

# Culp, Inc.

## Corporate Governance Guidelines

### A. Composition of the Board

#### 1. Size of the Board

The Board believes that its current size is serving the Company well.

#### 2. Board Membership Criteria

In assessing candidates for membership on the Board, the Corporate Governance and Nominating Committee should seek a diversity of skills and backgrounds. All candidates should possess the following characteristics: honesty and integrity, sound business judgment, financial literacy, strategic and analytical insight, and the ability to commit an adequate amount of time to make a productive contribution to the Board and the Company. In addition, the Corporate Governance and Nominating Committee will seek to assure that one or more Board members possess each of the following characteristics: knowledge and experience in the Company's industry, management experience, international business knowledge, expertise in accounting or financial analysis, and regulatory compliance expertise.

#### 3. Proportion and Determination of Independent Directors

The Board believes that as a matter of policy, independent directors (as defined herein) should comprise at least a majority of the Board. This shall not, however, prevent the Board from taking valid actions if there are fewer than the intended proportion of independent directors due to a temporary vacancy or vacancies on the Board. Any such vacancies should be filled as soon as reasonably practicable.

##### (a) Categorical Independence Standards

To be considered "independent" for purposes of these guidelines, a director must be determined, by resolution of the Board as a whole, to have no material relationship with the Company other than as a director. These determinations will be made annually prior to the annual meeting of shareholders. In each case, the Board will broadly consider all relevant facts and circumstances and will apply the independence standards of the New York Stock Exchange. In addition, the Board will apply the following standards:

(i) **Disqualifying Relationships** – A director will not be considered independent if any of the following has occurred within the preceding three years:

- the director was employed by the Company

- the director's immediate family member was employed by the Company as an executive officer
  - the director or the director's immediate family member received more than \$25,000 per year in direct compensation from the Company (other than director's fees and pension or other forms of deferred compensation for prior service with the Company)
  - the director was affiliated with or employed by the Company's independent auditor
  - the director's immediate family member was affiliated with or employed by the Company's independent auditor as a partner, principal, manager, or in any other professional capacity
  - an executive officer of the Company was on the compensation committee of the board of directors of a company that employed either the director or the director's immediate family member as an executive officer
- (ii) **Commercial Relationships** – The following commercial relationships will not be considered to be material relationships that would impair a director's status as being independent:
- the director is an executive officer or employee or director of one of the Company's suppliers or customers whose annual sales to, or purchases from, the Company are less than one percent of the annual revenues of the customer or supplier
  - the director's immediate family member is an executive officer or director of one of the Company's suppliers or customers whose annual sales to, or purchases from, the Company are less than one percent of the annual revenues of the customer or supplier
  - the director or the director's immediate family member is an executive officer of another company that is indebted to the Company, or to which the Company is indebted, and the total amount of either company's indebtedness to the other is less than one percent of the total consolidated assets of the company he or she serves as an executive officer
- (iii) **Charitable Relationships** - The following charitable relationship will not be considered to be a material relationship that would impair a director's independence: if a director of the Company, or a member of a director's immediate family, serves as an executive officer of a charitable or other not for profit organization, and the Company's charitable contributions to the organization, in the aggregate, are less than two percent of that organization's total revenues during its most recent fiscal year.

- (iv) **Stock Ownership** - Ownership of a significant amount of the Company's stock does not necessarily preclude a determination of independence.

Annually, the Board will review all commercial and charitable relationships of the Company and its directors (based upon directors' responses to Company questionnaires) to determine whether directors meet the categorical independence tests described in paragraphs (ii) and (iii) above. The Board may determine that a director who has a relationship that exceeds the limits described in paragraph (ii) (to the extent that any such relationship would not constitute a bar to independence under the New York Stock Exchange listing standards) or paragraph (iii), is nonetheless independent. The Company will explain in the next proxy statement the basis for any Board determination that a relationship is immaterial despite the fact that it does not meet the categorical standards set forth in paragraphs (ii) or (iii).

**(b) Additional Independence Criteria for Audit Committee Members**

In addition to being an independent director, as defined above, at any time when the Company's securities are listed on a national securities exchange or association, each member of the Company's Audit Committee must satisfy the additional independence criteria established by that exchange or association for membership on the Audit Committee.

**4. Selection of Directors**

The Corporate Governance and Nominating Committee is responsible for selecting persons to be recommended to the Board to fill vacancies on the Board, as well as persons to be recommended to the Board to be submitted to the shareholders as nominees for election as directors of the Company.

The Board shall be responsible for determining the qualification of an individual to serve on the Audit Committee as a designated "audit committee financial expert," as required by applicable rules of the SEC under Section 407 of the Sarbanes-Oxley Act. In light of this responsibility of the Board, the Corporate Governance and Nominating Committee should coordinate closely with the Board in screening any new candidate and in evaluating whether to re-nominate any existing director who may serve in this capacity.

The invitation to join the Board should be extended by the Board itself, through its Chairman of the Board if he or she is a non-management director and/or the Chairman of the Corporate Governance and Nominating Committee, together, in each case, with the Chief Executive Officer of the Company.

**5. Service on Other Boards**

The Board believes that service on the board of directors of other companies can provide a director with experience and knowledge that is often valuable to the Company, while also recognizing that service on other boards can limit the amount of time and attention a director can devote to the Company. For these reasons, the Board believes that a director

should not serve on the board of directors for more than three additional publicly-traded companies. The Corporate Governance and Nominating Committee will take into account the nature of and time involved in an individual's service on other boards (considering, among other factors, the specific board committees on which he or she sits) in evaluating the individual's suitability for the Board. Individual directors are expected to use their judgment in accepting other directorships and to allow sufficient time for and attention to Company matters.

## **6. Directors Who Change Their Corporate Affiliations**

Any director who changes his or her employer or otherwise has a significant change in job responsibilities shall give written notice to the Board, specifying the details, as soon as feasible and shall submit to the Board a letter of resignation from the Board and from each Board committee on which such director serves.

It is not necessary in every instance for a director who retires or otherwise has a significant change in position or job responsibilities to leave the Board and/or each Board committee on which such director serves. Submission of a letter of resignation as provided above, however, will enable the Board, through the Corporate Governance and Nominating Committee, to review the continued appropriateness of the director's membership on the Board and each applicable Board committee under these circumstances, taking into account all relevant factors. In some instances, it may be appropriate for the individual to be replaced as a member of one or more Board committees even if he or she is retained as a director.

## **7. No Pre-Determined Term Limits**

In lieu of pre-determined term limits for directors, the Corporate Governance and Nominating Committee shall evaluate each director's continued services on the Board in connection with each decision regarding whether he or she should be re-nominated to the Board and at such other times as may be appropriate in particular circumstances. In connection with each decision regarding re-nominations, each director shall be given an opportunity to confirm his or her desire to continue as a member of the Board.

## **B. Board Leadership**

### **1. Selection of Chairman and Chief Executive Officer**

The Board should have flexibility to decide whether it is best for the Company at a given point in time for the roles of the Chief Executive Officer and Chairman of the Board to be separate or combined and, if separate, whether the Chairman should be selected from the independent directors or be an employee.

### **2. Presiding Non-Management Director**

Whenever the Chairman of the Board is a member of management, the non-management directors may: (i) select from among themselves a Lead Director to preside at one or more separate meetings of the non-management directors or (ii) adopt a procedure for

selecting from among themselves a specific presiding director to preside at each such separate meeting.

**C. Board Compensation and Performance**

**1. Board Compensation Review**

It is appropriate for the staff of the Company to report, as requested, to the Compensation Committee regarding the status of the Company's Board compensation in relation to other comparable U.S. companies, and for the Corporate Governance and Nominating Committee to provide such input as it deems appropriate. Changes in Board compensation, if any, should come at the suggestion of the Compensation Committee, but with full discussion and concurrence by the Board. The Board believes that a meaningful portion of a director's compensation should be provided in, or otherwise based on, the value of or long-term appreciation in the Company's common stock.

**2. Assessing the Performance of the Board as a Whole**

The Corporate Governance and Nominating Committee is responsible to report annually to the Board regarding the Committee's assessment of the performance of the Board as a whole and each of its committees. This report shall be discussed with the full Board. The purpose of this assessment is to increase the effectiveness of the Board as a whole, not to focus on individual Board members.

**D. Board of Directors' Responsibilities**

The Company's Board of Directors represents the shareholders' interest in perpetuating a successful business and optimizing long-term financial returns in a manner consistent with applicable legal requirements and ethical considerations. Each director is expected to be familiar with the Company's business and public disclosures, to review in advance of Board meetings all related materials distributed to the Board and to attend and participate in meetings of the Board and meetings of any committee of which such director is a member. Each director is also expected to attend the Company's annual meeting of shareholders.

**E. Board Relationship to Senior Management**

**1. Board Access to Senior Management**

The Board (meeting as a whole, as well as the non-management directors meeting separately and each director individually) and each Board committee shall have complete access to the Company's management.

The Board encourages the Chief Executive Officer from time to time to bring to Board meetings members of management who can provide additional insight into the items being discussed because of personal involvement in these areas or who represent managers with future potential that the Chief Executive Officer believes should be given exposure to the Board.

## **2. Succession Planning**

In consultation with the Corporate Governance and Nominating Committee, the Board periodically will review succession plans and performance evaluations for the Chief Executive Officer and other members of senior management.

## **3. Board's Interaction with Institutional Investors, Press and Customers**

The Board believes that senior management has the responsibility to speak for the Company. Individual Board members may, from time to time, meet or otherwise communicate with various constituencies of the Company. However, it is expected that Board members will communicate with outside constituencies only with the knowledge of senior management and, absent unusual circumstances, only at the request of senior management.

## **F. Meeting Procedures**

### **1. Selection of Agenda Items for Board Meetings**

The Chairman of the Board and the Chief Executive Officer (if the Chairman is not the Chief Executive Officer), in consultation with the Lead Director, shall establish the agenda for each Board meeting. Each Board member is free to suggest the inclusion of items on the agenda.

### **2. Board Materials Distributed in Advance**

As a general rule, information and data that are important to the Board's understanding of the Company's business and to all matters expected to be considered and acted upon by the Board, will be distributed in writing to the Board sufficiently in advance of each Board meeting and each action to be taken by written consent so as to provide the directors a reasonable time to review and evaluate such information and data. The Board recognizes that circumstances will arise when it is not feasible to provide information relating to certain agenda items in advance of a Board meeting or an action to be taken by written consent. In such event, reasonable steps will be taken and sufficient time allowed to permit the directors to become informed as to the matter before voting on it.

### **3. Separate Executive Session Meetings of Non-Management and Independent Directors**

The non-management directors will meet separately from the other directors in regularly scheduled executive sessions, without the presence of management directors or executive officers of the Company (except to the extent the non-management directors request the attendance of any executive officers). In addition, the independent directors, as defined in Section A.3 of this policy, will meet at least annually or as may be required by the rules of any national securities exchange or association on which the Company's securities are then listed.

## **G. Committee Matters**

### **1. Number, Structure and Independence of Committees**

The Board shall have an Audit Committee, a Compensation Committee and a Corporate Governance and Nominating Committee, which will have the respective responsibilities described in their charters and will, to the extent set forth in their charters or required by any national securities exchange or association on which the Company's securities are listed, consist solely of independent directors. In addition, the Board may from time to time appoint one or more additional committees, including an Executive Committee. Except as required by applicable law or the rules of any national securities exchange or association on which the Company's securities are listed, the Executive Committee need not include any independent directors.

### **2. Assignment of Committee Members**

The Corporate Governance and Nominating Committee is responsible, after consultation with the Chief Executive Officer and with consideration of the desires of individual Board members, for recommending to the Board the assignment of Board members to various committees.

### **3. Frequency and Length of Committee Meetings**

Subject to any requirements in the applicable committee charter regarding the frequency of committee meetings, each committee chair, in consultation with committee members, shall determine the frequency and length of the meetings of the committee.

### **4. Committee Agenda, Background Materials and Reports**

The chair of each Board committee, in consultation with the appropriate members of management and staff, shall develop the committee's agenda. At each regular Board meeting, the chairman of each committee or his or her delegate shall report the matters considered and acted upon by that committee at each meeting or by written consent since the preceding regular Board meeting, except to the extent covered in a previous written report to the full Board, and shall be available to answer any questions the other directors may have regarding these matters.

## **H. Miscellaneous**

### **1. Resources**

The Board (and Board committees to the extent so provided in the applicable committee charters or otherwise authorized by the Board) may use reasonable amounts of time of the Company's internal and independent accountants, internal staff and Company lawyers and also shall have the authority to hire independent accounting experts, lawyers and other consultants to assist and advise the Board (and any of its committees that are authorized to seek such advice and assistance) in connection with its responsibilities.

## **2. Reliance**

Each director is entitled to rely on information, opinions, reports, or statements, including financial statements and other financial data, if prepared or presented by:

(1) One or more officers or employees of the corporation whom the director reasonably believes to be reliable and competent in the matters presented;

(2) Legal counsel, public accountants, or other persons as to matters the director reasonably believes are within their professional or expert competence; or

(3) A committee of the board of directors of which he is not a member if the director reasonably believes the committee merits confidence, unless the director has actual knowledge concerning the matter in question that make such reliance unwarranted.

## **3. Director Orientation and Continuing Education**

Each new director shall be given a thorough orientation with respect to his or her duties as a director, including: (i) copies of this policy and any other materials specified by the Corporate Governance and Nominating Committee; (ii) meetings with the Company's Chairman of the Board, Lead Director and senior management; and (iii) except to the extent unnecessary for any director who is an executive officer of the Company, background material with respect to the Company, its business and issues of particular significance to it. In addition, senior management and outside advisors will, from time to time, update the Board on significant legal and other developments that may affect the Board's responsibilities.

## **4. Code of Business Conduct and Ethics**

The Company will maintain a code of business conduct and ethics for its directors, officers and other employees. The code shall be available in print to any shareholder requesting it, and the Company will make the code available by posting the code on the Company's website at [www.culpinc.com](http://www.culpinc.com).