UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549

FORM 10-Q

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

For the quarterly period ended January 29, 2006

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 incorporation or other organization)	(I.R.S. Employer Identification No.)
1823 Eastchester Dr., High Point, North Carolina	27261-2686
(Address of principal executive offices)	(zip code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 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 whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one);

Large accelerated filer   Accelerated filer X   Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined by Rule 12b-2 of the Exchange Act).

YES   NO_X_

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

Common shares outstanding at January 29, 2006: 11,566,209
Par Value: $.05

INDEX TO FORM 10-Q
For the period ended January 29, 2006

Item 1: Financial Statements

CULP, INC.
CONSOLIDATED STATEMENTS OF LOSS
FOR THE THREE MONTHS AND NINE MONTHS ENDED JANUARY 29, 2006 AND JANUARY 30, 2005
UNAUDITED
(Amounts in Thousands, Except for Per Share Data)

THREE MONTHS ENDED

	Amounts			Percent of Net Sales	
	January 29, 2006	January 30, 2005	% Over (Under)	January 29, 2006	January 30, 2005
Net sales	$ 61,035	69,060	(11.6)%	100.0 %	100.0 %
Cost of sales	56,858	66,493	(14.5)%	93.2 %	96.3 %
Gross profit	4,177	2,567	62.7 %	6.8 %	3.7 %
Selling, general and administrative expenses	6,098	8,191	(25.6)%	10.0 %	11.9 %
Restructuring expense	343	1,135	(69.8)%	0.6 %	1.6 %
Loss from operations	(2,264)	(6,759)	66.5 %	(3.7)%	(9.8)%
Interest expense	1,063	912	16.6 %	1.7 %	1.3 %
Interest income	(43)	(42)	2.4 %	(0.1)%	(0.1)%
Other expense	135	49	175.5 %	0.2 %	0.1 %
Loss before income taxes	(3,419)	(7,678)	55.5 %	(5.6)%	(11.1)%
Income taxes *	(1,250)	(2,801)	(55.4)%	36.6 %	36.5 %
Net loss	$ (2,169)	(4,877)	55.5 %	(3.6)%	(7.1)%
Net loss per share, basic	$ (0.19)	(0.42)	54.8 %		
Net loss per share, diluted	$ (0.19)	(0.42)	54.8 %		
Average shares outstanding, basic	11,562	11,550	0.1 %		
Average shares outstanding, diluted	11,562	11,550	0.1 %		

NINE MONTHS ENDED

	Amounts			Percent of Net Sales	
	January 29, 2006	January 30, 2005	% Over (Under)	January 29, 2006	January 30, 2005
Net sales	$ 190,383	212,315	(10.3)%	100.0 %	100.0 %
Cost of sales	174,098	191,506	(9.1)%	91.4 %	90.2 %
Gross profit	16,285	20,809	(21.7)%	8.6 %	9.8 %
Selling, general and administrative expenses	22,480	26,309	(14.6)%	11.8 %	12.4 %
Goodwill impairment	0	5,126	(100.0)%	0.0 %	2.4 %
Restructuring expense	6,581	2,289	187.5 %	3.5 %	1.1 %
Loss from operations	(12,776)	(12,915)	1.1 %	(6.7)%	(6.1)%
Interest expense	2,955	2,789	6.0 %	1.6 %	1.3 %
Interest income	(78)	(98)	(20.4)%	(0.0)%	(0.0)%
Other expense	481	436	10.3 %	0.3 %	0.2 %
Loss before income taxes	(16,134)	(16,042)	0.6 %	(8.5)%	(7.6)%
Income taxes *	(5,873)	(5,920)	(0.8)%	36.4 %	36.9 %
Net loss	$ (10,261)	(10,122)	(1.4)%	(5.4)%	(4.8)%
Net loss per share, basic	$ (0.89)	(0.88)	(1.1)%		
Net loss per share, diluted	$ (0.89)	(0.88)	(1.1)%		
Average shares outstanding, basic	11,557	11,549	0.1 %		
Average shares outstanding, diluted	11,557	11,549	0.1 %		

* Percent of sales column for income taxes is calculated as a % of loss before income taxes.

See accompanying notes to consolidated financial statements.

CULP, INC.
CONSOLIDATED BALANCE SHEETS
JANUARY 29, 2006, JANUARY 30, 2005, AND MAY 1, 2005
UNAUDITED
(Amounts in Thousands)

	Amounts		Increase (Decrease)		
	January 29, 2006	January 30, 2005	Dollars	Percent	* May 1, 2005
Current assets:					
Cash and cash equivalents	$ 12,870	13,020	(150)	(1.2) %	5,107
Accounts receivable	28,485	26,681	1,804	6.8 %	28,824
Inventories	42,099	46,649	(4,550)	(9.8) %	50,499
Deferred income taxes	7,054	4,910	2,144	43.7 %	7,054
Other current assets	1,649	1,088	561	51.6 %	2,691
Total current assets	92,157	92,348	(191)	(0.2) %	94,175
Property, plant and equipment, net	52,562	71,024	(18,462)	(26.0) %	66,032
Goodwill	4,114	4,114	0	0.0 %	4,114
Deferred income taxes	15,731	7,115	8,616	121.1 %	10,086
Other assets	1,775	1,330	445	33.5 %	1,716
Total assets	$ 166,339	175,931	(9,592)	(5.5) %	176,123
Current liabilities:					
Current maturities of long-term debt	$ 8,049	584	7,465	1,278.3 %	8,110
Accounts payable	20,669	15,580	5,089	32.7 %	22,852
Accrued expenses	9,751	9,568	183	1.9 %	9,556
Accrued restructuring costs	4,299	5,093	(794)	(15.6) %	5,850
Income taxes payable	635	1,690	(1,055)	(62.4) %	1,544
Total current liabilities	43,403	32,515	10,888	33.5 %	47,912
Long-term debt, less current maturities	47,229	49,975	(2,746)	(5.5) %	42,440
Total liabilities	90,632	82,490	8,142	9.9 %	90,352
Shareholders' equity	75,707	93,441	(17,734)	(19.0) %	85,771
Total liabilities and shareholders'equity	$ 166,339	175,931	(9,592)	(5.5) %	176,123
Shares outstanding	11,566	11,550	16	0.1 %	11,551

* Derived from audited financial statements.

See accompanying notes to consolidated financial statements.

CULP, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS ENDED JANUARY 29, 2006 AND JANUARY 30, 2005
UNAUDITED
(Amounts in Thousands)

	NINE MONTHS ENDED	
	Amounts	
	January 29, 2006	January 30, 2005
Cash flows from operating activities:		
Net loss	$ (10,261)	(10,122)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation	12,275	14,505
Amortization of other assets	70	100
Stock-based compensation	139	157
Goodwill impairment	0	5,126
Deferred income taxes	(5,645)	(6,907)
Restructuring expense	6,581	2,289
Changes in assets and liabilities:		
Accounts receivable	339	4,038
Inventories	8,400	2,396
Other current assets	1,042	546
Other assets	(129)	120
Accounts payable	(1,695)	1,659
Accrued expenses	195	(3,460)
Accrued restructuring	(5,075)	(1,733)
Income taxes payable	(909)	(160)
Net cash provided by operating activities	5,327	8,554
Cash flows from investing activities:		
Capital expenditures	(5,428)	(8,216)
Proceeds from the sale of buildings and equipment	3,950	0
Net cash used in investing activities	(1,478)	(8,216)
Cash flows from financing activities:		
Payments on vendor-financed capital expenditures	(871)	(1,430)
Payments on long-term debt	(292)	(471)
Proceeds from issuance of long-term debt	5,020	0
Proceeds from common stock issued	57	15
Net cash provided by (used in) financing activities	3,914	(1,886)
Increase (decrease) in cash and cash equivalents	7,763	(1,548)
Cash and cash equivalents at beginning of period	5,107	14,568
Cash and cash equivalents at end of period	$ 12,870	13,020

See accompanying notes to consolidated financial statements.

CULP, INC.
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
UNAUDITED

(Amounts in thousands, except share data)

	Common Stock		Capital Contributed in Excess of Par Value	Unearned Compensation	Retained Earnings	Accumulated Other Comprehensive Income	Total Shareholders' Equity
	Shares	Amount					
Balance, May 2, 2004	11,546,634	$ 578	39,943	(349)	63,219	-	$ 103,391
Net loss					(17,852)		(17,852)
Stock-based compensation				210			210
Common stock issued in connection with stock option plans	4,125	1	21				22
Balance, May 1, 2005	11,550,759	$ 579	39,964	(139)	45,367	-	$ 85,771
Net loss					(10,261)		(10,261)
Gain on cash flow hedge						1	1
Stock-based compensation				139			139
Common stock issued in connection with stock option plans	15,450	1	56				57
Balance, January 29, 2006	11,566,209	$ 580	40,020	0	35,106	1	$ 75,707

See accompanying notes to consolidated financial statements.

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

1. Basis of Presentation

The accompanying unaudited consolidated financial statements of Culp, Inc. and subsidiaries (the "company") include all adjustments, which are, in the opinion of management, necessary for fair presentation of the results of operations and financial position. All of these adjustments are of a normal recurring nature except as disclosed in notes 10 and 13 to the consolidated financial statements. Results of operations for interim periods may not be indicative of future results. The unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements, which are included in the company's annual report on Form 10-K filed with the Securities and Exchange Commission on July 12, 2005 for the fiscal year ended May 1, 2005.

The company's nine months ended January 29, 2006 and January 30, 2005 represent 39 week periods.

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2. Stock-Based Compensation

Compensation costs related to employee stock option plans are recognized utilizing the intrinsic value-based method prescribed by APB No. 25, Accounting for Stock Issued to Employees, and related Interpretations. The company has adopted the disclosure requirements of SFAS No. 123, Accounting for Stock- Based Compensation, as amended by SFAS No. 148. Accordingly, compensation cost is recorded over the vesting period of the options based upon the difference in option price and fair market price at the date of grant, if any.

The following table illustrates the effect on net loss and net loss per share if the company had applied the fair value recognition provisions of SFAS No. 123, as amended by SFAS No. 148, for the three months ended January 29, 2006 and January 30, 2005.

(dollars in thousands, except per share data)	January 29, 2006	January 30, 2005
Net loss, as reported	$ (2,169)	$ (4,877)
Add: Total stock-based employee compensation expense included in net loss, net of tax	22	33
Deduct: Total stock-based employee compensation expense determined under fair value-based method for all awards, net of tax	(112)	(117)
Pro forma net loss	$ (2,259)	$ (4,961)
Net loss per share:		
Basic - as reported	$ (0.19)	$ (0.42)
Basic - pro forma	(0.20)	(0.43)
Diluted - as reported	(0.19)	(0.42)
Diluted - pro forma	(0.20)	(0.43)

The following table illustrates the effect on net loss and net loss per share if the company had applied the fair value recognition provisions of SFAS No. 123, as amended by SFAS No. 148, for the nine months ended January 29, 2006 and January 30, 2005.

(dollars in thousands, except per share data)	January 29, 2006	January 30, 2005
Net loss, as reported	$ (10,261)	$ (10,122)
Add: Total stock-based employee compensation expense included in net loss, net of tax	88	100
Deduct: Total stock-based employee compensation expense determined under fair value-based method for all awards, net of tax	(355)	(394)
Pro forma net loss	$ (10,528)	$ (10,416)
Net loss per share:		
Basic - as reported	$ (0.89)	$ (0.88)
Basic - pro forma	(0.91)	(0.90)
Diluted - as reported	(0.89)	(0.88)
Diluted - pro forma	(0.91)	(0.90)

3. Accounts Receivable

A summary of accounts receivable follows:

(dollars in thousands)	January 29, 2006	May 1, 2005
Customers	$ 30,320	$ 30,803
Allowance for doubtful accounts	(977)	(1,142)
Reserve for returns and allowances	(858)	(837)
	$ 28,485	$ 28,824

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

	Nine months ended	
(dollars in thousands)	January 29, 2006	January 30, 2005
Beginning balance	$ (1,142)	$ (1,442)
Adjustment of bad debt expense	129	434
Net write-offs	36	45
	$ (977)	$ (963)

4. Inventories

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

A summary of inventories follows:

(dollars in thousands)	January 29, 2006	May 1, 2005
Raw materials	$ 16,469	$ 23,204
Work-in-process	2,788	3,000
Finished goods	22,842	24,295
	$ 42,099	$ 50,499

5. Accounts Payable

A summary of accounts payable follows:

(dollars in thousands)	January 29, 2006	May 1, 2005
Accounts payable-trade	$ 17,992	$ 19,688
Accounts payable-capital expenditures	2,677	3,164
	$ 20,669	$ 22,852

6. Accrued Expenses

A summary of accrued expenses follows:

(dollars in thousands)	January 29, 2006	May 1, 2005
Compensation, commissions and related benefits	$ 5,327	$ 5,483
Interest	1,417	448
Accrued rebates	979	1,444
Other	2,028	2,181
	$ 9,751	$ 9,556

7. Long-Term Debt

A summary of long-term debt follows:

(dollars in thousands)	January 29, 2006	May 1, 2005
Unsecured senior term notes	$ 49,975	$ 49,975
Real estate loan	4,293	0
Canadian government loans	1,010	575
	55,278	50,550
Less current maturities	(8,049)	(8,110)
	$ 47,229	$ 42,440

The company's unsecured senior term notes have a fixed interest rate of 7.76% (payable semi-annually in March and September) and are payable over an average remaining term of four years beginning March 2006 through March 2010.

In October 2005, the company entered into an agreement with its bank (Wachovia) to provide for a term loan in the amount of $4.3 million secured by a lien on the company's headquarters office located in High Point, NC. This term loan bears interest at the one-month London Interbank Offered Rate plus an adjustable margin based on the company's debt/EBITDA ratio, as defined in the agreement and is payable in varying monthly installments through October 2010.

In August of 2005, the company amended its credit agreement with its bank (Wachovia) to provide for a revolving loan commitment of $8.0 million, including letters of credit up to $5.5 million. Borrowings under the credit facility bears interest at the London Interbank Offered Rate plus an adjustable margin based on the company's debt/EBITDA ratio, as defined in the agreement. As of January 29, 2006, there were $3.7 million in outstanding letters of credit and no borrowings outstanding under the agreement. The amended agreement also requires the company to maintain collected deposit balances of $7.5 million with its bank (Wachovia) from the period October 31, 2005 to March 15, 2006, which is the due date for the first principal payment ($7.5 million) on the company's unsecured senior term notes, and maintain certain other financial covenants, as defined in the agreement. The amended credit facility expires on August 31, 2006.

On December 7, 2005, the company entered into a Seventh Amendment to this credit agreement. This amendment requires the company to maintain collected deposit balances of at least $3.0 million after March 15, 2006. Additionally, this amendment reduces the minimum EBITDA covenant for the third and fourth quarters of fiscal 2006.

On March 8, 2006, the company entered into an Eighth Amendment to the Amended and Restated Credit Agreement, which amends the credit agreement between the company and its bank (Wachovia). The principal terms of the Eighth Amendment raised the company's capital expenditures limit to $6.5 million for the year ending April 30, 2006.

In November 2005, the company entered into an agreement with the Canadian government to provide for a term loan in the amount of $680,000. The proceeds are to partially finance capital expenditures at the company's Rayonese facility located in Quebec, Canada. This loan is non-interest bearing and is payable in 48 equal monthly installments commencing December 1, 2009. In addition to the term loan entered into in November 2005, the company has an existing non-interest bearing term loan with the Canadian government with its final payment due in fiscal 2007. At January 29, 2006, the balance of the term loan entered into in November 2005 and the existing term loan was $695,000 and $315,000, respectively.

The company was in compliance with all financial covenants in its loan agreements as of January 29, 2006.

The principal payment requirements of long-term debt during the next five years as of January 29, 2006 are: Year 1 - $8,049,000; Year 2 - $7,744,000; Year 3 - $20,054,000; Year 4 - $7,846,000; Year 5 - $11,140,000; and thereafter - $445,000.

8. Interest Rate Hedging

In connection with the company's real estate loan with its bank (Wachovia), the company was required to have an agreement to hedge the interest rate risk exposure on the real estate loan. The company entered into a $2,170,000 notional principal interest rate swap, which represents 50% of the principal amount of the real estate loan, that effectively converted the floating rate LIBOR based payments to fixed payments at 4.99% plus the spread calculated under the real estate loan agreement. This agreement expires October 2010.

The company accounts for the interest rate swap as a cash flow hedge whereby the fair value of this contract is reflected in other assets in the accompanying consolidated balance sheets with the offset recorded as accumulated other comprehensive income. The fair value of the interest rate swap at January 29, 2006 was $1,000, as determined by quoted market prices.

9. Cash Flow Information

Payments for interest and income taxes follow:

	Nine months ended	
(dollars in thousands)	January 29, 2006	January 30, 2005
Interest	$ 2,048	$ 1,995
Income taxes	892	1,125

The non-cash portion of capital expenditures representing vendor financing totaled $1,699,000 and $29,000 for the nine months ended January 29, 2006 and January 30, 2005, respectively.

10. Restructuring and Related Charges

A summary of accrued restructuring costs follows:

(dollars in thousands)	January 29, 2006	May 1, 2005
September 2005 Upholstery Fabrics	$ 503	$ 0
August 2005 Upholstery Fabrics	209	0
April 2005 Upholstery Fabrics	840	1,944
October 2004 Upholstery Fabrics	134	309
Fiscal 2003 Culp Decorative Fabrics	2,583	3,587
Fiscal 2001 Culp Decorative Fabrics	30	10
	$ 4,299	$ 5,850

September 2005 Upholstery Fabrics

On September 27, 2005, the company's board of directors approved a strategic alliance with Synthetics Finishing, a division of TSG Incorporated, to provide finishing services to the company for its domestically produced decorative upholstery fabrics and collaborate with the company on research and product development activities. As a result, the company will close its finishing plant in Burlington, NC, thereby reducing the number of associates by approximately 100 people. This transition is expected to be completed in April 2006.

During the third quarter of fiscal 2006, total restructuring and related charges incurred were $405,000 of which $261,000 related to asset movement costs, $141,000 related to accelerated depreciation, and $3,000 related to lease termination costs. Of the total charge, $264,000 was recorded in restructuring expense and $141,000 was recorded in cost of sales in the 2006 Consolidated Statements of Loss.

During the nine month period of fiscal 2006, total restructuring and related charges incurred were $1.0 million of which $510,000 related to termination benefits, $261,000 related to asset movement costs, $245,000 related to accelerated depreciation, and $3,000 related to lease termination costs. Of the total charge, $774,000 was recorded in restructuring expense and $245,000 was recorded in cost of sales in the 2006 Consolidated Statements of Loss.

The following summarizes the fiscal 2006 activity in the restructuring accrual (dollars in thousands):

	Employee Termination Benefits	Lease Termination and Other Exit Costs	Total
Accrual established in fiscal 2006	$ 510	0	510
Additions in fiscal 2006	0	3	3
Paid in fiscal 2006	(7)	(3)	(10)
Balance, January 29, 2006	$ 503	0	503

As of January 29, 2006, there were no assets classified as held for sale.

August 2005 Upholstery Fabrics

In August 2005, the company's board of directors approved a restructuring plan within the upholstery fabrics segment designed to reduce the company's U.S. yarn manufacturing operations. The company sold its polypropylene yarn extrusion equipment (with a book value of $2.3 million) located in Graham, NC to American Fibers and Yarns Company, the company's supplier for polypropylene yarn, for $1.1 million payable in cash. Pursuant to terms of the sale agreement, the company has a long-term supply contract with American Fibers and Yarns Company to continue to provide the company with polypropylene yarn at prices tied to a published index.

The company's board of directors also approved further reductions in the company's yarn operations by closing the company's facility in Shelby, NC and consolidating the chenille yarn operations into the Lincolnton, NC facility. The company will outsource the open-end yarns previously produced at the Shelby, NC facility. As a result, the company will have one yarn plant in Lincolnton, NC for producing chenille and wrap-spun yarns and a small texturizing yarn operation in Graham, NC. Overall, these actions reduced the number of associates by approximately 100 people.

During the third quarter of fiscal 2006, total restructuring and related charges incurred were $301,000 of which $199,000 related to termination benefits, $44,000 related to operating costs associated with the closing of or closed plant facilities, $36,000 related to asset movement costs, and $22,000 for inventory markdowns. Of the total charge, $7,000 was recorded in restructuring expense, and $294,000 was recorded in cost of sales in the 2006 Consolidated Statements of Loss.

During the nine month period of fiscal 2006, total restructuring and related charges incurred were $4.4 million of which $1.8 million related to write-downs of a building and equipment, $1.2 million of accelerated depreciation related to plant and equipment, $919,000 related to termination benefits, $353,000 for inventory markdowns, $82,000 related to asset movement costs, $44,000 related to operating costs associated with the closing of or closed plant facilities, and $11,000 related to lease termination costs. Of the total charge, $2.8 million was recorded in restructuring expense and $1.6 million was recorded in cost of sales in the 2006 Consolidated Statements of Loss.

	Employee Termination Benefits	Lease Termination and Other Exit Costs	Total
Accrual established in fiscal 2006	$ 570	14	584
Adjustments in fiscal 2006	9	(3)	6
Paid in fiscal 2006	(378)	(3)	(381)
Balance, January 29, 2006	$ 201	8	209

As of January 29, 2006, there were no assets classified as held for sale.

April 2005 Upholstery Fabrics

During the third quarter of fiscal 2006, total restructuring charges incurred were $945,000 of which approximately $816,000 related to inventory markdowns, $83,000 related to asset movement costs, and $45,000 related to lease termination costs. Of the total charge, $78,000 was recorded in restructuring expense and $867,000 was recorded in cost of sales in the 2006 Consolidated Statements of Loss.

During the nine month period of fiscal 2006, the total restructuring and related charges incurred were $5.4 million of which approximately $3.5 million related to accelerated depreciation associated with plant and equipment, $816,000 related to inventory markdowns, $440,000 related to lease termination costs, $397,000 related to asset movement costs, $155,000 related to termination benefits, and $57,000 related to write-downs of equipment. Of the total charge, $1.0 million was recorded in restructuring expense; $1.4 million was recorded in cost of sales; and $3.0 million related to accelerated deprecation was recorded in selling, general, and administrative expenses in the 2006 Consolidated Statements of Loss.

The following summarizes the fiscal 2006 activity in the restructuring accrual (dollars in thousands):

	Employee Termination Benefits	Lease Termination and Other Exit Costs	Total
Balance, May 1, 2005	$ 1,897	47	1,944
Additions in fiscal 2006	0	406	406
Adjustments in fiscal 2006	147	0	147
Paid in fiscal 2006	(1,464)	(193)	(1,657)
Balance, January 29, 2006	$ 580	260	840

As of January 29, 2006, assets classified as held for sale consisted of machinery and equipment with a value of $197,500 and are included in other assets.

As a result of an internal analysis, the company commenced an initiative to discontinue a number of lower volume products that do not fit the company's U.S. upholstery fabrics operating model to produce more volume-oriented products. As of January 29, 2006, the company recorded an inventory markdown charge of $816,000 based on an analysis by management of lower volume products that are expected to be discontinued in the fourth quarter of fiscal 2006. The ultimate recovery of the carrying value of these products will be based on market reaction and there could be further inventory markdown charges in the fourth quarter of fiscal 2006, related to this initiative.

October 2004 Upholstery Fabrics

During the third quarter of fiscal 2006, the total restructuring and related charges incurred were $70,000 of which $36,000 related to asset movement costs, $31,000 related to termination benefits, and $3,000 related to lease termination costs. The total charge of $70,000 was recorded in restructuring expense in the 2006 Consolidated Statements of Loss.

During the nine month period of fiscal 2006, the total restructuring and related charges incurred were $2.4 million of which approximately $1.2 million related to asset movement costs, $1.1 million related to write-downs of equipment, $119,000 related to termination benefits, $3,000 related to lease termination costs. Of the total charge, $2.3 million was recorded in restructuring expense and $52,000 in cost of sales in the 2006 Consolidated Statements of Loss.

The following summarizes the fiscal 2006 activity in the restructuring accrual (dollars in thousands):

	Employee Termination Benefits	Lease Termination and Other Exit Costs	Total
Balance, May 1, 2005	$ 309	0	309
Adjustments in fiscal 2006	92	0	92
Paid in fiscal 2006	(267)	0	(267)
Balance, January 29, 2006	$ 134	0	134

As of January 29, 2006, there were no assets classified as held for sale.

Fiscal 2003 Culp Decorative Fabrics Restructuring

During the third quarter of fiscal 2006, as a result of management's continual evaluation of the restructuring accrual, the reserve was decreased by approximately $135,000 in lease termination costs to reflect current estimates of sub-lease income. During the nine month period of fiscal 2006, as a result of management's continual evaluation of the restructuring accrual, the reserve was decreased by approximately $234,000 to reflect current estimates of employee termination benefits and lease termination costs to reflect current estimates of sub-lease income.

The following summarizes the fiscal 2006 activity in the restructuring accrual (dollars in thousands):

	Employee Termination Benefits	Lease Termination and Other Exit Costs	Total
Balance, May 1, 2005	$ 200	3,387	3,587
Adjustments in fiscal 2006	(66)	(168)	(234)
Paid in fiscal 2006	(34)	(736)	(770)
Balance, January 29, 2006	$ 100	2,483	2,583

As of January 29, 2006, there were no assets classified as held for sale.

Fiscal 2001 Culp Decorative Fabrics Restructuring

During the third quarter of fiscal 2006, as a result of management's continual evaluation of the restructuring accrual, the reserve was increased by approximately $80,000 to reflect current estimates of future health care claims. During the nine month period of fiscal 2006, as a result of management's continual evaluation of the restructuring accrual, the reserve was increased by approximately $159,000 to reflect current estimates of future health care claims.

The following summarizes the fiscal 2006 activity in the restructuring accrual (dollars in thousands):

	Employee Termination Benefits	Lease Termination and Other Exit Costs	Total
Balance, May 1, 2005	$ 10	0	10
Adjustments in fiscal 2006	159	0	159
Paid in fiscal 2006	(139)	0	(139)
Balance, January 29, 2006	$ 30	0	30

As of January 29, 2006, there were no assets classified as held for sale.

11. Net Loss per Share

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

	Three months ended	
(amounts in thousands)	January 29, 2006	January 30, 2005
Weighted average common shares outstanding, basic	11,562	11,550
Effect of dilutive stock options	0	0
Weighted average common shares outstanding, diluted	11,562	11,550

Options to purchase 498,125 shares and 590,625 shares of common stock were not included in the computation of diluted loss per share for the three months ended January 29, 2006 and January 30, 2005, respectively, because the exercise price of the options was greater than the average market price of the common shares.

Options to purchase 74,129 and 119,008 shares of common stock were not included in the computation of diluted net loss per share for the three months ended January 29, 2006 and January 30, 2005, respectively, because the company incurred a net loss for the period.

(amounts in thousands)	Nine months ended January 29, 2006	Nine months ended January 30, 2005
Weighted average common shares outstanding, basic	11,557	11,549
Effect of dilutive stock options	0	0
Weighted average common shares outstanding, diluted	11,557	11,549

Options to purchase 506,542 shares and 479,167 shares of common stock were not included in the computation of diluted loss per share for the nine months ended January 29, 2006 and January 30, 2005, respectively, because the exercise price of the options was greater than the average market price of the common shares.

Options to purchase 52,824 shares and 157,417 shares of common stock were not included in the computation of diluted net loss per share for the nine months ended January 29, 2006 and January 30, 2005, respectively, because the company incurred a net loss for the period.

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12. Segment Information

The company's operations are classified into two segments: mattress fabrics and upholstery fabrics. The mattress fabrics segment principally manufactures and sells fabrics to bedding manufacturers. The upholstery fabrics segment principally manufactures and sells fabrics to residential and commercial (contract) furniture manufacturers.

Financial information for the company's operating segments follow:

(dollars in thousands)	Three months ended January 29, 2006	Three months ended January 30, 2005
Net sales:		
Mattress Fabrics	$ 22,681	$ 25,576
Upholstery Fabrics	38,354	43,484
	$ 61,035	$ 69,060
Gross profit:		
Mattress Fabrics	$ 3,442	$ 3,478
Upholstery Fabrics	2,070	3,391
Restructuring related charges	(1,335)(1)	(4,302)(3)
	$ 4,177	$ 2,567
Operating income (loss):		
Mattress Fabrics	$ 1,799	$ 1,589
Upholstery Fabrics	(1,647)	(2,010)
Unallocated corporate expenses	(738)	(901)
Restructuring and related charges	(1,678)(2)	(5,437)(4)
	$ (2,264)	$ (6,759)

(1) The $1.3 million represents restructuring related charges primarily for inventory markdowns, termination benefits and other operating costs associated with plant facilities that are in the process of being closed or are closed and accelerated depreciation. These charges are included in the cost of sales line item in the 2006 Consolidated Statements of Loss and are related to the Upholstery Fabrics segment.

(2) The $1.7 million represents restructuring and related charges primarily for inventory markdowns, termination benefits and other operating costs associated with plant facilities that are in the process of being closed or are closed, asset movement costs, accelerated depreciation, and lease termination costs. Of the total charge, approximately $400,000 was recorded in the restructuring expense line item and $1.3 million was included in the cost of sales line item in the 2006 Consolidated Statements of Loss. These charges are primarily related to the Upholstery Fabrics segment.

(3) The $4.3 million represents restructuring related charges primarily for accelerated depreciation. These charges are included in the cost of sales line item in the 2006 Consolidated Statements of Loss and are related to the Upholstery Fabrics segment.

(4) The $5.4 million represents restructuring and related charges primarily for accelerated depreciation, asset movement costs, lease termination costs, and fixed asset write-downs. Of the total charge, $1.1 million was recorded in the restructuring expense line item and $4.3 million was included in the cost of sales line item in the 2006 Consolidated Statements of Loss. These charges relate to the Upholstery Fabrics segment.

	Nine months ended	
(dollars in thousands)	January 29, 2006	January 30, 2005
Net sales:		
Mattress Fabrics	$ 69,586	$ 78,414
Upholstery Fabrics	120,797	133,901
	$ 190,383	$ 212,315
Gross profit:		
Mattress Fabrics	$ 9,839	$ 12,735
Upholstery Fabrics	10,027	13,575
Restructuring related charges	(3,581)(5)	(5,501)(7)
	$ 16,285	$ 20,809
Operating income (loss):		
Mattress Fabrics	$ 4,823	$ 7,166
Upholstery Fabrics	(2,093)	(4,417)
Unallocated corporate expenses	(2,322)	(2,748)
Goodwill impairment	0	(5,126)(8)
Restructuring and related charges	(13,184)(6)	(7,790)(9)
	$ (12,776)	$ (12,915)

(5) The $3.6 million represents restructuring related charges primarily for accelerated depreciation, inventory markdowns, termination benefits and other operating costs associated with plant facilities that are in the process of being closed or are closed. These charges are included in the cost of sales line item of the 2006 Consolidated Statements of Loss and are related to the Upholstery Fabrics segment.

(6) The $13.2 million represents restructuring and related charges primarily for accelerated depreciation, write-downs of buildings and equipment, asset movement costs, termination benefits and other operating costs associated with plant facilities that are in the process of being closed or are closed, inventory markdowns, and lease termination costs. Of the total charge, $6.6 million was recorded in the restructuring expense line item, $3.0 million was included in the selling, general, and administrative expenses line item, and $3.6 million was included in the cost of sales line item of the Consolidated Statements of Loss. These charges primarily related to the Upholstery Fabrics segment.

(7) The $5.5 million represents restructuring related charges primarily for accelerated depreciation and inventory markdowns. These charges are included in the cost of sales line item of the Consolidated Statements of Loss and are related to the Upholstery Fabrics segment.

(8) The $5.1 million represents a goodwill impairment charge related to the Culp Decorative Fabrics division within the upholstery fabrics segment.

(9) The $7.8 million represents restructuring and related charges primarily for accelerated depreciation, termination benefits, inventory markdowns, asset movement costs, lease termination costs, and fixed asset write-downs. Of the total charge, $2.3 million was recorded in the restructuring expense line item and $5.5 million was recorded in the cost of sales line item of the Consolidated Statements of Loss. These charges are related to the Upholstery Fabrics segment.

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

(dollars in thousands)	January 29, 2006	January 30, 2005
Segment assets:		
Mattress Fabrics		
Current assets	$ 23,207	$ 24,951
Property, plant and equipment (10)	26,200	26,658
Total mattress fabrics assets	49,407	51,609
Upholstery Fabrics		
Current assets	47,377	54,372
Property, plant and equipment (11)	26,312	39,273
Total upholstery fabrics assets	73,689	93,645
Total segment assets	123,096	145,254
Non-segment assets:		
Cash and cash equivalents	12,870	5,107
Deferred income taxes	22,785	17,140
Other current assets	1,649	2,691
Property, plant and equipment	50	101
Goodwill	4,114	4,114
Other assets	1,775	1,716
Total assets	$ 166,339	$ 176,123

	Three months ended	
(dollars in thousands)	January 29, 2006	January 30, 2005
Capital additions:		
Mattress Fabrics	$ 134	$ 1,257
Upholstery Fabrics	256	485
Unallocated corporate	0	1,034(12)
	$ 390	$ 2,776
Depreciation expense:		
Mattress Fabrics	$ 965	$ 912
Upholstery Fabrics	1,366	2,330
Total segment depreciation expense	2,331	3,242
Accelerated depreciation	108	4,363
	$ 2,439	$ 7,605

(dollars in thousands)		Nine months ended January 29, 2006		January 30, 2005
Capital additions:				
Mattress Fabrics	$	3,550	$	1,988
Upholstery Fabrics		2,263		962
Unallocated corporate		0		5,376(12)
	$	5,813	$	8,326
Depreciation expense:				
Mattress Fabrics	$	2,714	$	2,743
Upholstery Fabrics		4,582		7,184
Total segment depreciation expense		7,296		9,927
Accelerated depreciation		4,979		4,578
	$	2,275	$	14,505

(10) Included in property, plant, and equipment are assets located in the U.S. totaling $13.2 million and $12.2 million at January 29, 2006 and May 1, 2005, respectively.

(11) Included in property, plant, and equipment are assets located in the U.S. totaling $21.2 million and $36.2 million at January 29, 2006 and May 1, 2005, respectively. Included in this U.S. property, plant, and equipment are various other corporate allocations totaling $4.1 million at January 29, 2006. At May 1, 2005, allocations to this segment totaled $5.3 million for the distribution facility and design center that were sold in June 2005, as well as and various other corporate asset allocations totaling $4.2 million.

(12) Unallocated corporate capital expenditures for fiscal 2005 primarily represent capital spending for the new corporate office building.

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13. Goodwill Impairment

Due to the continued pressure on demand in the upholstery fabrics segment, operating profits and cash flows were lower than expected for the second quarter and year to date for fiscal 2005. As a result, management determined that the goodwill associated with this segment should be tested for impairment in accordance with the provisions of FAS 142, Goodwill and Other Intangible Assets. An independent business valuation specialist was engaged to assist the company in the determination of the fair market value of the upholstery fabrics segment. The fair value as determined using several different methods, including comparable companies, comparable transactions and discounted cash flow analysis was less than the carrying value. Accordingly, the company recorded a goodwill impairment charge of $5.1 million ($3.2 million net of taxes of $1.9 million), or $0.28 per share diluted, related to the goodwill associated with the upholstery fabrics segment. After the goodwill impairment charge, the company's remaining goodwill of $4.1 million relates to the mattress fabrics segment.

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14. Recent Accounting Pronouncements

In November 2004, the FASB issued SFAS No.151, "Inventory Costs, an amendment of ARB No.43, Chapter 4," which clarifies the types of costs that should be expensed rather than capitalized as inventory. This statement also clarifies the circumstances under which fixed overhead costs associated with operating facilities involved in inventory processing should be capitalized. The provisions of SFAS No.151 are effective for fiscal years beginning after June 15, 2005 and the company will adopt this standard in fiscal 2007. Management has not determined the impact, if any, that this statement will have on our consolidated financial position or results of operations.

SFAS No. 123 (Revised 2004), "Share-Based Payment," issued in December 2004, is a revision of FASB Statement No. 123, "Accounting for Stock-Based Compensation" and supercedes APB Opinion No. 25," Accounting for Stock Issued to Employees," and its related implementation guidance. The Statement focuses primarily on accounting for transactions in which an entity obtains employee services in share-based payment transactions. SFAS No. 123 (Revised 2004) requires a public entity to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award (with limited exceptions). That cost will be recognized over the period during which an employee is required to provide service in exchange for the award. The provisions of SFAS No. 123 (Revised 2004) are effective for fiscal years beginning after June 15, 2005 and the company will adopt this standard in fiscal 2007. Management has not determined the impact, if any, that this statement will have on our consolidated financial position or results of operations.

In March 2005, the FASB issued Interpretation No.47, "Accounting for Conditional Asset Retirement Obligations," (FIN 47). FIN 47 clarifies that the term "conditional asset retirement obligation" as used in SFAS No.143,"Accounting for Asset Retirement Obligations," refers to a legal obligation to perform an asset retirement activity in which the timing and (or) method of settlement are conditional on a future event that may or may not be within the control of an entity. FIN 47 is effective no later than the end of fiscal years ending after December 15, 2005, and will be effective for the company on April 30, 2006. The company does not expect there to be any material effect on its consolidated financial statements upon adoption of the new standard.

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CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING INFORMATION

This report and the exhibits attached hereto contain statements that may be deemed "forward-looking statements" within the meaning of the federal securities laws, including the Private Securities Litigation Reform Act of 1995 (Section 27A of the Securities Act of 1933 and Section 27A of the Securities and Exchange Act of 1934). Such statements are inherently subject to risks and uncertainties. Further, forward looking statements are intended to speak only as of the date on which they are made. Forward-looking statements are statements that include projections, expectations or beliefs about future events or results or otherwise are not statements of historical fact. Such statements are often but not always characterized by qualifying words such as "expect," "believe," "estimate," "plan" and "project" and their derivatives, and include but are not limited to statements about expectations for the company's future operations or success, sales, gross profit margins, operating income, SG&A or other expenses, and earnings, as well as any statements regarding future economic or industry trends or future developments. Factors that could influence the matters discussed in such statements include but are not limited to, the following:

- Decreases in economic indicators such as the level of housing starts and sales of existing homes, consumer confidence, trends in disposable income, and general economic conditions, could have a negative effect on the company's business and prospects;

- Increases in interest rates, particularly home mortgage rates; and increases in consumer debt or the general rate of inflation could affect the company adversely;

- Economic and political instability in international areas could affect the company's operations or sources of goods in those areas, as well as demand for the company's products in international markets;

- Changes in consumer tastes or preferences toward products not produced by the company could erode demand for U.S. products manufactured by the company;

- Growth in competition from imported fabrics and home furnishings could increase overall competition, especially price competition, for the company's products;

- Unanticipated delays or costs in executing restructuring actions could cause the cumulative effect of restructuring actions to fail to meet the objectives set forth by management; and

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

- Recently enacted quotas on imports of textile products from China could have an adverse impact of the company's cost of sourcing fabric from China.

- Other factors discussed elsewhere in this report or in the company's other filings with the Securities and Exchange Commission.

ITEM 2.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Results of Operations

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

Overview

Culp, Inc., which we sometimes refer to as the company, manufactures and markets mattress fabrics (known as mattress ticking and used for covering mattresses and box springs) and upholstery fabrics primarily for use in furniture manufacturing (residential and commercial). 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."

Management believes that Culp is one of the two largest producers of mattress fabrics in North America, as measured by total sales, and one of the three largest marketers of upholstery fabrics for furniture in North America, again measured by total sales. The company's fabrics are used primarily in the production of bedding products and residential and commercial upholstered furniture, including sofas, recliners, chairs, loveseats, 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 "good" and "better" priced categories of bedding and furniture.

The company's fiscal year is the 52 or 53 week period ending on the Sunday closest to April 30. The year-to-date period for fiscal 2006 and 2005 included 39 weeks. The company's operating segments are mattress fabrics and upholstery fabrics. In mattress fabrics, the company markets a broad array of fabrics used by bedding manufacturers. In upholstery fabrics, the company markets jacquard woven fabrics for residential and commercial furniture and velvet printed fabrics and microdenier suedes used primarily for residential furniture.

The following tables set forth the company's net sales, gross profit, selling, general and administrative expenses and operating income (loss) by segment for the three and nine months ended January 29, 2006 and January 30, 2005.

CULP, INC.
NET SALES, GROSS PROFIT AND OPERATING INCOME (LOSS) BY SEGMENT
FOR THE THREE MONTHS ENDED JANUARY 29, 2006 AND JANUARY 30, 2005
(UNAUDITED)
(Amounts in thousands)

	THREE MONTHS ENDED				
	Amounts			Percent of Net Sales	
Net Sales by Segment	January 29, 2006	January 30, 2005	% Over (Under)	January 29, 2006	January 30, 2005
Mattress Fabrics	$ 22,681	25,576	(11.3)%	37.2 %	37.0 %
Upholstery Fabrics	38,354	43,484	(11.8)%	62.8 %	63.0 %
Net Sales	$ 61,035	69,060	(11.6)%	100.0 %	100.0 %
Gross Profit by Segment				Gross Profit Margin	
Mattress Fabrics	$ 3,442	3,478	(1.0)%	15.2 %	13.6 %
Upholstery Fabrics	2,070	3,391	(39.0)%	5.4 %	7.8 %
Subtotal	5,512	6,869	(19.8)%	9.0 %	9.9 %
Restructuring related charges	(1,335)(1)	(4,302)(3)	69.0 %	(2.2)%	(6.2)%
Gross Profit	$ 4,177	2,567	62.7 %	6.8 %	3.7 %
Selling, General and Administrative expenses by Segment				Percent of Net Sales	
Mattress Fabrics	$ 1,643	1,889	(13.0)%	7.2 %	7.4 %
Upholstery Fabrics	3,717	5,401	(31.2)%	9.7 %	12.4 %
Unallocated Corporate expenses	738	901	(18.1)%	1.2 %	1.3 %
Selling, General and Administrative expense	$ 6,098	8,191	(25.6)%	10.0 %	11.9 %
Operating Income (loss) by Segment				Operating Income(Loss)Margin	
Mattress Fabrics	$ 1,799	1,589	13.2 %	7.9 %	6.2 %
Upholstery Fabrics	(1,647)	(2,010)	(18.1)%	(4.3)%	(4.6)%
Unallocated corporate expenses	(738)	(901)	18.1 %	(1.2)%	(1.3)%
Subtotal	(586)	(1,322)	(55.7)%	(1.0)%	(1.9)%
Restructuring and related charges	(1,678)(2)	(5,437)(4)	69.1 %	(2.7)%	(7.9)%
Operating loss	$ (2,264)	(6,759)	66.5 %	(3.7)%	(9.8)%
Depreciation by Segment					
Mattress Fabrics	$ 965	912	5.8 %		
Upholstery Fabrics	1,366	2,330	(41.4)%		
Subtotal	2,331	3,242	(28.1)%		
Accelerated Depreciation	108	4,363	(97.5)%		
Total Depreciation	$ 2,439	7,605	(67.9)%		

(1) The $1.3 million represents restructuring related charges primarily for inventory markdowns, termination benefits and other operating costs associated with plant facilities that are in the process of being closed or are closed, and accelerated depreciation.
(2) The $1.7 million represents restructuring and related charges primarily for inventory markdowns, termination benefits and other operating costs associated with the closing of or closed plant facilities, asset movement costs, accelerated depreciation, and lease termination costs.
(3) The $4.3 million represents represents restructuring related charges for accelerated depreciation.

(4) The $5.4 million represents represents restructuring and related charges primarily for accelerated depreciation, asset movement costs, lease termination costs, and fixed asset write-downs.

CULP, INC.
NET SALES, GROSS PROFIT AND OPERATING INCOME (LOSS) BY SEGMENT
FOR THE NINE MONTHS ENDED JANUARY 29, 2006 AND JANUARY 30, 2005
(UNAUDITED)
(Amounts in thousands)

	NINE MONTHS ENDED				
	Amounts			Percent of Net Sales	
Net Sales by Segment	January 29, 2006	January 30, 2005	% Over (Under)	January 29, 2006	January 30, 2005
Mattress Fabrics	$ 69,586	78,414	(11.3)%	36.6 %	36.9 %
Upholstery Fabrics	120,797	133,901	(9.8)%	63.4 %	63.1 %
Net Sales	$ 190,383	212,315	(10.3)%	100.0 %	100.0 %
Gross Profit by Segment				Gross Profit Margin	
Mattress Fabrics	$ 9,839	12,735	(22.7)%	14.1 %	16.2 %
Upholstery Fabrics	10,027	13,575	(26.1)%	8.3 %	10.1 %
Subtotal	19,866	26,310	(24.5)%	10.4 %	12.4 %
Restructuring related charges	(3,581)(1)	(5,501)(4)	34.9 %	(1.9)%	(2.6)%
Gross Profit	$ 16,285	20,809	(21.7)%	8.6 %	9.8 %
Selling, General and Administrative expenses by Segment				Percent of Net Sales	
Mattress Fabrics	$ 5,016	5,569	(9.9)%	7.2 %	7.1 %
Upholstery Fabrics	12,120	17,992	(32.6)%	10.0 %	13.4 %
Unallocated Corporate expenses	2,322	2,748	(15.5)%	1.2 %	1.3 %
Subtotal	19,458	26,309	(26.0)%	10.2 %	12.4 %
Restructuring related charges	3,022 (2)	0	100.0 %	1.6 %	0.0 %
Selling, General and Administrative expenses	$ 22,480	26,309	(14.6)%	11.8 %	12.4 %
Operating Income (loss) by Segment				Operating Income(Loss)Margin	
Mattress Fabrics	$ 4,823	7,166	(32.7)%	6.9 %	9.1 %
Upholstery Fabrics	(2,093)	(4,417)	52.6 %	(1.7)%	(3.3)%
Unallocated corporate expenses	(2,322)	(2,748)	15.5 %	(1.2)%	(1.3)%
Subtotal	408	1	40.7 %	0.2 %	0.0 %
Goodwill impairment	0	(5,126)(5)	(100.0)%	0.0 %	(2.4)%
Restructuring and related charges	(13,184)(3)	(7,790)(6)	(69.2)%	(6.9)%	(3.7)%
Operating loss	$ (12,776)	(12,915)	1.1 %	(6.7)%	(6.1)%

Depreciation by Segment			
Mattress Fabrics	$ 2,714	2,743	(1.1)%
Upholstery Fabrics	4,582	7,184	(36.2)%
Subtotal	7,296	9,927	(26.5)%
Accelerated Depreciation	4,979	4,578	8.8 %
Total Depreciation	$ 12,275	14,505	(15.4)%

(1) The $3.6 million represents restructuring related charges primarily for accelerated depreciation, inventory markdowns, termination benefits and other operating costs associated with plant facilities that are in the

process of being closed or are closed.

(2) The $3.0 million represents accelerated depreciation.

(3) The $13.2 million represents restructuring and related charges primarily for accelerated depreciation, write-downs of buildings and equipment, asset movement costs, termination benefits and other operating costs associated with plant facilities that are in the process of being closed or are closed, inventory markdowns, and lease termination costs.

(4) The $5.5 million represents restructuring related charges primarily for accelerated depreciation and inventory markdowns.

(5) The $5.1 million represents a goodwill impairment charge related to the Culp Decorative Fabrics division within the upholstery fabrics segment.

(6) The $7.8 million represents restructuring and related charges primarily for accelerated depreciation, termination benefits, inventory markdowns, asset movement costs, lease termination costs, and fixed asset write-downs.

Three and Nine Months ended January 29, 2006 compared with Three and Nine Months ended January 30, 2005

For the third quarter of fiscal 2006, net sales decreased 11.6% to $61.0 million compared to $69.1 million for the third quarter of fiscal 2005. The company reported a net loss of $2.2 million, or $0.19 per diluted share, for the third quarter of fiscal 2006, which included restructuring and related pre-tax charges of $1.7 million. The company reported a net loss of $4.9 million, or $0.42 per diluted share, in the third quarter of fiscal 2005, which included restructuring and related pre-tax charges of $5.4 million.

For the nine month period of fiscal 2006, net sales decreased 10.3% to $190.4 million compared to $212.3 million for the nine month period of fiscal 2005. The company reported a net loss of $10.3 million, or $0.89 per share diluted, for the nine month period of fiscal 2006, which included restructuring and related pre-tax charges of $13.2 million. The company reported a net loss of $10.1 million, or $0.88 per share diluted, for the nine month period of fiscal 2005, which included restructuring and related pre-tax charges of $7.8 million and $5.1 million in goodwill impairment.

Restructuring and Related Charges

During the third quarter of fiscal 2006, total restructuring and related charges incurred were $1.7 million, with approximately $838,000 related to inventory markdowns, $303,000 for termination benefits, $371,000 for asset movement costs, $141,000 for operating costs associated with the closing of or closed plant facilities, $108,000 for accelerated depreciation, $49,000 for lease termination costs, and a credit of $135,000 to reflect current estimates for sub-lease income of the company's closed facility in Chattanooga, TN. Of the total charge, $400,000 was recorded in the restructuring expense line item and $1.3 million was recorded in the cost of sales line item in the 2006 Consolidated Statements of Loss. For the nine month period of fiscal 2006, total restructuring and related charges incurred were $13.2 million, of which approximately $4.9 million related to accelerated depreciation, $2.8 million for write-downs of buildings and equipment, $1.9 million related to asset movement costs, $1.9 million for termination benefits, $1.2 million for inventory markdowns, $427,000 for lease termination costs, $141,000 for operating costs associated with the closing of or closed plant facilities, and a credit of $135,000 to reflect current estimates for sub-lease income of the company's closed facility in Chattanooga, TN. Of the total charge, $6.6 million was recorded in the restructuring expense line item, $3.0 million in the selling, general, and administrative expense line item, and $3.6 million in the cost of sales line item in the 2006 Consolidated Statements of Loss. These charges relate to the Upholstery Fabrics segment.

Mattress Fabrics Segment

Net Sales -- Mattress fabric sales (known as mattress ticking) for the third quarter of fiscal 2006 decreased 11.3% to $22.7 million compared to $25.6 million for the third quarter of fiscal 2005. Mattress ticking yards sold during the third quarter of fiscal 2006 decreased by 11.8% compared with the third quarter of fiscal 2005. This trend reflects overall softness in industry sales of mattresses, and a decline in demand for the printed ticking product line, which has become a less popular category. The average selling price for mattress ticking was essentially unchanged for the third quarter of fiscal 2006 compared to the third quarter of fiscal 2005. For the nine month period of fiscal 2006, net sales decreased 11.3% to $69.6 million compared to $78.4 million for the nine month period of fiscal 2005. Mattress ticking yards sold during the nine month period of fiscal 2006 decreased by 7.2% over the third quarter of fiscal 2005. For the nine month period of fiscal 2006, the average selling price for mattress fabrics was $2.26 per yard compared to $2.35 for the nine month period in fiscal 2005. This decrease in net sales reflects overall softness in industry sales for mattress ticking, the ongoing shift mattress manufacturers are making to less expensive common border ticking, which is the fabric that goes on the side of mattresses and box springs, and the industry-wide shortage of polyurethane foam used by mattress manufacturers that related to disruptions from the hurricane activity on the Gulf Coast in the second quarter of fiscal 2006.

Operating income -- For the third quarter of fiscal 2006, the mattress fabrics segment reported operating income of $1.8 million, or 7.9% of net sales, compared to $1.6 million, or 6.2% of net sales, for the third quarter of fiscal 2005. This trend reflects productivity gains from the capital project undertaken in this segment since its announcement in October 2004 and further improvement is expected as the company moves closer to target productivity levels by the end of fiscal 2006. Operating income for the nine month period of fiscal 2006 was $4.8 million, or 6.9% of net sales, compared with $7.2 million, or 9.1% of net sales, for the nine month period of fiscal 2005. Operating income for the nine month period of fiscal 2006 in this segment was affected by customs assessments totaling $621,000, which reduced operating income for the nine month period by approximately 1%, higher raw material prices that were not offset by customer surcharges, manufacturing variances related to the start-up of the capital project in the first and second quarters of fiscal 2006, overall softness in industry sales of mattresses, and the ongoing shift mattress manufacturers are making to less expensive common border ticking.

Segment assets -- Segment assets consist of accounts receivable, inventory, and property, plant, and equipment. As of January 29, 2006, accounts receivable and inventory totaled $23.2 million compared to $25.0 million at May 1, 2005. Also as of January 29, 2006, property, plant and equipment totaled $26.2 million compared to $26.7 million at May 1, 2005. Included in property, plant, and equipment are assets located in the U.S. totaling $13.2 million and $12.2 million at January 29, 2006 and May 1, 2005, respectively.

Upholstery Fabrics Segment

Net Sales -- Upholstery fabric sales for the third quarter of fiscal 2006 decreased 11.8% to $38.4 million, compared with $43.5 million in the third quarter of fiscal 2005. Upholstery fabric yards sold during the third quarter of fiscal 2006 declined by 13.1% compared with the third quarter of fiscal 2005. The average selling price increased 1.4% compared with the third quarter of fiscal 2005. For the nine month period of fiscal 2006, net sales decreased 9.8% to $120.8 million compared with $133.9 million for the nine month period of fiscal 2005. For the nine month period of fiscal 2006, the average selling price for upholstery fabrics was essentially unchanged compared to the nine month period of fiscal 2005. Sales of upholstery fabrics reflect continued soft demand industry-wide for U.S. produced fabrics, driven by consumer preference for leather and suede furniture and other imported fabrics, including cut and sewn kits.

Operating loss - Operating loss for the third quarter of fiscal 2006 was $1.6 million or 4.3% of net sales compared with an operating loss of $2.0 million, or 4.6% of net sales, for the third quarter of fiscal 2005. These results reflect significantly lower gross profit in U.S. operations due to lower sales volumes and higher manufacturing variances as the company has experienced transition issues related to moving its finishing and yarn operations to outside suppliers and consolidating its velvet operations. Offsetting the lower gross profit in this segment were lower selling, general, and administrative expenses, which were down 31% for the third quarter of fiscal 2006 compared with the third quarter of fiscal 2005. Operating loss for the nine month period of fiscal 2006 was $2.1 million or 1.7% of net sales, compared with an operating loss of $4.4 million, or 3.3% of net sales, for the nine month period of fiscal 2005. Since the beginning of fiscal 2006, the company has revamped its U.S. upholstery fabric product strategy by offering a more select group of attractively priced, high volume decorative and velvet fabrics that are well packaged by color and coordination. Along with this shift in product strategy, the company has taken aggressive steps since the beginning of fiscal 2006 to reduce its U.S. manufacturing costs and capacity and selling, general, and administrative expenses. The company consolidated two velvet manufacturing operations, consolidated finished goods distribution and design centers, and closed two of its three yarn manufacturing plants. In addition, the company is currently outsourcing its decorative fabrics finishing operation. The company has also combined its sales, design, and customer service activities for Culp Decorative Fabrics and Culp Velvets/Prints, the two divisions within the upholstery fabrics segment, resulting in a more unified approach to service its customers. With the changes that have been made since the beginning of fiscal 2006, the company has reduced selling, general, and administrative expenses for the upholstery fabrics segment by 32.6% for the nine month period of fiscal 2006 compared with the nine month period of fiscal 2005.

Non-U.S. Produced Sales - Sales of upholstery fabrics produced outside the company's U.S. manufacturing operations, including fabrics produced at our China facility, were up 89% in the third quarter of fiscal 2006 over the third quarter of fiscal 2005 and accounted for approximately 38% of upholstery fabric sales in the third quarter of 2006. Fabric produced offshore accounted for approximately 18% of upholstery fabric sales for the third quarter of fiscal 2005. For the nine month period of fiscal 2006, these sales increased approximately 92% over the nine month period of fiscal 2005 and accounted for approximately 32% of upholstery fabric sales, compared to approximately 15% of upholstery fabric sales for the nine month period of fiscal 2005. The growth in offshore produced fabrics is a trend that is expected to continue.

Management believes that the development of its China platform represents a continuing opportunity for the company. As the company's U.S. customers have continued to move an increasing amount of their fabric purchases to Asia, the company has moved with them and responded with an operation designed to meet their needs. A key component of this platform is the fabric finishing and inspection facility located near Shanghai. The company's strategy is to control the value-added finishing and inspection process, thereby assuring customers that the company's fabrics will meet or exceed U.S. quality standards.

U.S. Produced Sales -- Management has continued to take very aggressive actions over the past year to bring U.S. manufacturing costs and capacity in line with current demand trends. On September 27, 2005, the company's board of directors approved a strategic alliance with Synthetics Finishing, a division of TSG Incorporated, to provide finishing services to the company for its domestically produced decorative upholstery fabrics and collaborate with the company on research and product development activities. As a result, the company will close its finishing plant in Burlington, NC, thereby reducing the number of associates by approximately 100 people. Once this outsourcing initiative for finishing services is complete, which is expected by April 2006, the company will have three U.S. manufacturing facilities operating in the upholstery fabrics segment - - one for velvet fabrics, one for decorative fabrics, and one for specialty yarns. As a result of these consolidations and earlier restructuring activities, the book value of the company's U.S based upholstery fabric fixed assets is projected to be about $13 million (excluding corporate asset allocations) by the end of fiscal 2006 compared with approximately $52 million at the end of fiscal 2004.

In August 2005, the company's board of directors approved a restructuring plan within the upholstery fabrics segment designed to reduce the company's U.S. yarn manufacturing operations. The company sold its polypropylene yarn extrusion equipment (with a book value of $2.3 million) located in Graham, NC, to American Fibers and Yarns Company, the company's supplier for polypropylene yarn, for $1.1 million payable in cash. Pursuant to terms of the sale agreement, the company has a long-term supply contract with American Fibers and Yarns Company to continue to provide the company with polypropylene yarn at prices tied to a published index.

The company's board of directors also approved further reductions in the company's yarn operations by closing the company's facility in Shelby, NC, and consolidating the chenille yarn operations into the company's Lincolnton, NC, facility. During the second quarter of fiscal 2006, the company outsourced the open-end yarns previously produced at the Shelby, NC, facility. As a result, the company will have one specialty yarn manufacturing plant in Lincolnton, NC, for producing chenille and wrap-spun yarns and a small texturizing yarn operation in Graham, NC. Overall, these actions reduced the number of associates by approximately 100 people.

As a result of an internal analysis, the company commenced an initiative to discontinue a number of lower volume products that do not fit the company's U.S. upholstery fabrics operating model to produce more volume-oriented products. As of January 29, 2006, the company recorded an inventory markdown charge of $816,000 (included in restructuring related charges) based on an analysis by management of lower volume products that are expected to be discontinued in the fourth quarter of fiscal 2006. The ultimate recovery of the carrying value of these products and its associated raw material components will be based on market reaction and there could be further inventory markdown charges in the fourth quarter of fiscal 2006, related to this initiative.

While management believes it is important to produce some level of upholstery fabric in the U.S. to support its customers' domestic fabric requirements, management remains committed to take additional steps if necessary to address the profitability of the company's U.S. upholstery fabric operations. The company could experience additional write-downs of its property, plant, and equipment in this business if further restructuring actions become necessary.

Segment assets -- Segment assets consist of accounts receivable, inventory, and property, plant, and equipment. As of January 29, 2006, accounts receivable and inventory totaled $47.4 million compared to $54.4 million at May 1, 2005. As of January 29, 2006, property, plant, and equipment totaled $26.3 million compared to $39.3 million at May 1, 2005. Included in property, plant, and equipment are assets located in the U.S. totaling $21.2 million and $36.2 million at January 29, 2006, and May 1, 2005, respectively. Included in this U.S. property, plant, and equipment are various other corporate asset allocations totaling $4.1 million at January 29, 2006. At May 1, 2005, allocations to this segment totaled $5.3 million for the distribution facility and design center that were sold in June 2005, as well as various other corporate asset allocations totaling $4.2 million.

Other Expenses

Selling, General and Administrative Expenses -- SG&A expenses of $6.1 million for the third quarter of fiscal 2006 decreased approximately $2.1 million, or 25.6%, from $8.2 million in the third quarter of fiscal 2005. This decrease is primarily due to the significant cost reductions as part of the company's restructuring initiatives in the upholstery fabrics segment. SG&A expenses of $22.5 million for the nine month period of fiscal 2006 decreased approximately $3.8 million, or 14.6%, from $26.3 million the nine month period of fiscal 2005. Included in the $22.5 million was $3.0 million in accelerated depreciation associated with the company's design and distribution centers sold in June 2005. The 25.9% decrease to the remaining $19.5 million for the nine month period of fiscal 2006 from the $26.3 million in the nine month period of fiscal 2005 was primarily due to the significant cost reductions as part of the company's restructuring initiatives in the upholstery fabrics segment.

Interest Expense (Income) -- Interest expense for the third quarter of 2006 was $ 1.1 million compared to $912,000 for the third quarter of fiscal 2005. This increase is primarily due to increased borrowings from the real estate loan. Interest income was $43,000 for the third quarter of 2006 compared to $42,000 for the third quarter of fiscal 2005.

Income Taxes -- The effective tax rate (taxes as a percentage of loss before income taxes) for the third quarter of fiscal 2006 was 36.6% compared with 36.5% for the third quarter of fiscal 2005.

Liquidity and Capital Resources

Liquidity --The company's sources of liquidity include cash and cash equivalents, cash flow from operations and amounts available under its revolving credit line. These sources have been adequate for day-to-day operations and capital expenditures. Cash and cash equivalents as of January 29, 2006, increased to $12.9 million from $5.1 million as of May 1, 2005, primarily reflecting cash flow from operations of $5.3 million and proceeds from the sale of buildings and equipment as part of the company's restructuring activities of $4.0 million, offset by capital expenditures and payments on vendor financed capital expenditures of $6.3 million, proceeds from the real estate loan of $4.3 million, and proceeds from a loan with the Canadian government of $680,000.

Working Capital -- Accounts receivable as of January 29, 2006, increased 6.8% in comparison to January 30, 2005. Days sales outstanding totaled 39 days at January 29, 2006, compared with 32 days at January 30, 2005. Inventories at January 29, 2006 decreased 9.8% from January 30, 2005. Inventory turns for the third quarter of fiscal 2006 were 5.0 versus 5.6 for the third quarter of fiscal 2005. Operating working capital (comprised of accounts receivable and inventories, less trade accounts payable) was $52.6 million at January 29, 2006, down from $58.2 million at January 30, 2005.

Financing Arrangements -- The company's long-term debt of $55.3 million is comprised of unsecured senior term notes of $50.0 million, a term loan with its bank (Wachovia) of $4.3 million that is secured by a lien on the company's headquarters office located in High Point, NC, and an unsecured loans with the Canadian government of $1.0 million. The company's unsecured senior term notes have a fixed interest rate of 7.76% (payable semi-annually in March and September) and are payable over an average remaining term of four years beginning March 2006 through March 2010.

In October 2005, the company entered into an agreement with its bank (Wachovia) to provide for a term loan in the amount of $4.3 million. This term loan bears interest at the one-month London Interbank Offered Rate plus an adjustable margin based on the company's debt/EBITDA ratio, as defined in the agreement, and is payable in varying monthly installments through October 2010.

In August 2005, the company amended its agreement with its bank (Wachovia) to provide for a revolving loan commitment of $8.0 million, including letters of credit up to $5.5 million. Borrowings under the credit facility bear interest at the London Interbank Offered Rate plus an adjustable margin based on the company's debt/EBITDA ratio, as defined in the agreement. As of January 29, 2006, there were $3.7 million in outstanding letters of credit and no borrowings outstanding under the agreement. The amended agreement also requires the company to maintain collected deposit balances of $7.5 million with its bank (Wachovia) from the period October 31, 2005, to March 15, 2006, which is the due date for the first principal payment ($7.5 million) on the company's unsecured senior term notes and maintain certain other financial covenants, as defined in the agreement. The amended credit facility expires on August 31, 2006.

On December 7, 2005, the company entered into a Seventh Amendment to this credit agreement. This amendment requires the company to maintain collected deposit balances of at least $3.0 million after March 15, 2006. Additionally, this amendment reduces the minimum EBITDA covenant for the third and fourth quarters of fiscal 2006.

On March 8, 2006, the company entered into an Eighth Amendment to the Amended and Restated Credit Agreement, which amends the credit agreement between the company and its bank (Wachovia). The principal terms of the Eighth Amendment raised the company's capital expenditures limit to $6.5 million for the year ending April 30, 2006.

In November 2005, the company entered into an agreement with the Canadian government to provide for a term loan in the amount of $680,000. The proceeds are to partially finance capital expenditures at the company's Rayonese facility located in Quebec, Canada. This loan is non-interest bearing and is payable in 48 equal monthly installments commencing December 1, 2009. In addition to the term loan entered into in November 2005, the company has an existing non-interest bearing term loan with the Canadian government with its final payment due in fiscal 2007. At January 29, 2006, the balance of the term loan entered into in November 2005 and the existing term loan were $695,000 and $315,000, respectively.

The company was in compliance with all financial covenants in its loan agreements as of January 29, 2006.

Commitments

The following table summarizes the company's contractual payment obligations and commitments (in thousands):

	2006	2007	2008	2009	2010	Thereafter	Total
Capital expenditure Commitments	$ 103	$ -	$ -	$ -	$ -	$ -	$ 103
Accounts payable capital expenditures	677	1,000	1,000	-	-	-	2,677
Operating leases (1)	914	2,958	1,793	437	135	37	6,274
Long-term debt	7,585	8,051	20,046	7,757	7,842	3,997	55,278
Total	$ 9,279	$ 12,009	$ 22,839	$ 8,194	$ 7,977	$ 4,034	$ 64,332

Note: Payment Obligations by Fiscal Year Ending April

(1) Includes accrued restructuring expenses for the company's inactive Chattanooga manufacturing facility of $217 in 2006, and $869 in 2007 and 2008 and other leases of $40, $139, and $26 for fiscal years 2006, 2007, and 2008, respectively.

Capital Expenditures -- Capital spending for the nine month period of fiscal 2006 was $5.8 million, including $1.7 million that is the non-cash portion of capital expenditures representing vendor financing. The company anticipates capital spending not to exceed $6.5 million (of which approximately $3.6 million and $2.4 million is expected for the mattress fabric segment and Culp China respectively) for fiscal 2006, including approximately $2.0 million budgeted for the non-cash portion of expenditures representing vendor financing, which relates to the mattress fabrics capital project. Depreciation for the nine month period of fiscal 2006 was $12.3 million, of which approximately $5.0 million related to accelerated depreciation of buildings and equipment. The company expects that the availability of funds under the revolving credit line and cash flow from operations will be sufficient to fund its planned capital needs. Capital expenditures are not expected to exceed $3.0 million in fiscal 2007. The company estimates depreciation for fiscal year 2006 to be $14.4 million, which includes $5.0 million in accelerated depreciation.

Liquidity Requirements -- As indicated earlier, the company's sources of liquidity include cash and cash equivalents, cash flow from operations and amounts available under its revolving credit line. The company believes its sources of liquidity continue to be adequate to meet its current operating needs. In addition, the company is taking further steps to improve its liquidity, including ongoing efforts to reduce inventories and operating expenses. However, the company's cash position could be adversely affected by factors beyond its control, such as weakening industry demand, delays in receipt of payment on accounts receivable and the availability of trade credit.

Critical Accounting Policies and Recent Accounting Developments

U.S. generally accepted accounting principles require the company to make estimates and assumptions that affect the reported amounts in the consolidated financial statements and accompanying notes. Some of these estimates require difficult, subjective and/or complex judgments about matters that are inherently uncertain, and as a result actual results could differ significantly from those estimates. Due to the estimation processes involved, management considers the following summarized accounting policies and their application to be critical to understanding the company's business operations, financial condition and results of operations.

Accounts Receivable - Allowance for Doubtful Accounts. Substantially all of the company's accounts receivable are due from residential and commercial furniture and bedding manufacturers. Ownership of these manufacturers is increasingly concentrated and certain bedding manufacturers have a high degree of leverage. As of January 29, 2006, accounts receivable from furniture manufacturers totaled approximately $19.3 million, and from bedding manufacturers approximately $9.2 million. Additionally, as of January 29, 2006, the aggregate accounts receivable balance of the company's ten largest customers was $10.2 million, or 35.8% of trade accounts receivable.

The company continuously performs credit evaluations of its customers, considering numerous inputs including customers' financial position, past payment history, cash flows and management capability; historical loss experience; and economic conditions and prospects. Once evaluated, each customer is assigned a credit grade. Credit grades are adjusted as warranted. Significant management judgment and estimates must be used in connection with establishing the reserve for allowance for doubtful accounts. While management believes that adequate allowances for doubtful accounts have been provided in the consolidated financial statements, it is possible that the company could experience additional unexpected credit losses.

Inventory Valuation. The company operates as a "make-to-order" and "make-to-stock" business. Although management closely monitors demand in each product area to decide which patterns and styles to hold in inventory, the increasing availability of low cost imports and the gradual shifts in consumer preferences expose the company to write-downs of inventory.

Management continually examines inventory to determine if there are indicators that the carrying value exceeds its net realizable value. Experience has shown that the most significant indicator of the need for inventory write-downs is the age of the inventory. As a result, the company provides inventory valuation write-downs based upon set percentages for inventory aging categories, generally using six, nine, twelve and fifteen month categories. While management believes that adequate write-downs for excess and obsolete inventory have been made in the consolidated financial statements, significant unanticipated changes in demand or changes in consumer tastes and preferences could result in additional excess and obsolete inventory in the future.

Long-Lived Assets. The company follows the provisions of SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. SFAS No. 144 establishes an impairment accounting model for long-lived assets to be held and used, disposed of by sale, or disposed of by abandonment or other means.

Management reviews long-lived assets, which consists of property, plant and equipment, for impairment whenever events or changes in circumstances indicate that the carrying value of the asset may not be recovered. During the nine month period of fiscal 2006, no events or changes in circumstances occurred that would require the company to test for impairment. Unforeseen events and changes in circumstances and market conditions could negatively affect the value of assets and result in an impairment charge.

The determination of future operating cash flows involves considerable estimation and judgment about future market conditions, future sales and profitability, and future asset utilization. Although the company believes it bases its impairment testing as required by SFAS No. 144 on reasonable estimates and assumptions, the use of different estimates and assumptions, or a decision to dispose of substantial portions of these assets, could result in materially different results.

Goodwill. As of January 29, 2006, the company's remaining $4.1 million of goodwill relates to the Culp Home Fashions division. The determination of fair value involves considerable estimation and judgment. In particular, determining the fair value of a business unit involves, among other things, developing forecasts of future cash flows and appropriate discount rates. During the nine month period of fiscal 2006, no events or changes in circumstances occurred that would require the company to test for impairment.

Restructuring Charges. In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." This Statement addresses financial accounting and reporting for costs associated with exit or disposal activities and supersedes Emerging Issues Task Force (EITF) Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." Under SFAS 146, a liability for a cost associated with an exit or disposal activity shall be recognized and measured initially at its fair value in the period in which the liability is incurred, except for certain employee termination benefits that qualify under SFAS No. 112, "Employers' Accounting for Postemployment Benefits."

The upholstery fabric industry continues to be under significant pressure from a variety of external forces, such as the current consumer preference for leather and suede furniture and the growing competition from imported fabrics and cut and sewn kits, primarily from China. In an effort to reduce operating expenses and scale U.S. productive capacity in line with demand, the company has undertaken restructuring initiatives during the past several years. These restructuring initiatives have resulted in restructuring charges related to the remaining lease costs of the closed facilities, the write-down of property, plant and equipment, workforce reduction and elimination of facilities.

While management believes it is important to produce some level of upholstery fabric in the U.S. to support the company's customers' domestic fabric requirements, management remains committed to take whatever additional steps necessary to achieve profitable U.S. upholstery fabric operations. The company could experience additional write-downs of its property, plant, and equipment in this business if further restructuring actions become necessary.

Severance and related charges are accrued at the date the restructuring was approved by the board of directors based on an estimate of amounts that will be paid to affected employees, in accordance with SFAS 112. Under SFAS 144, asset impairment charges related to the consolidation or closure of manufacturing facilities are based on an estimate of expected sales prices for the real estate and equipment. Other exit costs, which principally consist of charges for lease termination and losses from termination of existing contracts, equipment relocation costs and inventory markdowns that are related to the restructuring are accounted for in accordance with SFAS 146.

The company reassesses the individual accrual requirements at the end of each reporting period. If circumstances change, causing current estimates to differ from original estimates, adjustments are recorded in the period of change. Restructuring charges, and adjustments of those charges, are summarized in note 10 to the consolidated financial statements.

Income Taxes. The company is required to estimate its actual current tax exposure and to assess temporary differences resulting from differing treatment of items for tax and accounting purposes. At May 1, 2005, the company had deferred tax assets of $25,249,000 (all of which relate to U.S. operations) and U.S. deferred tax liabilities of $5,709,000 (all of which reverse in the carryforward period), resulting in net U.S. deferred tax assets of $19,540,000. Total deferred tax liabilities at May 1, 2005 were $8,109,000, resulting in total net deferred tax assets of $17,140,000. As of January 29, 2006, the company's net deferred tax assets total $22,785,000, an increase of $5,645,000 from the end of fiscal 2005, primarily reflecting the federal and state tax benefits recorded for the loss from U.S. operations during the nine month period of fiscal 2006. No valuation allowance has been recorded to reduce the company's deferred tax assets. Management has concluded that it is more likely than not that the company will be able to realize the benefit of the deferred tax assets.

In making the judgment about the realization of the deferred tax assets, management has considered both negative and positive evidence, and concluded that sufficient positive evidence exists to overcome the cumulative losses experienced in recent years. Specifically, management considered the following, among other factors: nature of the company's products; history of positive earnings in the mattress fabrics segment; capital projects in progress to further enhance the company's globally competitive cost structure in the mattress fabrics segment; recent significant restructuring actions in the domestic upholstery fabrics business to adjust the domestic cost structure and bring U.S. manufacturing capacity in line with demand; and development of offshore manufacturing and sourcing programs to meet changing demands of upholstery fabric customers in the U.S. Management's analysis of taxable income also included the following considerations: none of the company's net operating loss carryforwards has previously expired unused; the U.S. federal carryforward period is 20 years; and the company's current losses principally expire in 16-20 years, fiscal 2022 through 2026.

Considerable judgment is involved in this process as ultimate realization of benefits is dependent on the generation of income from future operations.

Recently Issued Accounting Standards

In November 2004, the FASB issued SFAS No. 151, "Inventory Costs, an amendment of ARB No.43, Chapter 4," which clarifies the types of costs that should be expensed rather than capitalized as inventory. This statement also clarifies the circumstances under which fixed overhead costs associated with operating facilities involved in inventory processing should be capitalized. The provisions of SFAS No. 151 are effective for fiscal years beginning after June 15, 2005 and the company will adopt this standard in fiscal 2007. Management has not determined the impact, if any, that this statement will have on our consolidated financial position or results of operations.

SFAS No. 123 (Revised 2004), "Share-Based Payment," issued in December 2004 is a revision of FASB Statement No. 123, "Accounting for Stock-Based Compensation" and supercedes APB Opinion No. 25,"Accounting for Stock Issued to Employees," and its related implementation guidance. The statement focuses primarily on accounting for transactions in which an entity obtains employee services in share-based payment transactions. SFAS No. 123 (Revised 2004) requires a public entity to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award (with limited exceptions). The cost will be recognized over the period during which an employee is required to provide service in exchange for the award. The provisions of SFAS No. 123 (Revised 2004) are effective for fiscal years beginning after June 15, 2005, and the company will adopt this standard in fiscal 2007. Management has not determined the impact, if any, that this statement will have on our consolidated financial position or results of operations.

In March 2005, the FASB issued Interpretation No.47, "Accounting for Conditional Asset Retirement Obligations," (FIN 47). FIN 47 clarifies that the term "conditional asset retirement obligation" as used in SFAS No. 143, "Accounting for Asset Retirement Obligation," refers to a legal obligation to perform an asset retirement activity in which the timing and (or) method of settlement are conditional on a future event that may or may not be within the control of the entity. FIN 47 is effective no later that the end of fiscal years ending after December 15, 2005, and will be effective for the company on April 30, 2006. The company does not expect there to be any material effect on the consolidated financial statements upon adoption of the new standard.

Inflation

The cost of certain of the company's raw materials, principally fibers from petroleum derivatives, and utility/energy costs, increased during the nine month period of fiscal 2006 as oil and energy prices increased and had an impact on the company's financial results. Any significant increase in the company's raw material costs, utility/energy costs and general economic inflation could have a material adverse impact on the company, because competitive conditions have limited the company's ability to pass significant operating cost increases on to its customers.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The company is exposed to market risk from changes in interest rates on debt and foreign currency exchange rates. The company's market risk sensitive instruments are not entered into for trading purposes. The company's exposure to interest rate risk consists of floating rate debt based on the London Interbank Offered Rate plus an adjustable margin under the company's revolving credit agreement and real estate term loan. As of January 29, 2006, there were $4.3 million in borrowings outstanding under the real estate term loan and no borrowings outstanding under the revolving credit agreement. In connection with the real estate term loan, the company entered into a $2,170,000 notional principal interest rate swap agreement, which represents 50% of the principal amount on the real estate loan, and effectively converts the floating rate LIBOR based payments to fixed payments at 4.99% plus the spread calculated under the real estate loan agreement. The company's unsecured senior term notes have a fixed interest rate of 7.76% and the Canadian government loan is non-interest bearing. Additionally, approximately 92% of the company's long-term debt is at a fixed rate. Thus, any foreseeable change in interest rates would not be expected to have a material effect on the company.

The company's exposure to fluctuations in foreign currency exchange rates is due primarily to foreign subsidiary domiciled in Canada and firmly committed and anticipated purchases of certain machinery, equipment and raw materials in foreign currencies. The company's Canadian subsidiary uses the United States dollar as its functional currency. The company generally does not use financial derivative instruments to hedge foreign currency exchange rate risks associated with the Canadian subsidiary. However, the company generally enters into foreign exchange forward and option contracts as a hedge against its exposure to currency fluctuations on firmly committed and anticipated purchases of certain machinery, equipment and raw materials. The amount of Canadian-denominated sales and manufacturing costs is not material to the company's consolidated results of operations; therefore, a 10% change in the exchange rate at January 29, 2006 would not have a significant impact on the company's results of operations or financial position. Additionally, as the company utilizes foreign currency instruments for hedging anticipated and firmly committed transactions, a loss in fair value for those instruments is generally offset by increases in the value of the underlying exposure.

Also, the company has exposure to fluctuations in foreign currency exchange rates with a foreign subsidiary domiciled in China. Currently, this risk cannot be hedged. The amount of sales and manufacturing costs denominated in Chinese currency is not material to the company's consolidated results of operations; therefore a 10% change in the exchange rate of January 29, 2006 would not have a significant impact on the company's results of operations or financial position.

ITEM 4. CONTROLS AND PROCEDURES

The company conducted a review and evaluation of its disclosure controls and procedures, under the supervision and with the participation of the company's principal executive officer and principal financial officer as of January 29, 2006, and the principal executive officer and principal financial officer have concluded that the company's disclosure controls and procedures are adequate and effective. In addition, no change in the company's internal control over financial reporting has occurred during, or subsequent to, the period covered by this report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting.

Part II - Other Information

Item 5. Other Information

On March 8, 2006, the company entered into an Eighth Amendment to the Amended and Restated Credit Agreement, which amends the credit agreement between the company and its bank (Wachovia). The principal terms of the Eighth Amendment raised the company's capital expenditures limit to $6.5 million for the year ending April 30, 2006.

Item 6. Exhibits

(a) The following exhibits are filed as part of this report.

3(i) Articles of Incorporation of the company, as amended, were filed as Exhibit 3(i) to the company's Form 10-Q for the quarter ended July 28, 2002, filed September 11, 2002, and are incorporated herein by reference.

3(ii) Restated and Amended Bylaws of the company, as amended June 12, 2001, were filed as Exhibit 3(ii) to the company's Form 10-Q for the quarter ended July 29, 2001, filed September 12, 2001, and are incorporated herein by reference.

10(a) Eighth Amendment to Amended and Restated Credit Agreement among Culp, Inc. and Wachovia Bank, National Association, as Agent and as Bank.

31.1 Certification of Chief Executive Officer Pursuant to Section 302 of Sarbanes-Oxley Act of 2002.

31.2 Certification of Chief Financial Officer Pursuant to Section 302 of Sarbanes-Oxley Act of 2002.

32.1 Certification of Chief Executive Officer Pursuant to Section 906 of Sarbanes-Oxley Act of 2002.

32.2 Certification of Chief Financial Officer Pursuant to Section 906 of Sarbanes-Oxley Act of 2002.

SIGNATURES

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

CULP, INC.
(Registrant)

Date: March 10, 2006

By: /s/ Franklin N. Saxon
Franklin N. Saxon
President
(Authorized to sign on behalf of the registrant and also signing as principal financial officer)

By: /s/ Kenneth R. Bowling
Kenneth R. Bowling
Vice President-Finance, Treasurer
(Authorized to sign on behalf of the registrant and also signing as principal accounting officer)

EIGHTH AMENDMENT TO AMENDED AND RESTATED CREDIT AGREEMENT

THIS EIGHTH AMENDMENT TO AMENDED AND RESTATED CREDIT AGREEMENT ("Eighth Amendment") is made as of the 29th day of January, 2006, by and between CULP, INC., a North Carolina corporation (together with its successors and permitted assigns, the "Borrower") and WACHOVIA BANK, NATIONAL ASSOCIATION (formerly, Wachovia Bank, N.A.), a national banking association, as Agent and as a Bank (together with its endorsees, successors and assigns, the "Bank").

BACKGROUND

The Borrower and the Bank entered into an Amended and Restated Credit Agreement, dated as of August 23, 2002, as amended by Second Amendment to Amended and Restated Credit Agreement (the "Second Amendment"), dated as of June 3, 2003, by Third Amendment to Amended and Restated Credit Agreement (the "Third Amendment"), dated as of August 23, 2004, by Fourth Amendment to Amended and Restated Credit Agreement ("Fourth Amendment"), dated as of December 7, 2004, by Fifth Amendment to Amended and Restated Credit Agreement ("Fifth Amendment") dated as of February 18, 2005, by a Sixth Amendment to Amended and Restated Credit Agreement ("Sixth Amendment"), dated as of August 30, 2005 and by a Seventh Amendment to Amended and Restated Credit Agreement ("Seventh Amendment"), dated as of December 7, 2005 (it being acknowledged by the parties hereto that the proposed First Amendment to Amended and Restated Credit Agreement, which had been under discussion in March 2003, was never executed by the parties and is of no force or effect; otherwise, such agreement, as amended by the Second Amendment, Third Amendment, Fourth Amendment, Fifth Amendment, Sixth Amendment and Seventh Amendment, and as it may be further amended, restated, supplemented and/or modified, shall be referred to herein as the "Credit Agreement"). Terms used herein and not herein defined shall have the meanings given to them in the Credit Agreement.

The Borrower has now requested additional amendments to the provisions of the Credit Agreement, which the Bank is willing to accommodate subject to the terms, provisions and conditions set forth in this Eighth Amendment.

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

1. Amendments to Credit Agreement. The Credit Agreement is hereby amended as follows:

(a) Section 5.24 of the Credit Agreement is hereby amended and restated in its entirety to read as follows:

"Section 5.24 Capital Expenditures. Aggregate Capital Expenditures for any Fiscal Year will not exceed $6,500,000.00."

2. Further Assurances. The Borrower will execute such confirmatory instruments, if any, with respect to the Credit Agreement and this Eighth Amendment as the Bank may reasonably request.

3. Ratification by Borrower. The Borrower ratifies and confirms all of its representations, warranties, covenants, liabilities and obligations under the Credit Agreement (except as expressly modified by this Eighth Amendment) and agrees that: (i) except as expressly modified by this Eighth Amendment, the Credit Agreement continues in full force and effect as if set forth specifically herein; and (ii) the Borrower has no right of setoff, counterclaim or defense to payment of its obligations under the Credit Agreement. The Borrower and the Bank agree that this Eighth Amendment shall not be construed as an agreement to extinguish the Borrower's obligations under the Credit Agreement or the Notes and shall not constitute a novation as to the obligations of the Borrower under the Credit Agreement or the Notes. The Bank hereby expressly reserves all rights and remedies it may have against all parties who may be or may hereafter become secondarily liable for the repayment of the obligations under the Credit Agreement or the Notes.

4. Amendments. This Eighth Amendment may not itself be amended, changed, modified, altered, or terminated without in each instance the prior written consent of the Bank. This Eighth Amendment shall be construed in accordance with and governed by the laws of the State of North Carolina.

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

6. Bank's Expenses. In accordance with Section 9.03 of the Credit Agreement, Borrower hereby acknowledges and agrees to pay all reasonable out-of-pocket expenses incurred by the Bank in connection with the preparation of this Eighth Amendment, including without limitation reasonable attorneys' fees.

[Signature Page Follows]

IN WITNESS WHEREOF, this Eighth Amendment has been duly executed under seal by Borrower and Bank as of the day and year first above written.

BORROWER:

CULP, INC. (SEAL)

By:/s/ Kenneth R. Bowling
Name: Kenneth R. Bowling
Title: Vice President-Finance, Treasurer

BANK:

WACHOVIA BANK, NATIONAL ASSOCIATION,
as Agent and as Bank (SEAL)

By:/s/ Mathew M. Rankin
Name: Mathew M. Rankin
Title: Vice President

Exhibit 31.1

CERTIFICATIONS

I, Robert G. Culp, III, Chairman and Chief Executive Officer (principal executive officer) of Culp, Inc., certify that:

1. I have reviewed this quarterly report on Form 10-Q of Culp, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state any material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Robert G. Culp, III

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

Date: March 10, 2006

Exhibit 31.2

CERTIFICATIONS

I, Franklin N. Saxon, President and Chief Operating Officer (principal financial officer) of Culp, Inc., certify that:

1. I have reviewed this quarterly report on Form 10-Q of Culp, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state any material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Franklin N. Saxon

Franklin N. Saxon
President
(principal financial officer)

Date: March 10, 2006

Exhibit 32.1

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

In connection with this quarterly report of Culp, Inc. (the "Company") on Form 10-Q for the quarterly period ended January 29, 2006 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Robert G. Culp,III, Chairman of the Board and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

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

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

/s/ Robert G. Culp, III

Chairman of the Board and
Chief Executive Officer

March 10, 2006

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

Exhibit 32.2

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

In connection with this quarterly report of Culp, Inc. (the "Company") on Form 10-Q for the quarterly period ended January 29, 2006 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Franklin N. Saxon, President and Chief Operating Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

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

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

/s/ Franklin N. Saxon

President

March 10, 2006

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