999: GROWTH CHALLENGE Our message in this letter is not intended to repeat the discussion starting on page 13 about the significant operational and financial trends during 1998. As the highlights on the previous page portray, net sales, net income and net income per share each set new records for the year. Nine consecutive years of higher earnings represent an achievement of which we are proud, and we encourage you to read the comments that relate more of the specific factors that contributed to our ability to stretch that record one more year.

As the caveats read in investment literature, past performance is no guarantee of future returns. In fact, as we start 1999, we see significant challenges to a positive showing again this year. Costs associated with some of our expansion projects are still putting pressure on margins. More importantly, we are experiencing a pronounced decline in demand for wet-printed flock fabrics that have been an important focus of our capital expenditures. We are implementing significant operational changes to deal with these circumstances and expect improvement as the year progresses. The bottom-line

(Photo of fabrics)

year in review

picture at this time, however, is for difficult year-to-year comparisons through at least the first and second quarters. Although this will likely present a near-term interruption in Culp's growth, we believe this will prove temporary and remain optimistic about reaching our fundamental goal of long-term growth in net income per share. ACQUISITIONS ENHANCE OVERALL GROWTH Purchases of existing operations and other physical assets have been an integral component of Culp's growth for more than a decade. We anticipate other acquisition opportunities, in large part because of the consolidation that remains prevalent in the home furnishings industry. The share of the market controlled by the top 10 manufacturers is up more than 50% over the past ten years. The 25 largest retailers now claim approximately one of every four dollars spent by consumers on home furnishings. Industry players are getting larger, in part to afford the investment in information systems and other capital projects needed to keep pace with the demands of consumers. During 1998 we invested a total of \$59 million to acquire three operations. In August 1997, we purchased Phillips Mills. This well-established upholstery fabric business expanded our capability in woven jacquards, prints and velvets and helped broaden Culp's customer base. The other two transactions during the year were chosen not to gain immediate incremental market share but to move us forward in our ongoing drive to become more vertically integrated. The operations of Artee Industries and Wetumpka yarn strategically gave us control over filling yarn, one of the most important raw materials in our business. These are the yarns that determine the texture of our fabrics; that bring life to the patterns we have designed and that help customers differentiate their products before the discerning eyes of consumers. Although we had been extruding some polypropylene yarns internally, we had reached a point where manufacturing our own specialty yarns had become essential. We have already begun to see a return from this move, and we are confident the future holds an even greater promise. HEAVY LIFTING CHARACTERIZES CAPITAL SPENDING Those who have been Culp shareholders for several years are well aware of the meaningful dollar investment we have made to support our goal of offering customers value. This continued in 1998 with record capital spending of \$36 million. Interestingly, the total amount was almost evenly split among expansion, vertical integration and modernization. This capped a five-year period in which we have invested \$112 million. We believe spending of that magnitude easily qualifies as heavy lifting. In weight lifting the challenge is not just to lift the bar, but to accomplish the task with balance and efficiency. Our record for 1998 shows progress in completing these projects, but our task now is to increase the productivity from these various initiatives. A few specifics will illustrate the broad scope of the projects, apart from the design center, we undertook. A major expansion of our capacity for wet-printed fabrics at a new facility in Lumberton, North Carolina is now operational with two production lines. All of the jacquard and dobby looms at our Pageland, South Carolina facility were moved to allow for an improved product flow. State-of-the-art equipment at a North Carolina plant is producing unfinished flock fabric. A modern weaving facility in Tennessee houses our Rossville/Chromatex line, and three of five planned additional yarn extrusion lines are operational.

(GRAPHIC OF A STRAND OF YARN APPEARS HERE)

Heavy lifting indeed! Although we recognize the importance of an ongoing capital investment program, our planned spending for 1999 is less than half of the prior year. Our focus clearly must be the maturation of the projects recently completed. We are fortunate that Culp's profitability has enabled us to support these investments while maintaining a solid financial position. Our funded debt/capital ratio totaled 54% at the close of 1998 with borrowings of \$30 million against our \$100 million line of credit. During the fourth quarter, we enhanced our financial flexibility further by closing a private placement of \$75 million in senior unsecured notes with a fixed rate of 6.76% for 10 years.

DESIGN FOCUS AIDS MARKETING Design is an essential factor in the complex equation our customers use to gauge the value provided by Culp's fabrics. In essence, a customer's furniture is a presentation of our fabrics. That all-important first impression in a retail showroom or when a delivery is made to a home or office is directly influenced by our fabrics. Our practice increasingly is to bring customers into the design process. This helps build a working partnership, enabling us to share our analysis of trends and styling changes and benefit, in turn, from the customer's own market research and often close communication with retailers.

The completion of the Howard L. Dunn, Jr. design center epitomizes the key role of design in our business. Although the structure itself conveys a clear sense of innovation, the heart of this resource center is the personnel within. We were fortunate during 1998 to add a number of talented designers with solid reputations for a willingness to test new concepts. We are encouraging them to push our entire organization, convinced that stretching ourselves will yield the progressive designs that spell success for customers--and for Culp!

(Photo of fabric samples)

One should understand that while the physical center serves as the starting point for our designs, this effort involves the entire capabilities of Culp. We are working hard to ensure that each business unit develops the internal collaboration with design, manufacturing and sales for a successful marketing program. CAD technology is assisting us greatly in this area by allowing designers much broader flexibility to experiment with new patterns and textures. The architectural planning for the new center was specifically designed to accommodate computerized systems in a setting that invites customers to participate actively in the conception of new designs.

MANAGEMENT RESTRUCTURING With net sales nearing a half-billion dollars in 1999, we have the proven resources to realize continued long-term growth. To capitalize fully on our opportunities, we have recently implemented changes in Culp's management structure that reflect the substantial expansion that has occurred in our operational breadth. By uniting related operations, we have formed four business units that replace six separate groups. Our goal is to raise overall efficiency, improve internal communications and develop more comprehensive marketing programs that correlate our diverse fabric offerings into unified collections for customers. We are confident the new structure will enhance Culp's competitiveness and help build stronger working partnerships with customers.

We have not constructed a ballpark out of a cornfield, but we have built an organization of which we are very proud. The concentrated energies of our associates are behind Culp's global leadership, and our purpose is to ensure that they continue to have the resources and support to develop their capabilities to the fullest.

Sincerely,

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

/s/ Howard L. Dunn, Jr.
Howard L. Dunn, Jr.
President and Chief Operating Officer

(Photo of color samples)

(Photo of fabric samples)

FOCUS ON DESIGN INTEGRATION

THE NEW HOWARD L. DUNN, JR. DESIGN CENTER

(Photo appears here with the following caption.)
Howard L. Dunn, Jr. Design Center's Design Court

We welcome you to the Howard L. Dunn, Jr. design center. At the entrance gallery, you will find an array of fabrics spanning jacquards, dobbies, wet print flocks, heat-transfer prints, woven and tufted velvets and pigment prints. Here in one location, a furniture or bedding manufacturer will find comprehensive solutions to meeting the challenge of serving today's discriminating consumer. By consolidating most of our design resources in a single location, we offer an unmatched selection of fabrics, backed by a highly efficient, vertically integrated manufacturing organization.

CONSOLIDATES DESIGN RESOURCES

The genesis for a new design or texture can come from a myriad of sources. Our goal in Culp's new design center is to stimulate that process, and we figuratively have set creativity as the cornerstone for this exciting new facility. The latest in computer-based systems allow Culp's designers to translate a broad range of original artwork into new patterns and styles. Conventional practice requires considerable time to take these designs and produce actual samples. Culp's advanced systems utilizing sophisticated color printers give our designers and customers realistic visual renditions virtually on-demand. The advantages are obvious. Specialized ideas can easily be explored. Customers can be encouraged to participate actively in the entire design process, not just presented a limited selection of prepared samples. Design becomes a true working partner to enhance one's marketing programs. COORDINATION One especially exciting aspect of our design center is the coordination it is fostering among our various business units. Culp's broad range of manufacturing processes and finishing techniques offer the potential to develop an integrated line of fabrics that match the increased market emphasis on complete room furnishings. The boucle doobby fabric for the casual, relaxed feel of a sectional sofa can be combined with a jacquard or printed fabric for accompanying separate chairs. We are increasingly using this process to provide one-stop shopping for customers. Make it easy to do business with Culp, and we will get more of that business.

(Three photos appears on this page--two of fabric samples and one of a computer with a fabric design on the background)

TO STRENGTHEN OUR DESIGN LEADERSHIP

(Photos of beds, chairs, couches and fabric samples appear on the back of a pull-out page.)

CORPORATE DIRECTORY

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Robert G. Culp, III
Chairman of the Board and Chief Executive Officer;
Director (E,N)

Howard L. Dunn, Jr.
President and Chief Operating Officer; Director (E)

Franklin N. Saxon
Senior Vice President and President of the Culp Velvets/Prints division;
Director (E)

Dan E. Jacobs
Senior Vice President and President of the Culp Decorative Fabrics division

Kenneth M. Ludwig
Senior Vice President-Human Resources; Assistant Secretary

Philip W. Wilson
Vice President and Chief Financial Officer

Kathy J. Hardy
Corporate Secretary

Harry R. Culp
Director; Private Investments, High Point, NC

Robert T. Davis
Director, former chairman of Artee Industries, Incorporated

Earl M. Honeycutt
Director (A,C); Retired President, Amoco Fabrics and Fibers Company,
Atlanta, GA

Patrick H. Norton
Director (N); Chairman of the Board;
La-Z-Boy, Inc., Monroe, MI

Earl N. Phillips, Jr.
Director; Chairman of the Board and Chief Executive Officer,
GE Capital First Factors, High Point, NC

Bland W. Worley
Director (A,C,N); Retired Chairman of the Board and Chief Executive
Officer, BarclaysAmericanCorporation, Charlotte, NC

Baxter P. Freeze, Sr.
Director Emeritus; Retired President, Chairman of the Board,
Commonwealth Hosiery Mills, Inc., Randleman, NC

BOARD COMMITTEES:
A-AUDIT
C-COMPENSATION
E-EXECUTIVE
N-NOMINATING

SHAREHOLDERS'
EQUITY
(\$ MILLIONS)

(A bar graph appears here with the following plot points.)

94	95	96	97	98
\$62.6	\$71.4	\$81.4	\$110.8	\$131.5

RETURN ON
AVERAGE EQUITY

(A bar graph appears here with the following plot points.)

94	95	96	97	98
13.1%	14.6%	14.4%	15.2%	13.0%

INTERNATIONAL
SALES
(\$ MILLIONS)

(A bar graph appears here with the following plot points.)

94	95	96	97	98
\$44.0	\$58.0	\$77.4	\$101.6	\$137.2

CAPITAL
EXPENDITURES
(\$ MILLIONS)

(A bar graph appears here with the following plot points.)

94	95	96	97	98
\$16.8	\$18.1	\$14.4	\$27.0	\$35.9

financial index

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Management's discussion and analysis of financial condition and results of operations

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

OVERVIEW

Culp believes that it is the largest manufacturer and marketer in the world for upholstery fabrics for furniture and is one of the leading global producers of mattress fabrics (or ticking). The company's fabrics are used primarily in the production of residential and commercial upholstered furniture and bedding products, including sofas, recliners, chairs, love seats, sectionals, sofa-beds, office seating and mattress sets. Although Culp markets fabrics at most price levels, the company emphasizes fabrics that have broad appeal in the promotional and popular-priced categories of furniture and bedding.

Culp's worldwide leadership as a manufacturer and marketer of upholstery fabrics and mattress ticking has been achieved through internal expansion and the integration of strategic acquisitions. Acquisitions and internal expansion over the past five years have included the following transactions:

[] In February 1998, Culp acquired the business and substantially all the assets relating to the yarn manufacturing business operating as Artee Industries, Incorporated. The transaction was valued at closing at \$17.9 million with additional compensation of up to \$7.6 million contingent upon the profitability of Artee Industries during Culp's fiscal year ending May 2, 1999. The Artee transaction substantially expanded the company's capacity for manufacturing specialty filling yarn. Culp initially acquired the capability to manufacture filling yarn in December 1997 through the acquisition of the business and certain assets relating to the Wetumpka spun yarn operation of Dan River, Inc.

[] In August 1997, Culp acquired the business and certain assets relating to the upholstery fabric businesses operating as Phillips Weaving Mills, Phillips Velvet Mills, Phillips Printing and Phillips Mills in a transaction valued at approximately \$39.5 million.

[] In January 1997, the company acquired a 107,000 square-foot facility in Lumberton, North Carolina and installed manufacturing equipment necessary to produce wet-printed flock upholstery fabrics. This new facility, which began operating in July 1997, involved capital expenditures of \$9 million.

[] In March 1995, the company acquired Rayonese Textile Inc. ("Rayonese") in a transaction valued at \$10.5 million. The acquisition of Rayonese substantially increased the company's capacity to manufacture jacquard greige, or unfinished, goods used by the company in the production of printed fabrics.

[] In November 1993, the company purchased the assets that now comprise Rossville/Chromatex in a transaction valued at \$39.3 million. This acquisition significantly added to the company's capacity to produce jacquard and dobby upholstery fabrics marketed principally for residential furniture.

The company is organized into business units. Culp Textures and Rossville/Chromatex manufacture jacquard and dobby woven fabrics for residential and commercial furniture. Phillips Mills manufactures jacquard woven fabrics primarily for residential furniture. Velvets/Prints manufactures a broad range of printed and velvet fabrics used primarily for residential and juvenile furniture. Culp Home Fashions principally manufactures mattress ticking. Artee Industries manufactures specialty filling yarn that is used by Culp and also marketed to outside customers.

RESULTS OF OPERATIONS

The following table sets forth certain items in the company's consolidated statements of income as a percentage of net sales.

	1998	1997	1996
Net sales	100.0%	100.0%	100.0%
Cost of sales	82.5	81.8	82.2
Gross profit	17.5	18.2	17.8
Selling, general and administrative expenses	11.1	11.3	11.1
Income from operations	6.4	6.9	6.7
Interest expense	1.5	1.2	1.5
Interest income	(0.1)	(0.1)	0.0
Other expense	0.4	0.4	0.3
Income before income taxes	4.6	5.4	4.9
Income taxes (*)	29.0	36.0	36.5
Net Income	3.3%	3.5%	3.1%

* Calculated as a percent of income before income taxes.

The following table sets forth the company's sales by business unit and major product category for each of the company's three most recent years. The table

also sets forth the change in net sales for the business units and major product categories as a percentage for comparative periods included in the table.

(DOLLARS IN THOUSANDS)	AMOUNTS			PERCENT CHANGE	
	1998	1997	1996	1997- 1998	1996- 1997

BUSINESS UNIT/PRODUCT CATEGORY					

UPHOLSTERY FABRICS:					
Culp Textures	\$ 92,727	\$ 88,218	\$ 84,384	5.1%	4.5%
Rossville/Chromatex	84,740	79,512	74,203	6.6%	7.2%

	177,467	167,730	158,587	5.8%	5.8%
Phillips	32,698	--	--	100.0%	--
Velvets/Prints	171,389	156,467	125,701	9.5%	24.5%

	381,554	324,197	284,288	17.7%	14.0%
MATTRESS TICKING:					
Culp Home Fashions	87,285	74,682	67,379	16.9%	10.8%
YARN:					
Artee Industries	7,876	--	--	100.0%	--

	\$476,715	\$398,879	\$ 351,667	19.5%	13.4%
=====					

1998 Compared with 1997

Net Sales. Net sales for 1998 increased by \$77.8 million, or 19.5%, compared with 1997. The company's sales of upholstery fabrics increased \$57.4 million, or 17.7%, in 1998 compared with 1997. The principal factor contributing to the increased sales was the contribution of \$32.7 million from Phillips Mills, which was acquired on August 5, 1997. Sales from Velvets/Prints, which manufactures and markets fabrics that have been especially popular in markets outside the United States, were up from the prior year. Although the strength in the U.S. dollar relative to other currencies affected demand for Culp's fabrics, Velvets/Prints continued to achieve increased international sales during 1998. Sales from Culp Textures and Rossville/Chromatex rose at a lesser rate for fiscal 1998. Sales from Culp Home Fashions, which principally consist of mattress ticking and bedding products, rose 16.9% from a year ago. Excluding the contribution from

acquired operations, Culp's sales of upholstery fabrics for furniture to U.S.-based accounts were down slightly from 1997. Overall sales to U.S.-based accounts, including the contribution from acquired operations, were up 14.2% for 1998. International sales, consisting primarily of upholstery fabrics, increased to \$137.2 million, up 35.1% from 1997. International shipments accounted for 28.8% of the company's sales for 1998, up from 25.5% in 1997. Since the close of fiscal 1998, demand for fabrics marketed by Velvets/Prints began to slow in certain international regions that had been primary export areas for the company. This slowdown, which the company believes is industry-wide and linked to economic difficulties in these areas, has accelerated and is expected to affect the company's results significantly through at least the first half of fiscal 1999.

GROSS PROFIT AND COST OF SALES. Gross profit for 1998 increased by \$11.1 million and amounted to 17.5% of net sales compared with 18.2% in 1997. The company benefited from an increased absorption of fixed costs as a result of the growth in sales, the investment in equipment designed to lower manufacturing costs and raise productivity and contributions from acquisitions. These benefits were more than offset in 1998 by the impact of competitive pressures on the margins of sales to certain U.S. and international customers and expansion projects that did not reach targeted levels of productivity. The cost of raw materials remained relatively stable in 1998. The significant slowdown in international sales of certain fabrics that has developed since the close of 1998 is expected to have an adverse impact on the company's gross profit for 1999. The company expects that this development, combined with other competitive issues, will likely lead to significantly lower gross profit compared with the prior year through at least the first half of fiscal 1999.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES. Selling, general and administrative expenses declined slightly as a percentage of net sales for 1998 to 11.1% compared with 11.3% a year ago. The company is continuing to incur higher expenses related to expanded resources for designing fabrics with new patterns and textures and increased selling commissions associated with international sales. These factors were offset by lower accruals as a percentage of net sales for incentive-based compensation plans and by the increase in overall operating efficiency as a result of the growth in net sales.

INTEREST EXPENSE. Net interest expense for 1998 of \$6.8 million was up from \$4.4 million in 1997 due principally to borrowings related to the acquisition of Phillips Mills on August 5, 1997. The company also incurred higher borrowings in 1998 to finance capital expenditures and additional working capital requirements.

OTHER EXPENSE. Other expense increased to \$1.9 million for 1998 compared with \$1.5 million for 1997, principally due to the amortization of goodwill associated with the acquisition of Phillips Mills.

INCOME TAXES. The effective tax rate for 1998 was 29.0% compared with 36.0% in 1997. The lower rate was due principally to increased tax benefits related to the company's international sales and to a higher proportion of earnings from the company's Canadian subsidiary that is taxed at a lower effective rate. The company expects the effective tax rate for 1999 to be approximately 34%.

NET INCOME PER SHARE. Diluted net income per share for 1998 totaled \$1.19 compared with \$1.15 a year ago. The weighted average number of outstanding shares diluted increased 9.3% from 1997, principally due to the company's secondary offering completed in February 1997.

1997 COMPARED WITH 1996

Net Sales. Net sales for 1997 increased by \$47.2 million, or 13.4%, compared with 1996. The company's sales of upholstery fabrics increased \$39.9 million, or 14.0% in 1997 compared with 1996. Sales from Velvets/Prints were up significantly from the prior year, reflecting the positive impact of increased international sales of wet-printed flock fabrics. Sales from Rossville/Chromatex and Culp Textures also rose for the year. Sales from Culp Home Fashions, principally represented by mattress ticking and bedding products, rose 10.8% for the year. Business within the United States, especially sales to residential furniture manufacturers, decreased by 2.1% during the fourth quarter of 1997 in comparison to the same period of 1996. However, the company still achieved an 8% gain in sales to U.S.-based accounts for the year. International sales, consisting primarily of upholstery fabrics, increased to \$101.6 million, up 31.2% from 1996. International shipments accounted for 25.5% of the company's sales for 1997, up from 22.0% in 1996. Sales were made to customers in over 50 countries during 1997.

GROSS PROFIT AND COST OF SALES. Gross profit for 1997 increased by \$9.9 million and amounted to 18.2% of net sales compared with 17.8% in 1996. A significant portion of the increase in gross profit dollars was generated by Velvets/Prints and, to a lesser degree, by Culp Home Fashions. Gross profit for Culp Textures and Rossville/Chromatex increased slightly. Factors contributing to the higher profitability included the increased absorption of fixed costs as a result of the growth in sales as well as the benefit from the company's ongoing capital investment in equipment designed to lower manufacturing costs and raise productivity. The company also began to experience a stabilization in the cost of raw materials during 1997 and, in some instances, realized lower costs.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES. Selling, general and administrative expenses increased as a percentage of net sales for 1997. Although the company continued to emphasize cost-containment programs, planned increases in expenses related to resources for designing new fabrics, higher selling commissions related to international sales and higher data processing costs contributed to the higher ratio of expenses to net sales.

INTEREST EXPENSE. Interest expense, net of interest income, of \$4.4 million for 1997 was down from \$5.2 million in 1996 due to lower average borrowings outstanding.

OTHER EXPENSE. Other expense increased \$565,000 in comparison to 1996, primarily due to the non-recurring write-off of certain fixed assets totaling \$175,000 and the recognition in 1996 of a gain of \$100,000 related to an indemnification for an environmental matter.

INCOME TAXES. The effective tax rate for 1997 decreased slightly to 36.0%

compared with 36.5% in 1996. This decrease was primarily due to the lower tax rate related to Canadian income and tax benefits related to international sales.

NET INCOME PER SHARE. Diluted net income per share for 1997 totaled \$1.15 compared with \$0.94 in 1996.

LIQUIDITY AND CAPITAL RESOURCES

LIQUIDITY. Cash and cash investments were \$2.3 million as of May 3, 1998 compared with \$830,000 at the end of 1997. Funded debt (long-term debt, including current maturities, less restricted investments) increased to \$151.6 million at the close of 1998 from \$65.6 million at the end of 1997. The increase of \$86.0 million in funded debt during 1998 was primarily a result of acquisitions and capital investments made during the year. As a percentage of total capital (funded debt plus total shareholders' equity), the company's borrowings amounted to 53.5% as of May 3, 1998 compared with 37.2% at the end of 1997. The company's working capital as of May 3, 1998 was \$102.7 million compared with \$69.8 million at the close of 1997.

The company's cash flow from operations was \$8.9 million for 1998, consisting of \$33.1 million from earnings (net income plus depreciation, amortization and deferred income taxes) offset by a reduction of \$24.2 million from changes in working capital. In April 1998, Culp completed the

sale of \$75 million of senior unsecured notes ("Notes") in a private placement to institutional investors. The Notes have a fixed coupon rate of 6.76% and an average term of 10 years. The net proceeds from the private placement were used to repay existing indebtedness under the company's bank credit facility.

FINANCING ARRANGEMENTS. In April 1997, the company completed a \$125 million syndicated five-year, unsecured, multi-currency revolving credit facility. The facility requires quarterly payments of interest on all outstanding borrowings and provides for a reduction of \$5 million annually in the maximum amount of the facility. Subsequent to the private placement of Notes in April 1998, the maximum amount of the revolving credit facility was reduced to \$100 million. As of May 3, 1998, the company had outstanding balances of \$30 million under the credit facility.

The company also has a total of \$34.8 million in currently outstanding industrial revenue bonds ("IRBs") which have been used to finance capital expenditures. The IRBs are collateralized by restricted investments of \$4.0 million as of May 3, 1998 and letters of credit for the outstanding balance of the IRBs and certain interest payments due thereunder.

The company's loan agreements require, among other things, that the company maintain certain financial ratios. As of May 3, 1998, the company was in compliance with these financial covenants.

As of May 3, 1998, the company had three interest rate swap agreements to reduce its exposure to floating interest rates on a \$25 million notional amount. The effect of these contracts is to "fix" the interest rate payable on \$25 million of the company's variable rate borrowings at a weighted average rate of 7.1%. The company also enters into foreign exchange forward and option contracts to hedge against currency fluctuations with respect to firm commitments to purchase certain machinery and equipment and raw materials and certain anticipated Canadian dollar expenses of the company's Canadian subsidiary.

CAPITAL EXPENDITURES. The company maintains an ongoing program of capital expenditures designed to increase capacity as needed, enhance manufacturing efficiencies through modernization and increase the company's vertical integration. Capital expenditures totaled \$35.9 million for 1998. The company anticipates capital spending of \$10-\$15 million in 1999.

The company believes that cash flows from operations and funds available under existing credit facilities and committed IRB financings will be sufficient to fund capital expenditures and working capital requirements for the foreseeable future.

INFLATION

The company's costs for operating expenses, such as labor, utilities and manufacturing supplies, rose during 1998 and 1997. Competitive conditions did not allow the company to fully offset the impact of these increases through higher prices, thereby putting pressure on profit margins. Although the cost of the company's raw materials has generally stabilized and, in some cases, declined during 1998, margins will continue to be influenced by raw material prices, other operating costs and overall competitive conditions.

SEASONALITY

The company's business is slightly seasonal, with increased sales during the second and fourth fiscal quarters. This seasonality results from one-week closings of the company's manufacturing facilities, and the facilities of most of its customers in the United States, during the first and third quarters for the holiday weeks including July 4th and Christmas.

SUBSEQUENT EVENTS

Culp is structured in business units. Through 1998, this organization consisted of six groups: (i) Culp Textures, (ii) Rossville/Chromatex, (iii) Velvets/Prints, (iv) Culp Home Fashions, (v) Phillips Mills and (vi) Artee Industries. After the close of the fiscal year, this structure was reorganized into a management structure with four business units: (i) Culp Decorative Fabrics, (ii) Culp Velvets/Prints, (iii) Culp Home Fashions and (iv) Culp Yarn. Management's goal in this restructuring is to raise overall efficiency, improve internal communications and develop more comprehensive marketing programs that correlate Culp's diverse fabric offerings into unified collections for customers.

NEW ACCOUNTING PRONOUNCEMENTS

The Financial Accounting Standards Board has issued Statement of Financial Accounting Standards (SFAS) No. 128, "Earnings Per Share," which is effective for financial statements for both interim and annual periods ending after December 15, 1997. SFAS No. 128 specifies the computation, presentation and disclosure requirements for earnings per share for entities with publicly held common stock. Early adoption of SFAS No. 128 was prohibited and, as a result, the company adopted SFAS No. 128 in the third fiscal quarter of 1998.

In June 1997, the Financial Accounting Standards Board issued SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information," effective for periods beginning after December 15, 1997. The purpose of this standard is to disclose disaggregated information which provides information about the operating segments an enterprise engages in, consistent with the way management reviews financial information to make decisions about the enterprise's operating matters. The company will comply with the requirements of this standard for fiscal year 1999.

YEAR 2000 CONSIDERATIONS

Management has developed a plan to modify the company's information technology to recognize the year 2000 and has begun converting critical data processing systems. The company's Year 2000 initiative is being managed by a team of internal staff and management. Management currently expects the project to be substantially complete by the end of fiscal 1999. The cost of this initiative, principally represented by internal resources, is not expected to be material to the company's results of operations or financial position. This project is not expected to have a significant effect on the company's operations, though no assurance can be given in this regard.

FORWARD-LOOKING INFORMATION

This annual report to shareholders and the company's annual report on Form 10-K contain statements that could be deemed "forward-looking statements," within the meaning of the federal securities laws. Such statements are inherently subject to risks and uncertainties. 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 characterized by qualifying words such as "expect," "believe," "estimate," "plan" and "project" and their derivatives. Factors that could influence the matters discussed in such statements include the level of housing starts and sales of existing homes, consumer confidence, trends in disposable income and general economic conditions. Decreases in these economic indicators could have a negative effect on the company's business and prospects. Likewise, increases in interest rates, particularly home mortgage rates, and increases in consumer debt or the general rate of inflation, could affect the company adversely. Because of the increasing percentage of the company's sales derived by international shipments, strengthening of the U.S. dollar against other currencies could make the company's products less competitive on the basis of price in markets outside the United States. Additionally, economic and political instability in the international area could affect the demand for the company's products.

Consolidated Balance Sheets

MAY 3, 1998 AND APRIL 27, 1997 (DOLLARS IN THOUSANDS, EXCEPT SHARE DATA)

1998

1997

	1998	1997
ASSETS		
current assets:		
cash and cash investments	\$ 2,312	830
accounts receivable	73,773	56,691
inventories	78,594	53,463
other current assets	7,808	5,450
total current assets	162,487	116,434
restricted investments	4,021	11,018
property, plant and equipment, net	128,805	91,231
goodwill	55,162	22,262
other assets	4,340	3,007
total assets	\$354,815	243,952
LIABILITIES AND SHAREHOLDERS' EQUITY		
current liabilities:		
current maturities of long-term debt	\$ 3,325	100
accounts payable	37,214	29,903
accrued expenses	17,936	15,074
income taxes payable	1,282	1,580
total current liabilities	59,757	46,657
long-term debt	152,312	76,541
deferred income taxes	11,227	9,965
total liabilities	223,296	133,163
commitments and contingencies (notes 10 and 11)		
shareholders' equity:		
preferred stock, \$.05 par value, authorized 10,000,000 shares	0	0
common stock, \$.05 par value, authorized 40,000,000 shares, issued and outstanding 13,007,021 at May 3, 1998 and 12,608,759 at April 27, 1997	650	630
capital contributed in excess of par value	40,882	33,899
retained earnings	89,987	76,260
total shareholders' equity	131,519	110,789
total liabilities and shareholders' equity	\$354,815	243,952

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THE CONSOLIDATED FINANCIAL STATEMENTS.

Consolidated Statements of Income

FOR THE YEARS ENDED MAY 3, 1998, APRIL 27, 1997,
AND APRIL 28, 1996 (DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)

	1998	1997	1996
net sales	\$ 476,715	398,879	351,667
cost of sales	393,154	326,394	289,129
gross profit	83,561	72,485	62,538
selling, general and administrative expenses	52,987	45,058	39,068
income from operations	30,574	27,427	23,470
interest expense	7,117	4,671	5,316
interest income	(304)	(280)	(92)
other expense	1,912	1,521	956
income before income taxes	21,849	21,515	17,290
income taxes	6,336	7,745	6,310
net income	\$ 15,513	13,770	10,980
net income per share	\$ 1.22	1.18	0.98
net income per share, assuming dilution	\$ 1.19	1.15	0.94

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THE CONSOLIDATED FINANCIAL
STATEMENTS.

Consolidated Statements of Shareholders' Equity

FOR THE YEARS ENDED MAY 3, 1998, APRIL 27, 1997 AND APRIL 28, 1996 (DOLLARS IN THOUSANDS, EXCEPT SHARE DATA)	COMMON STOCK SHARES	COMMON STOCK AMOUNT	CAPITAL CONTRIBUTED IN EXCESS OF PAR VALUE	RETAINED EARNINGS	TOTAL SHAREHOLDERS' EQUITY
balance, April 30, 1995	11,204,766	\$ 560	16,577	54,259	71,396
cash dividends (\$0.11 per share)				(1,236)	(1,236)
net income				10,980	10,980
common stock issued in connection with stock option plan	85,534	5	301		306
balance, April 28, 1996	11,290,300	565	16,878	64,003	81,446
proceeds from public offering of 1,200,000 shares	1,200,000	60	16,235		16,295
cash dividends (\$0.13 per share)				(1,513)	(1,513)
net income				13,770	13,770
common stock issued in connection with stock option plan	118,459	5	786		791
balance, April 27, 1997	12,608,759	630	33,899	76,260	110,789
cash dividends (\$0.14 per share)				(1,786)	(1,786)
net income				15,513	15,513
common stock issued in connection with stock option plans	114,051	6	997		1,003
common stock issued in connection with acquisition of Artee Industries, Incorporated's assets	284,211	14	5,386		5,400
stock options issued in connection with acquisition of Phillips' assets			600		600
balance, May 3, 1998	13,007,021	\$ 650	40,882	89,987	131,519

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THE CONSOLIDATED FINANCIAL STATEMENTS.

Consolidated Statements of Cash Flows

FOR THE YEARS ENDED MAY 3, 1998, APRIL 27, 1997, AND APRIL 28, 1996
(DOLLARS IN THOUSANDS)

	1998	1997	1996

cash flows from operating activities:			
net income	\$ 15,513	13,770	10,980
adjustments to reconcile net income to net cash provided by operating activities:			
depreciation	14,808	12,688	12,348
amortization of intangible assets	1,371	810	748
provision for deferred income taxes	1,416	966	2,210
changes in assets and liabilities, net of effects of businesses acquired:			
accounts receivable	(13,207)	(4,653)	(7,786)
inventories	(17,684)	(6,068)	(1,624)
other current assets	(660)	(348)	(537)
other assets	(380)	(205)	(103)
accounts payable	6,477	2,586	(1,077)
accrued expenses	1,506	2,510	1,032
income taxes payable	(298)	1,383	(464)
net cash provided by operating activities	8,862	23,439	15,727

cash flows from investing activities:			
capital expenditures	(35,879)	(26,958)	(14,385)
purchase of restricted investments	(8,770)	(9,770)	(6,019)
purchase of investments to fund deferred compensation liability	(581)	(563)	(1,286)
sale of restricted investments	15,767	4,002	1,564
payments for businesses acquired	(42,966)	--	--
net cash used in investing activities	(72,429)	(33,289)	(20,126)

cash flows from financing activities:			
proceeds from issuance of long-term debt	86,246	54,500	19,854
principal payments on long-term debt	(17,100)	(59,900)	(11,555)
cash dividends paid	(1,786)	(1,513)	(1,236)
proceeds from common stock issued	562	17,086	306
change in accounts payable - capital expenditures	(2,873)	9	(3,865)
net cash provided by financing activities	65,049	10,182	3,504

increase (decrease) in cash and cash investments	1,482	332	(895)
cash and cash investments, beginning of year	830	498	1,393
cash and cash investments, end of year	\$ 2,312	830	498
=====			

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THE CONSOLIDATED FINANCIAL STATEMENTS.

Notes to Consolidated Financial Statements

1. GENERAL AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

PRINCIPLES OF CONSOLIDATION The consolidated financial statements include the accounts of the company and its subsidiary, which is wholly-owned. All significant intercompany balances and transactions are eliminated in consolidation.

DESCRIPTION OF BUSINESS The company primarily manufactures and markets furniture upholstery fabrics and mattress ticking for the furniture, bedding, and related industries, with the majority of its business conducted in the United States.

FISCAL YEAR The company's fiscal year is the 52 or 53 week period ending on the Sunday closest to April 30. Fiscal year 1998 included 53 weeks and fiscal years 1997 and 1996 included 52 weeks.

STATEMENTS OF CASH FLOWS For purposes of reporting cash flows, the company considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash investments.

ACCOUNTS RECEIVABLE Substantially all of the company's accounts receivable are due from manufacturers and distributors in the markets noted above. The company grants credit to customers, a substantial number of which are located in the United States. Management performs credit evaluations of the company's customers and generally does not require collateral.

INVENTORIES Principally all inventories are valued at the lower of last-in, first-out (LIFO) cost or market.

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

PROPERTY, PLANT AND EQUIPMENT Property, plant and equipment is recorded at cost. Depreciation is generally computed using the straight-line method over the estimated useful lives of the respective assets. Major renewals and betterments are capitalized. Maintenance, repairs and minor renewals are expensed as incurred. When properties are retired or otherwise disposed of, the related cost and accumulated depreciation are removed from the accounts. Amounts received on disposal less the book value of assets sold are charged or credited to income.

Interest costs of \$678,000 incurred during the year ended May 3, 1998 for the purchase and construction of qualifying fixed assets were capitalized and are being amortized over the related assets' estimated useful lives.

FOREIGN CURRENCY TRANSLATION The United States dollar is the functional currency for the company's Canadian subsidiary. Translation gains or losses for this subsidiary are reflected in net income.

GOODWILL AND OTHER INTANGIBLE ASSETS Goodwill, which represents the unamortized excess of the purchase price over the fair values of the net assets acquired, is being amortized using the straight-line method over 40 years. The company assesses the recoverability of goodwill by determining whether the amortization of the balance over its remaining life can be recovered through undiscounted future operating cash flows of the acquired businesses. The assessment of the recoverability of goodwill will be impacted if estimated cash flows are not achieved.

Other intangible assets are included in other assets and consist principally of debt issue costs. Amortization is computed using the straight-line method over the respective terms of the debt agreements.

INCOME TAXES Deferred taxes are recognized for the temporary differences between the financial statement carrying amounts and the tax bases of the company's assets and liabilities and operating loss and tax credit carryforwards at income tax rates expected to be in effect when such amounts are realized or settled. The effect on deferred taxes of a change in tax rates is recognized in income in the period that includes the enactment date.

No provision is made for income taxes which may be payable if undistributed income of the company's Canadian subsidiary were to be paid as dividends to the company, since the company intends that such earnings will continue to be invested. At May 3, 1998, the amount of such undistributed income was \$10.7 million. Foreign tax credits may be available as a reduction of United States income taxes in the event of such distributions.

REVENUE RECOGNITION Revenue is recognized when products are shipped to customers. Provision is made currently for estimated product returns, claims and allowances.

STOCK OPTION PLANS Prior to April 29, 1996, the company accounted for its stock option plans in accordance with the provisions of Accounting Principles Board ("APB") Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations. As such, compensation expense was recorded on the date of grant only if the current market price of the underlying stock exceeded the exercise price. On April 29, 1996, the company adopted SFAS No. 123, Accounting for Stock-Based Compensation, which permits entities to recognize as expense over the vesting period the fair value of all stock-based awards on the date of grant. Alternatively, SFAS No. 123 also allows entities to continue to apply the provisions of APB Opinion No. 25 and provide pro forma net income and pro forma net income per share disclosures for employee stock option grants made in fiscal 1996 and future years as if the fair-value-based method defined in SFAS No. 123 had been applied. The company has elected to continue to apply the provisions of APB Opinion No. 25 and provide the pro forma disclosure provisions of SFAS No. 123.

FAIR VALUE OF FINANCIAL INSTRUMENTS The carrying amount of cash and cash investments, accounts receivable, other current assets, accounts payable and accrued expenses approximates fair value because of the short maturity of these financial instruments.

The fair value of the company's long-term debt is estimated by discounting the future cash flows at rates currently offered to the company for similar debt instruments of comparable maturities. The fair value of the company's long-term debt approximates the carrying value of the debt at May 3, 1998.

INTEREST RATE SWAP AGREEMENTS Interest rate swap agreements generally involve the exchange of fixed and floating rate interest payment obligations without the exchange of the underlying principal amounts. These agreements are used to

effectively fix the interest rates on certain variable rate borrowings. Net amounts paid or received are reflected as adjustments to interest expense.

FORWARD CONTRACTS Gains and losses related to qualifying hedges of firm commitments and certain anticipated transactions of the company's Canadian subsidiary are deferred and included in the measurement of the related foreign currency transaction when the hedged transaction occurs.

PER SHARE DATA During the third quarter of fiscal 1998, the company adopted Statement of Financial Accounting Standards No. 128 that requires the reporting of both net income per share and net income per share, assuming dilution. Net income per share is computed by dividing net income available to common shareholders by the weighted average number of common shares outstanding for the period. Net income per share, assuming dilution reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock. Prior periods have been restated to reflect the new standard. The following table reconciles the numerators and denominators of net income per share and net income per share, assuming dilution:

(Amounts in thousands, except per share data)	Income (Numerator)	Shares (Denominator)	Per Share Amount

1998			
Net income per share	\$ 15,513	12,744	\$ 1.22
Effect of dilutive securities:			
Options	0	298	

Net income per share, assuming dilution	\$ 15,513	13,042	\$ 1.19
=====			
1997			
Net income per share	\$ 13,770	11,624	\$ 1.18
Effect of dilutive securities:			
Options	0	305	

Net income per share, assuming dilution	\$ 13,770	11,929	\$ 1.15
=====			
1996			
Net income per share	\$ 10,980	11,234	\$ 0.98
Effect of dilutive securities:			
Options	0	288	
Convertible note payable	175	364	

Net income per share, assuming dilution	\$ 11,155	11,886	\$ 0.94
=====			

USE OF ESTIMATES The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

RECLASSIFICATION Certain items in the 1997 consolidated financial statements have been reclassified to conform with the presentation adopted in the current year. The reclassifications did not impact net income as previously reported.

2. ACQUISITIONS

On August 5, 1997, the company purchased the operations and certain assets relating to an upholstery fabric business operating as Phillips Weaving Mills, Phillips Velvet Mills, Phillips Printing and Phillips Mills (Phillips). The transaction was valued at approximately \$39.5 million and involved the purchase of assets for cash, the assumption of certain notes, liabilities and contracts, the payments under the terms of certain obligations to Phillips and the issuance of an option for 100,000 shares of common stock. The consideration for the acquisition also included contingent payments to Phillips within three years following closing that could range from \$0 to \$5.5 million, depending upon the future sales performance of the Phillips jacquard fabric product line. Goodwill on the transaction was approximately \$30.8 million, which is being amortized on the straight-line method over 40 years.

On December 30, 1997, the company purchased the operations and certain assets relating to the Wetumpka spun yarn operation of Dan River Inc. The transaction was valued at approximately \$1.4 million and involved the purchase of assets for cash.

On February 2, 1998, the company purchased the operations and certain assets relating to a yarn manufacturing business operating as Artee Industries, Incorporated (Artee). The transaction was valued at approximately \$17.9 million and involved the purchase of assets for cash, the assumption of certain liabilities and the issuance of a note payable and common stock of the company. The consideration for the acquisition also included contingent payments to Artee that could range from \$0 to \$7.6 million, depending upon the future profitability of Artee during the company's fiscal year ending May 2, 1999. Goodwill on the transaction was approximately \$3.3 million, which is being amortized on the straight-line method over 40 years.

The three acquisitions mentioned above were accounted for as purchases, and accordingly, the total purchase price has been allocated to the assets and retained liabilities acquired based on their estimated fair values at the dates of the acquisitions. The preliminary estimated fair values of assets and retained liabilities acquired are summarized below:

(dollars in thousands)	
accounts receivable, net	\$ 3,875
inventories	7,447
other current assets	907
property, plant and equipment	16,503
goodwill	34,133
other assets	1,455
accounts payable and accrued expenses	(5,504)

total	58,816

issuance of 284,211 shares of Culp, Inc. common stock	5,400
issuance of an option for 100,000 shares of Culp, Inc. common stock	600
issuance of obligations to sellers	9,850

cash paid	\$ 42,966
=====	

The operating results of the three acquisitions mentioned above are included in the company's consolidated results of operations from the dates of the acquisitions. The following unaudited pro forma data presents the consolidated results of operations as if the acquisitions had occurred at the beginning of fiscal 1997, after giving effect to certain adjustments, including amortization of goodwill, interest expense on the debt of the acquisitions and related income tax effects. These pro forma results have been prepared for comparative purposes only and do not purport to be indicative of what would have occurred had the acquisitions been made as of those dates or of results which may occur in the future.

(dollars in thousands, except per share data) (unaudited)	1998	1997
net sales	\$ 505,950	471,751
net income	16,283	15,652
net income per share	1.26	1.31
net income per share, assuming dilution	1.23	1.28

3. ACCOUNTS RECEIVABLE

A summary of accounts receivable follows:

(dollars in thousands)	1998	1997
customers	\$ 75,695	58,568
allowance for doubtful accounts	(1,244)	(1,500)
reserve for returns and allowances	(678)	(377)
	\$ 73,773	56,691

4. INVENTORIES

A summary of inventories follows:

(dollars in thousands)	1998	1997
inventories on the FIFO cost method		
raw materials	\$ 45,319	32,025
work-in-process	6,608	4,627
finished goods	31,017	20,212
total inventories on the FIFO cost method	82,944	56,864
adjustments of certain inventories to the LIFO cost method	(2,364)	(3,401)
adjustments of certain inventories to market	(1,986)	-
	\$ 78,594	53,463

5. PROPERTY, PLANT AND EQUIPMENT

A summary of property, plant and equipment follows:

(dollars in thousands)	depreciable lives (in years)	1998	1997
land and improvements	10	\$ 2,205	1,795
buildings and improvements	7-40	21,548	13,719
leasehold improvements	7-10	1,544	1,379
machinery and equipment	3-12	162,070	124,531
office furniture and equipment	3-10	13,508	13,122
capital projects in progress		23,659	19,019
accumulated depreciation		224,534 (95,729)	173,565 (82,334)
		\$ 128,80	\$ 91,231

6. GOODWILL

A summary of goodwill follows:

(DOLLARS IN THOUSANDS)	1998	1997
goodwill	\$ 58,351	24,218
accumulated amortization	(3,189)	(1,956)
	\$ 55,162	22,262

7. ACCOUNTS PAYABLE

A summary of accounts payable follows:

(DOLLARS IN THOUSANDS)	1998	1997
accounts payable - trade	\$34,340	24,156
accounts payable - capital expenditures	2,874	5,747
	\$37,214	29,903

8. ACCRUED EXPENSES

A summary of accrued expenses follows:

(DOLLARS IN THOUSANDS)	1998	1997
compensation and benefits	\$12,212	10,217
other	5,724	4,857
	\$17,936	15,074

9. INCOME TAXES

A summary of income taxes follows:

(DOLLARS IN THOUSANDS)	1998	1997	1996
current			
federal	\$2,698	5,109	3,345
state	493	881	700
Canadian	1,729	789	0
	4,920	6,779	4,045
deferred			
federal	563	(26)	1,422
state	102	(12)	145
Canadian	751	1,004	698
	1,416	966	2,265
	\$6,336	7,745	6,310

Income before income taxes related to the company's Canadian operation for the years ended May 3, 1998, April 27, 1997, and April 28, 1996 were \$8,000,000, \$5,500,000 and \$2,100,000, respectively.

The following schedule summarizes the principal differences between income taxes at the federal income tax rate and the effective income tax rate reflected in the consolidated financial statements:

	1998	1997	1996
federal income tax rate	35.0%	35.0%	34.2%
state income taxes, net of federal income tax benefit	1.8	2.6	3.4
exempt income of foreign sales corporation	(6.4)	(1.7)	(1.7)
other	(1.4)	0.1	0.6
	29.0%	36.0%	36.5%

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and liabilities consist of the following:

(DOLLARS IN THOUSANDS)	1998	1997
deferred tax liabilities:		
property, plant and equipment, net	\$(10,526)	(8,903)
goodwill	(1,651)	(1,019)
other	(326)	(105)
total deferred tax liabilities	(12,503)	(10,027)
deferred tax assets:		
accounts receivable	590	638
inventories	1,356	380
compensation	1,515	1,231
liabilities and reserves	1,673	691
gross deferred tax assets	5,134	2,940
valuation allowance	0	0
total deferred tax assets	5,134	2,940
	\$ (7,369)	(7,087)

Deferred taxes are classified in the accompanying consolidated balance sheet captions as follows:

(DOLLARS IN THOUSANDS)	1998	1997
other current assets	\$ 3,858	2,878
deferred income taxes	(11,227)	(9,965)
	\$ (7,369)	(7,087)

The company believes that it is more likely than not that the results of future operations will generate sufficient taxable income to realize the remaining deferred tax assets.

Income taxes paid, net of income tax refunds, were \$5,218,000 in 1998; \$5,396,000 in 1997; and \$4,623,000 in 1996.

10. LONG-TERM DEBT

A summary of long-term debt follows:

(DOLLARS IN THOUSANDS)	1998	1997
senior unsecured notes	\$ 75,000	--
industrial revenue bonds and other obligations	34,787	31,641
revolving credit facility	30,000	41,000
revolving line of credit	6,000	4,000
obligations to sellers	9,850	--
	155,637	76,641
current maturities	(3,325)	(100)
	\$ 152,312	76,541

On April 2, 1998, the company completed the sale of \$75,000,000 of senior unsecured notes (the "Notes") in a private placement to insurance companies. The Notes have a fixed coupon rate of 6.76% and an average term of 10 years. The principal payments become due from March 2006 to March 2010 with interest payable semi-annually.

The company's revolving credit agreement (the "Credit Agreement") provides an unsecured multi-currency revolving credit facility, which expires in April 2002, with a syndicate of banks in the United States and Europe. The Credit Agreement provides for a revolving loan commitment of \$100,000,000. The agreement requires payment of a quarterly facility fee in advance. Additionally, the agreement requires payment of interest on any outstanding borrowings based on, at the company's option, (1) the reference rate of the agent acting on behalf of the syndicate of banks, or (2) a specified pricing grid which increases from LIBOR or IBOR based on the company's debt to EBITDA ratio, as defined by the agreement. At May 3, 1998, all of the outstanding borrowings under the multi-currency agreement were based on LIBOR and the interest rate was approximately 6.02%.

The company's \$6,000,000 revolving line of credit expires on May 31, 1999. However, the line of credit will automatically be extended for an additional three-month period on each August 31, November 30, February 28 and May 31 unless the bank notifies the company that the line of credit will not be extended. Additionally, the revolving line of credit requires payment of interest monthly on any outstanding borrowings at an interest rate based on LIBOR plus a margin based on the company's debt to EBITDA ratio, as defined in the credit facility. At May 3, 1998, the interest rate on outstanding borrowings was approximately 6.02%.

The industrial revenue bonds (IRB) are generally due in balloon maturities which occur at various dates from 2006 to 2013. All of the bonds bear interest at variable rates of approximately 60% of the prime rate (prime at May 3, 1998 was 8.5%). The IRBs are collateralized by restricted investments of \$4,021,000 and letters of credit for \$35,036,000 at May 3, 1998.

The company's loan agreements require, among other things, that the company maintain compliance with certain financial ratios. At May 3, 1998, the company was in compliance with these required financial covenants.

At May 3, 1998, the company had three interest rate swap agreements with a bank in order to reduce its exposure to floating interest rates on a portion of its variable rate borrowings.

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

NOTIONAL AMOUNT	INTEREST RATE	EXPIRATION DATE
\$ 15,000,000	7.3%	April 2000
\$ 5,000,000	6.9%	June 2002
\$ 5,000,000	6.6%	July 2002

The estimated amount at which the company could terminate these agreements as of May 3, 1998 is approximately \$476,000. Net amounts paid under these agreements increased interest expense by approximately \$232,000 in 1998; \$301,000 in 1997; and \$290,000 in 1996. Management believes the risk of incurring losses resulting from the inability of the bank to fulfill its obligation under the interest rate swap agreements to be remote and that any losses incurred would be immaterial.

The principal payment requirements of long-term debt during the next five years are: 1999 - \$3,325,000; 2000 - \$7,910,000; 2001 - \$1,910,000; 2002 - \$31,910,000; and 2003 - \$1,910,000.

Interest paid during 1998, 1997 and 1996 totaled \$7,067,000, \$4,834,000, and \$5,365,000, respectively.

11. COMMITMENTS AND CONTINGENCIES

The company leases certain office, manufacturing and warehouse facilities and equipment, primarily computer, and vehicles, under noncancellable operating leases. Lease terms related to real estate range from five to ten

years with renewal options for additional periods ranging from five to fifteen years. The leases generally require the company to pay real estate taxes, maintenance, insurance and other expenses. Rental expense for operating leases, net of sublease income, was \$6,065,000 in 1998, \$4,590,000 in 1997; and \$3,502,000 in 1996. Future minimum rental commitments for noncancellable operating leases are \$5,813,000 in 1999; \$5,129,000 in 2000; \$3,199,000 in 2001; \$2,205,000 in 2002; \$1,990,000 in 2003; and \$9,017,000 in later years.

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

The company has outstanding capital expenditure commitments of approximately \$3,614,000 as of May 3, 1998.

12. STOCK OPTION PLANS

The company has a fixed stock option plan under which options to purchase common stock may be granted to officers, directors and key employees. At May 3, 1998, 800,677 shares of common stock were authorized for issuance under the plan. Options are generally exercisable one year after the date of grant and generally expire beginning ten years after the date of grant.

No compensation cost has been recognized for this stock option plan as options are granted under the plan at an option price not less than fair market value at the date of grant.

A summary of the status of the plan as of May 3, 1998, April 27, 1997 and April 28, 1996 and changes during the years ended on those dates is presented below:

During fiscal 1995, the company adopted a stock option plan which provided for the one-time grant to officers and certain senior managers of options to purchase 121,000 shares of the company's common stock at \$.05 (par value) per share. Coincident with the adoption of this plan, the company's 1993 stock option plan was amended to reduce the number of shares issuable under that plan by 121,000 shares. The accelerated vesting provisions of this plan were achieved and all options vested 45 days after the end of fiscal 1997 and, as a result, the compensation expense recorded under APB opinion No. 25 was approximately \$1,026,000 for the three-year period ended April 27, 1997. Since these options were granted in fiscal 1995, the provisions of SFAS No. 123 are not applicable. As of May 3, 1998, the 65,000 options outstanding under the plan have exercise prices of \$0.05 and a weighted-average remaining contractual life of 5.7 years. Options exercised during fiscal 1998 were 49,000.

During September 1997, the company's shareholders approved the 1997 performance-based option plan which provides for the one-time grant to certain officers and certain senior managers of options to purchase 106,000 shares of the company's common stock at \$1.00 per share. Options under the plan are exercisable the earlier of January 1, 2006 or approximately 30 days after the end of fiscal 1999 if the company achieves net income per share of \$1.50 for fiscal 1999, which would represent a 15% compound annual growth rate from fiscal 1996 net income per share of \$0.98. During 1998, the compensation expense recorded under APB Opinion No. 25 was approximately \$250,000.

As of May 3, 1998, the 106,000 options outstanding under the plan have exercise prices of \$1.00 and a weighted-average remaining contractual life of 8.7 years. The weighted-average fair value of the 106,000 options granted during 1998 was \$19.10. Had compensation cost for this stock-based compensation plan and the fixed stock option plan with

	1998		1997		1996	
	SHARES	WEIGHTED-AVG. EXERCISE PRICE	SHARES	WEIGHTED-AVG. EXERCISE PRICE	SHARES	WEIGHTED-AVG. EXERCISE PRICE
Outstanding at beginning of year	407,228	\$ 8.69	443,437	\$ 7.46	455,721	\$ 6.65
Granted	187,250	18.89	82,250	12.61	83,250	8.27
Exercised	(65,051)	8.63	(118,459)	6.81	(85,534)	3.51
Canceled/expired	--	--	--	--	(10,000)	11.25
outstanding at end of year	529,427	12.30	407,228	8.69	443,437	7.46
Options exercisable at year-end	453,427	10.97	336,228	7.91	371,437	7.37
Weighted-average fair value of options granted during the year	\$ 6.72		\$ 4.55		\$ 2.98	

OPTIONS OUTSTANDING			OPTIONS EXERCISABLE		
RANGE OF EXERCISE PRICES	NUMBER OUTSTANDING AT 5/3/98	WEIGHTED-AVG. REMAINING CONTRACTUAL LIFE	WEIGHTED-AVG. EXERCISE PRICE	NUMBER EXERCISABLE AT 5/3/98	WEIGHTED-AVG. EXERCISE PRICE
\$ 2.82 -- \$ 7.75	142,427	4.5 years	\$ 5.04	142,427	\$ 5.04
\$ 8.00 -- \$12.75	168,375	6.4	10.83	168,375	10.83
\$13.34 -- \$20.25	207,375	6.8	18.02	131,375	16.73

\$20.94	--	\$20.94	11,250	9.4	20.94	11,250	20.94

			529,427	6.1	12.30	453,427	10.97
=====							

529,427 options outstanding at May 3, 1998 been determined consistent with SFAS No. 123, the company's net income, net income per share and net income per share, assuming dilution would have been reduced to the pro forma amounts indicated below:

(IN THOUSANDS, EXCEPT PER SHARE DATA)		1998	1997	1996
Net income	As reported	\$15,513	13,770	10,980
	Pro forma	15,377	13,637	10,927
Net income per share	As reported	\$ 1.22	1.18	0.98
	Pro forma	1.21	1.17	0.97
Net income per share, assuming dilution	As reported	\$ 1.19	1.15	0.94
	Pro forma	1.18	1.14	0.93

The fair value of each option grant is estimated on the date of grant using the Black Scholes option-pricing model with the following weighted-average assumptions used for grants in 1998, 1997 and 1996, respectively: dividend yield of 1%, 1% and 1%; risk-free interest rates of 5.5%, 5% and 5%; expected volatility of 42%, 44% and 44%; and expected lives of 5.3 years, 3 years and 3 years.

13. BENEFIT PLANS

The company has a defined contribution plan which covers substantially all employees and provides for participant contributions on a pre-tax basis and discretionary matching contributions by the company, which are determined annually. Company contributions to the plan were \$1,103,000 in 1998; \$ 875,000 in 1997; and \$791,000 in 1996.

In addition to the defined contribution plan, the company has a nonqualified deferred compensation plan covering officers and certain other associates. At May 3, 1998 and April 27, 1997, the company's nonqualified plan liability of \$3,059,000 and \$2,128,000 at May 3, 1998 and April 27, 1997, respectively, is included in accrued expenses in the accompanying consolidated balance sheets. The company also had assets related to the nonqualified plan of \$2,355,000 and \$1,774,000 at May 3, 1998 and April 27, 1997, respectively, which are included in other assets in the accompanying consolidated balance sheets.

14. INTERNATIONAL SALES

International sales, of which 94%, 91%, and 90% were denominated in U.S. dollars in 1998, 1997, and 1996, accounted for 29% of net sales in 1998, 25% in 1997, and 22% in 1996, and are summarized by geographic area as follows:

(DOLLARS IN THOUSANDS)	1998	1997	1996
North America (excluding USA)	\$31,160	27,479	23,528
Europe	30,775	25,245	18,927
Middle East	34,412	23,505	15,609
Asia and Pacific Rim	32,344	19,646	12,124
South America	5,158	2,604	2,753
All other areas	3,374	3,092	4,456
	\$137,223	101,571	77,397

15. RELATED PARTY TRANSACTIONS

A director of the company is also an officer and director of a major customer of the company. The amount of sales to this customer was approximately \$30,545,000 in 1998; \$27,549,000 in 1997; and \$27,739,000 in 1996. The amount due from this customer at May 3, 1998 was approximately \$2,413,000 and at April 27, 1997 was approximately \$2,718,000.

A director of the company is also an officer and director of the lessor of the company's office facilities in High Point. Rent expense for the company's office facilities was approximately \$482,000 in 1998; \$436,000 in 1997; and \$421,000 in 1996.

Rents paid to entities owned by certain shareholders and officers of the company and their immediate families were \$724,000 in 1998 and \$680,000 in 1997 and 1996.

16. FOREIGN EXCHANGE FORWARD CONTRACTS

The company generally enters into foreign exchange forward and option contracts as a hedge against its exposure to currency fluctuations on firm commitments to purchase certain machinery and equipment and raw materials and certain anticipated Canadian dollar expenses of the company's Canadian subsidiary. The company had approximately \$519,000 and \$2,432,000 of outstanding foreign exchange forward and option contracts as of May 3, 1998 and April 27, 1997, respectively (primarily denominated in Belgian francs and German marks). The contracts outstanding at May 3, 1998 mature at various dates in fiscal 1999. Due to the short maturity of these financial instruments, the fair values of these contracts approximate the contract amounts at May 3, 1998 and April 27, 1997, respectively.

17. STOCK OFFERING

In February of 1997, the company completed the sale of 1,200,000 shares of common stock at a per share price of \$15 less commissions and expenses of approximately \$1,700,000 which resulted in net proceeds realized of approximately \$16,300,000. The net proceeds received from the offering were used to reduce outstanding borrowings under the company's revolving credit line.

The stock offering also included 640,000 shares of common stock sold by two non-management shareholders at a per share price of \$15 less commissions of approximately \$576,000 which resulted in net proceeds realized of approximately \$9,024,000 by the selling shareholders.

Selected Quarterly Data

(AMOUNTS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)	FISCAL	FISCAL	FISCAL	FISCAL	FISCAL	FISCAL
	1998	1998	1998	1998	1997	1997
	4TH QUARTER	3RD QUARTER	2ND QUARTER	1ST QUARTER	4TH QUARTER	3RD QUARTER
INCOME STATEMENT DATA (10)						
net sales	\$ 135,834	118,457	122,926	99,498	105,678	97,468
cost of sales	112,644	97,554	100,191	82,765	85,386	80,317
gross profit	23,190	20,903	22,735	16,733	20,292	17,151
SG & A expenses	15,277	13,162	13,632	10,916	11,730	10,760
income from operations	7,913	7,741	9,103	5,817	8,562	6,391
interest expense	1,837	2,180	1,820	1,280	1,019	1,228
interest income	(69)	(73)	(72)	(90)	(90)	(73)
other expense	753	492	425	242	404	421
income before income taxes	5,392	5,142	6,930	4,385	7,229	4,815
income taxes	1,236	1,140	2,425	1,535	2,389	1,805
net income	4,156	4,002	4,505	2,850	4,840	3,010
EBITDA (6)						
depreciation	\$ 11,796	11,390	12,643	9,012	11,582	9,279
cash dividends	453	444	446	443	410	368
weighted average shares outstanding	12,993	12,692	12,668	12,631	12,546	11,342
weighted average shares outstanding, assuming dilution	13,284	12,986	12,980	12,929	12,856	11,653
PER SHARE DATA (10)						
net income (9)	\$ 0.32	0.32	0.36	0.23	0.39	0.27
net income, assuming dilution (9)	0.31	0.31	0.35	0.22	0.38	0.26
cash dividends	0.035	0.035	0.035	0.035	0.0325	0.0325
book value	10.11	9.58	9.30	8.98	8.79	7.89
BALANCE SHEET DATA (10)						
working capital	\$ 102,730	104,026	98,833	88,969	69,777	60,689
property, plant and equipment, net	128,805	113,658	107,377	97,128	91,231	86,146
total assets	354,815	327,322	320,979	253,319	243,952	228,262
capital expenditures	7,696	8,967	10,063	9,153	8,333	8,949
long-term debt	152,312	144,079	139,991	96,016	76,541	86,266
funded debt (1)	151,616	141,223	131,833	87,930	65,623	80,588
shareholders' equity	131,519	121,613	118,005	113,537	110,789	89,578
capital employed (7)	283,135	262,836	249,838	201,467	176,412	170,166
RATIOS & OTHER DATA (10)						
gross profit margin	17.1%	17.6%	18.5%	16.8%	19.2%	17.6%
operating income margin	5.8	6.5	7.4	5.8	8.1	6.6
net income margin	3.1	3.4	3.7	2.9	4.6	3.1
EBITDA margin	8.7	9.6	10.3	9.1	11.0	9.5
effective income tax rate	22.9	22.2	35.0	35.0	33.0	37.5
funded debt-to-total capital ratio (1)	53.5	53.7	52.8	43.6	37.2	47.4
working capital turnover	4.7	4.7	4.8	5.1	5.3	5.3
days sales in receivables	49	52	55	50	49	47
inventory turnover	5.9	5.4	6.1	5.8	6.6	6.2
STOCK DATA						
stock price						
high	\$ 21.75	21.00	22.19	18.63	19.63	17.00
low	18.63	18.38	17.38	16.50	14.50	13.50
close	18.88	20.00	19.00	17.63	16.63	14.88
P/E ratio (2)						
high	17.8	16.2	17.8	15.3	16.6	14.7
low	15.3	14.1	13.9	13.5	12.3	11.6
daily average trading volume (shares) (8)	16.9	17.5	13.9	15.8	33.3	15.0

(AMOUNTS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)	FISCAL	FISCAL
	1997	1997
	2ND QUARTER	1ST QUARTER
INCOME STATEMENT DATA (10)		
net sales	105,204	90,529
cost of sales	86,082	74,609
gross profit	19,122	15,920
SG & A expenses	11,704	10,864
income from operations	7,913	5,056
interest expense	1,242	1,182
interest income	(60)	(57)
other expense	301	395

income before income taxes	5,935	3,536
income taxes	2,225	1,326
-----	-----	-----
net income	3,710	2,210
=====	=====	=====
EBITDA (6)	10,540	8,003
depreciation	3,177	3,144
cash dividends	367	368
=====	=====	=====
weighted average shares outstanding	11,312	11,297
weighted average shares outstanding, assuming dilution	11,608	11,592
=====	=====	=====
PER SHARE DATA (10)		
net income (9)	0.33	0.20
net income, assuming dilution (9)	0.32	0.19
cash dividends	0.0325	0.0325
book value	7.66	7.37
=====	=====	=====
BALANCE SHEET DATA (10)		
working capital	57,230	53,635
property, plant and equipment, net	80,316	78,292
total assets	219,527	208,283
capital expenditures	5,201	4,475
long-term debt	72,891	70,916
funded debt (1)	74,612	72,772
shareholders' equity	86,835	83,356
capital employed (7)	161,447	156,128
=====	=====	=====
RATIOS & OTHER DATA (10)		
gross profit margin	18.2%	17.6%
operating income margin	7.1	5.6
net income margin	3.5	2.4
EBITDA margin	10.0	8.8
effective income tax rate	37.5	37.5
funded debt-to-total capital ratio (1)	46.2	46.6
working capital turnover	5.4	5.4
days sales in receivables	45	43
inventory turnover	6.6	6.0
=====	=====	=====
STOCK DATA		
stock price		
high	14.38	14.25
low	11.75	11.50
close	13.75	12.25
P/E ratio (2)		
high	13.0	13.6
low	10.6	11.0
daily average trading volume (shares) (8)	8.8	21.3
=====	=====	=====

- (1) FUNDED DEBT INCLUDES LONG- AND SHORT-TERM DEBT, LESS RESTRICTED INVESTMENTS.
- (2) P/E RATIOS BASED ON TRAILING 12-MONTH NET INCOME PER SHARE.
- (3) SHARE AND PER SHARE DATA ADJUSTED FOR STOCK SPLITS, EXCEPT FOR TRADING VOLUME.
- (4) ROSSVILLE/CHROMATEX INCLUDED IN CONSOLIDATED RESULTS FROM ITS NOVEMBER 1, 1993 ACQUISITION BY CULP.
- (5) RAYONESE INCLUDED IN CONSOLIDATED RESULTS FROM ITS MARCH 6, 1995 ACQUISITION BY CULP.
- (6) EBITDA REPRESENTS EARNINGS BEFORE INTEREST, INCOME TAXES, DEPRECIATION AND AMORTIZATION.
- (7) CAPITAL EMPLOYED INCLUDES FUNDED DEBT AND SHAREHOLDERS' EQUITY.
- (8) CULP'S COMMON SHARES WERE LISTED ON THE NEW YORK STOCK EXCHANGE ON DECEMBER 31, 1996.
- (9) NET INCOME PER SHARE DATA PRESENTED IN ACCORDANCE WITH SFAS NO. 128 WHICH WAS ADOPTED IN 1998.
- (10) PHILLIPS, WETUMPKA AND ARTEE INCLUDED IN CONSOLIDATED RESULTS FROM THEIR AUGUST 5, 1997, DECEMBER 30, 1997 AND FEBRUARY 2, 1998 ACQUISITIONS BY CULP, RESPECTIVELY.

Selected Annual Data

(AMOUNTS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)	FISCAL 1998	FISCAL 1997	FISCAL 1996	FISCAL 1995	FISCAL 1994	PERCENT CHANGE 1998/1997	FIVE-YEAR GROWTH RATE
INCOME STATEMENT DATA (4) (5) (10)							
net sales	\$ 476,715	398,879	351,667	308,026	245,049	19.5%	18.9%
cost of sales	393,154	326,394	289,129	253,345	202,426	20.5	18.5
gross profit	83,561	72,485	62,538	54,681	42,623	15.3	21.0
S G & A expenses	52,987	45,058	39,068	33,432	27,858	17.6	17.0
income from operations	30,574	27,427	23,470	21,249	14,765	11.5	30.8
interest expense	7,117	4,671	5,316	4,715	2,515	52.4	38.3
interest income	(304)	(280)	(92)	(64)	(79)	8.6	60.0
other expense	1,912	1,521	956	1,082	350	25.73	53.2
income before income taxes	21,849	21,515	17,290	15,516	11,979	1.6	27.1
income taxes	6,336	7,745	6,310	5,741	4,314	(18.2)	24.7
net income	15,513	13,770	10,980	9,775	7,665	12.7	28.1
EBITDA (6)	\$ 44,841	39,404	35,610	32,052	23,256	13.8	24.6
depreciation	14,808	12,688	12,348	11,257	8,497	16.7	17.1
cash dividends	1,786	1,513	1,236	1,120	887	18.0	20.7
weighted average shares outstanding	12,744	11,624	11,234	11,203	11,076	9.6	3.2
weighted average shares outstanding, assuming dilution	13,042	11,929	11,886	11,461	11,344	9.3	3.3
PER SHARE DATA (3) (4) (5) (10)							
net income (9)	\$ 1.22	1.18	0.98	0.87	0.69	3.4%	24.4%
net income, assuming dilution (9)	1.19	1.15	0.94	0.86	0.68	3.5	23.8
cash dividends	0.14	0.13	0.11	0.10	0.08	7.7	16.9
book value	10.11	8.79	7.21	6.37	5.60	15.0	15.1
BALANCE SHEET DATA (4) (5) (10)							
working capital	\$ 102,730	69,777	56,953	38,612	37,949	47.2%	24.1%
property, plant and equipment, net	128,805	91,231	76,961	75,8056	4,004	41.2	23.7
total assets	354,815	243,952	211,644	194,999	164,948	45.4	27.2
capital expenditures	35,879	26,958	14,385	18,058	16,764	33.1	24.6
businesses acquired	58,816	0	0	10,455	38,205	100.0	100.0
long-term debt	152,312	76,541	74,941	62,187	58,512	99.0	45.8
funded debt (1)	151,616	65,623	76,791	72,947	58,639	131.0	41.7
shareholders' equity	131,519	110,789	81,446	71,396	62,649	18.7	19.3
capital employed (7)	283,135	176,412	158,237	144,343	121,288	60.5	28.4
RATIOS & OTHER DATA (4) (5) (10)							
gross profit margin	17.5%	18.2%	17.8%	17.8%	17.4%		
operating income margin	6.4	6.9	6.7	6.9	6.0		
net income margin	3.3	3.5	3.1	3.2	3.1		
EBITDA margin	9.4	9.9	10.1	10.4	9.5		
effective income tax rate	29.0	36.0	36.5	37.0	36.0		
funded debt-to-total capital ratio (1)	53.5	37.2	48.5	50.5	48.3		
return on average total capital	8.4	10.1	9.5	9.6	9.2		
return on average equity	13.0	15.2	14.4	14.6	13.1		
working capital turnover	4.7	5.3	5.3	5.6	5.7		
days sales in receivables	49	49	46	47	43		
inventory turnover	5.8	6.4	6.0	6.0	6.3		
STOCK DATA (3)							
stock price							
high	\$ 22.19	19.63	13.25	12.50	17.33		
low	16.50	11.50	7.75	7.25	5.67		
close	18.88	16.63	13.00	9.75	11.63		
P/E ratio (2)							
high	18.2	16.6	13.5	14.3	25.1		
low	13.5	9.7	7.9	8.3	8.2		
daily average trading volume (shares) (8)	16.0	19.7	19.3	39.7	43.7		

(1) - (10) SEE SELECTED QUARTERLY DATA TABLE FOOTNOTE

Report of Independent Auditors

To the Board of Directors and Shareholders of Culp, Inc.:

We have audited the accompanying consolidated balance sheets of Culp, Inc. and subsidiary as of May 3, 1998 and April 27, 1997, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the years in the three-year period ended May 3, 1998. These consolidated financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Culp, Inc. and subsidiary as of May 3, 1998 and April 27, 1997, and the results of their operations and their cash flows for each of the years in the three-year period ended May 3, 1998, in conformity with generally accepted accounting principles.

/s/ KPMG PEAT MARWICK LLP
Greensboro, North Carolina
June 3, 1998

Management's Responsibility

The management of Culp, Inc. is responsible for the accuracy and consistency of all the information contained in this Annual Report, including the financial statements. These statements have been prepared to conform with generally accepted accounting principles. The preparation of financial statements and related data involves estimates and the use of judgment.

Culp, Inc. maintains internal accounting controls designed to provide reasonable assurance that the financial records are accurate, that the assets of the company are safeguarded, and that the financial statements present fairly the financial position and results of operations of the company.

KPMG Peat Marwick LLP, the company's independent auditors, conducts an audit in accordance with generally accepted auditing standards and provides an opinion on the financial statements prepared by management. Their report for 1998 is presented above.

The Audit Committee of the Board of Directors reviews the scope of the audit and the findings of the independent auditors. The internal auditor and the independent auditors meet with the Audit Committee to discuss audit and financial reporting issues. The Committee also reviews the company's principal accounting policies, significant internal accounting controls, the Annual Report and annual SEC filings (Form 10-K and Proxy Statement).

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

/s/ Phillip W. Wilson
Phillip W. Wilson
Vice President and Chief Financial Officer
June 3, 1998

shareholder information

Corporate Address

101 South Main Street
Post Office Box 2686
High Point, NC 27261

Telephone: (336) 889-5161
Fax: (336) 887-7089
Internet: www.culpinc.com

Registrar and Transfer Agent

Wachovia Bank of North Carolina, N.A.
Winston-Salem, NC 27102
(800) 633-4236

Written shareholder correspondence
should be sent to:

Wachovia Shareholder Services
P.O. Box 8218
Boston, MA 02266-8218

Transfers should be sent to:

Wachovia Shareholder Services
P.O. Box 8217
Boston, MA 02266-8217

Auditors

KPMG Peat Marwick LLP
Greensboro, NC 27401

Legal Counsel

Robinson, Bradshaw & Hinson, PA
Charlotte, NC 28246

Form 10-K and Quarterly Reports/Investor Contact

The Form 10-K Annual Report of Culp, Inc., as filed with the Securities and Exchange Commission, is available without charge to shareholders upon written request. Shareholders may also obtain copies of the corporate news releases issued in conjunction with the company's quarterly results. These requests and other investor contacts should be directed to Kathy Hardy at the corporate address.

NYSE Symbol

The Company's common stock is traded on the New York Stock Exchange under the symbol CFI.

Analyst Coverage

These analysts cover Culp, Inc.:
C.L. King & Associates - Tom Lewis
Interstate/Johnson Lane - Kay Norwood, CFA
Raymond, James & Associates - Budd Bugatch, CFA
Robinson-Humphrey Co., Inc. - Lorraine Miller, CFA
Wheat First Securities, Inc. - John Baugh, CFA
Value Line, Inc. - Noah Goldner

Stock Listing

Culp, Inc. common stock is traded on the New York Stock Exchange under the symbol CFI. As of May 3, 1998, Culp, Inc. had approximately 2,900 shareholders based on the number of holders of record and an estimate of the number of individual participants represented by security position listings.

Annual Meeting

Shareholders are cordially invited to attend the annual meeting to be held Tuesday, September 15, 1998 at the Radisson Hotel; 135 South Main Street; High Point, North Carolina.

(logo)
Culp, Inc.
101 South Main Street
Post Office Box 2686
High Point, NC 27261
(336) 889-5161
Internet: www.culpinc.com

LIST OF SUBSIDIARIES OF CULP, INC.

Culp International, Inc.
Incorporated in Virgin Islands

3096726 Canada Inc.
Incorporated under laws of Canada

Rayonese Textile Inc.
Incorporated under laws of Canada

CONSENT OF INDEPENDENT AUDITORS

To the Board of Directors and Shareholders of Culp, Inc.:

We consent to incorporation by reference in the registration statement numbers 333-27519, 33-13310, 33-37027, 33-80206 and 33-62843 on Form S-8 of Culp, Inc. of our report dated June 3, 1998, relating to the consolidated balance sheets of Culp, Inc. and subsidiary as of May 3, 1998 and April 28, 1997, and the related consolidated statements of income, shareholders' equity and cash flows for each of the years in the three-year period ended May 3, 1998, which report is incorporated by reference in the May 3, 1998 annual report on Form 10-K of Culp, Inc.

KPMG Peat Marwick LLP

Greensboro, North Carolina
July 29, 1998

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS that the undersigned director of CULP, INC., a North Carolina corporation, hereby constitutes and appoints PHILLIP W. WILSON the true and lawful agent and attorney-in-fact to sign for the undersigned as a director of the Corporation the Corporation's Annual Report on Form 10-K for the year ended May 3, 1998 to be filed with the Securities and Exchange Commission, Washington, D. C., under the Securities Exchange Act of 1934, as amended, and to sign any amendment or amendments to such Annual Report, hereby ratifying and confirming all acts taken by such agent and attorney-in-fact, as herein authorized.

/s/ Harry R. Culp

Harry R. Culp

Date: July 6, 1998

POWER OF ATTORNEY

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/s/ Howard L. Dunn, Jr.

Howard L. Dunn, Jr.

Date: July 6, 1998

POWER OF ATTORNEY

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/s/ Robert T. Davis

Robert T. Davis

Date: July 6, 1998

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/s/ Earl M. Honeycutt

Earl M. Honeycutt

Date: July 3, 1998

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS that the undersigned director of CULP, INC., a North Carolina corporation, hereby constitutes and appoints PHILLIP W. WILSON the true and lawful agent and attorney-in-fact to sign for the undersigned as a director of the Corporation the Corporation's Annual Report on Form 10-K for the year ended May 3, 1998 to be filed with the Securities and Exchange Commission, Washington, D. C., under the Securities Exchange Act of 1934, as amended, and to sign any amendment or amendments to such Annual Report, hereby ratifying and confirming all acts taken by such agent and attorney-in-fact, as herein authorized.

/s/ Patrick H. Norton

Patrick H. Norton

Date: July 6, 1998

POWER OF ATTORNEY

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/s/ Earl N. Phillips, Jr.

Earl N. Phillips, Jr.

Date: July 5, 1998

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS that the undersigned director of CULP, INC., a North Carolina corporation, hereby constitutes and appoints PHILLIP W. WILSON the true and lawful agent and attorney-in-fact to sign for the undersigned as a director of the Corporation the Corporation's Annual Report on Form 10-K for the year ended May 3, 1998 to be filed with the Securities and Exchange Commission, Washington, D. C., under the Securities Exchange Act of 1934, as amended, and to sign any amendment or amendments to such Annual Report, hereby ratifying and confirming all acts taken by such agent and attorney-in-fact, as herein authorized.

/s/ Bland W. Worley

Bland W. Worley

Date: July 8, 1998

Exhibit 25(h)

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS that the undersigned director of CULP, INC., a North Carolina corporation, hereby constitutes and appoints PHILLIP W. WILSON the true and lawful agent and attorney-in-fact to sign for the undersigned as a director of the Corporation the Corporation's Annual Report on Form 10-K for the year ended May 3, 1998 to be filed with the Securities and Exchange Commission, Washington, D. C., under the Securities Exchange Act of 1934, as amended, and to sign any amendment or amendments to such Annual Report, hereby ratifying and confirming all acts taken by such agent and attorney-in-fact, as herein authorized.

/s/ Franklin N. Saxon

Franklin N. Saxon

Date: July 8, 1998

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Culp, Inc.
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