Northwest Bancshares, Inc.
Form DEF 14A
March 05, 2014

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of
the Securities Exchange Act of 1934 (Amendment No.)

Filed by the Registrant x

Filed by a Party other than the Registrant o

Check the appropriate box:

o	Preliminary Proxy Statement
o	**Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
x	Definitive Proxy Statement
o	Definitive Additional Materials
o	Soliciting Material Pursuant to §240.14a-12

NORTHWEST BANCSHARES, INC.
(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

x No fee required.

o Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1)	Title of each class of securities to which transaction applies:
(2)	Aggregate number of securities to which transaction applies:
(3)	Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):
(4)	Proposed maximum aggregate value of transaction:
(5)	Total fee paid:

o Fee paid previously with preliminary materials.

o Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1)	Amount Previously Paid:
(2)	Form, Schedule or Registration Statement No.:
(3)	Filing Party:
(4)	Date Filed:

March 5, 2014

Dear Stockholder:

We cordially invite you to attend the 2014 Annual Meeting of Stockholders of Northwest Bancshares, Inc., the parent company of Northwest Savings Bank. The Annual Meeting will be held at The Struthers Library Theatre, located at 302 W. Third Avenue, Warren, Pennsylvania, at 11:00 a.m. (Pennsylvania time) on April 16, 2014.

The enclosed Notice of Annual Meeting and Proxy Statement describe the formal business to be transacted. During the Annual Meeting we will also report on the operations of Northwest Bancshares, Inc. Our directors and officers, as well as a representative of our independent registered public accounting firm, will be present to respond to any questions that stockholders may have.

The business to be conducted at the Annual Meeting includes the election of four directors, the ratification of the appointment of KPMG LLP as the independent registered public accounting firm for the year ending December 31, 2014 and the consideration of an advisory, non-binding resolution to approve the executive compensation described in the Proxy Statement.

Our Board of Directors has determined that the matters to be considered at the Annual Meeting are in the best interests of Northwest Bancshares, Inc. and its stockholders. For the reasons set forth in the Proxy Statement, the Board of Directors unanimously recommends a vote FOR each matter to be considered.

Under rules established by the Securities and Exchange Commission, we sent the majority of those stockholders who are eligible to vote at the Annual Meeting a notice that explains how to access their proxy materials, including our 2013 Annual Report, online, rather than in traditional printed form. The notice also explains the simple steps our eligible stockholders can follow in order to vote their shares online or by telephone. If you are among the stockholders who received the notice explaining this process and would prefer to receive your proxy materials in the traditional hard copy format, the notice also explains how to arrange to have the printed materials sent to you in the mail. If you are among those who received their proxy materials in printed form, rather than the notice, please note that you may still access these materials and vote your shares online by going to the following website: www.proxyvote.com.

Please take a moment now to cast your vote via the Internet or by telephone as described on the enclosed proxy card, or alternatively, complete, sign, date and return the proxy card in the postage-paid envelope provided. Voting in advance of the Annual Meeting will not prevent you from voting in person, but will assure that your vote is counted if you are unable to attend the Annual Meeting.

Sincerely,

/s/ William J. Wagner
William J. Wagner
Chairman of the Board,
President and Chief Executive Officer

NORTHWEST BANCSHARES, INC.

100 Liberty Street

Warren, Pennsylvania 16365-2353

(814) 726-2140

NOTICE OF

2014 ANNUAL MEETING OF STOCKHOLDERS

To Be Held On April 16, 2014

Notice is hereby given that the 2014 Annual Meeting of Stockholders of Northwest Bancshares, Inc. will be held at The Struthers Library Theatre, 302 W. Third Avenue, Warren, Pennsylvania, on April 16, 2014 at 11:00 a.m., Pennsylvania time.

A Proxy Card and a Proxy Statement for the Annual Meeting are enclosed.

The Annual Meeting is for the purpose of considering and acting upon:

1. The election of four directors;

2. The ratification of the appointment of KPMG LLP as the independent registered public accounting firm for the year ending December 31, 2014;

3. An advisory, non-binding resolution to approve the executive compensation described in the Proxy Statement; and

such other matters as may properly come before the Annual Meeting, or any adjournments thereof. The Board of Directors is not aware of any other business to come before the Annual Meeting.

Any action may be taken on the foregoing proposals at the Annual Meeting on the date specified above, or on any date or dates to which the Annual Meeting may be adjourned. Stockholders of record at the close of business on February 21, 2014, are the stockholders entitled to vote at the Annual Meeting, and any adjournments thereof.

EVEN IF YOU DO NOT PLAN TO ATTEND THE ANNUAL MEETING, YOU MAY CHOOSE TO VOTE YOUR SHARES USING THE INTERNET OR TELEPHONE VOTING OPTIONS EXPLAINED ON YOUR PROXY CARD OR BY SIGNING, DATING AND

RETURNING THE ENCLOSED PROXY CARD WITHOUT DELAY IN THE ENCLOSED POSTAGE-PAID ENVELOPE. ANY PROXY THAT YOU GIVE MAY BE REVOKED AT ANY TIME BEFORE IT IS EXERCISED. YOU MAY REVOKE A PROXY BY FILING WITH THE SECRETARY OF NORTHWEST BANCSHARES, INC. A WRITTEN REVOCATION OR A DULY EXECUTED PROXY BEARING A LATER DATE. IF YOU ATTEND THE ANNUAL MEETING YOU MAY REVOKE YOUR PROXY AND VOTE PERSONALLY ON EACH MATTER BROUGHT BEFORE THE MEETING. HOWEVER, IF YOUR SHARES ARE NOT REGISTERED IN YOUR NAME, YOU WILL NEED ADDITIONAL DOCUMENTATION FROM YOUR RECORD HOLDER TO VOTE PERSONALLY AT THE ANNUAL MEETING.

By Order of the Board of Directors

/s/ Gregory C. LaRocca
Gregory C. LaRocca
Executive Vice President and Corporate Secretary

Warren, Pennsylvania
March 5, 2014

Proxy Statement

NORTHWEST BANCSHARES, INC.

100 Liberty Street

Warren, Pennsylvania 16365-2353

(814) 726-2140

2014 ANNUAL MEETING OF STOCKHOLDERS

April 16, 2014

This Proxy Statement is furnished in connection with the solicitation of proxies on behalf of the Board of Directors of Northwest Bancshares, Inc. to be used at the 2014 Annual Meeting of Stockholders of Northwest Bancshares, Inc., which will be held at The Struthers Library Theatre, 302 W. Third Avenue, Warren, Pennsylvania, on April 16, 2014, at 11:00 a.m., Pennsylvania time, and all adjournments of the annual meeting. The accompanying Notice of Annual Meeting of Stockholders and this Proxy Statement are first being mailed to stockholders on or about March 7, 2014.

VOTING SECURITIES AND PRINCIPAL HOLDERS THEREOF

Holders of record of our shares of common stock, par value $0.01 per share, as of the close of business on February 21, 2014 are entitled to one vote for each share then held. As of February 21, 2014, there were 94,395,795 shares of common stock issued and outstanding. The presence in person or by proxy of a majority of the outstanding shares of common stock entitled to vote is necessary to constitute a quorum at the annual meeting. Abstentions and broker non-votes will be counted for purposes of determining that a quorum is present.

As to the election of directors, the Proxy Card being provided by the Board of Directors enables a stockholder to vote FOR ALL NOMINEES proposed by the Board, to WITHHOLD AUTHORITY FOR ALL NOMINEES or to vote FOR ALL EXCEPT one or more of the nominees being proposed. Directors are elected by a plurality of votes cast, without regard to either broker non-votes, or proxies as to which the authority to vote for the nominees being proposed is withheld.

As to the ratification of KPMG LLP as our independent registered public accounting firm, by checking the appropriate box, a stockholder may: (i) vote FOR the ratification; (ii) vote AGAINST the ratification; or (iii) ABSTAIN from voting on such ratification. The affirmative vote of a majority of the votes cast at the annual meeting, without regard to either broker non-votes, or shares as to which the ABSTAIN box has been selected on the proxy card, is required for the approval of this matter.

As to the advisory, non-binding resolution to approve our executive compensation as described in this Proxy Statement, a stockholder may: (i) vote FOR the resolution; (ii) vote AGAINST the resolution; or (iii) ABSTAIN from voting on the resolution. The affirmative vote of a majority of the votes cast at the annual meeting, without regard to either broker non-votes, or shares as to which the ABSTAIN box has been selected on the proxy card, is required for the approval of this non-binding resolution. While this vote is required by law, it will neither be binding on Northwest Bancshares, Inc. or the Board of Directors, nor will it create or imply any change in the fiduciary duties of, or impose any additional fiduciary duty on Northwest Bancshares, Inc. or the Board of Directors.

As provided in Section D of Article 5 of our Articles of Incorporation, record holders of shares owned, directly or indirectly, by a person who beneficially owns in excess of 10% of the outstanding shares of our common stock are not entitled to vote any shares held in excess of this 10% limit. Subject to certain exceptions, a person is deemed to beneficially own shares owned by an affiliate of, as well as by persons acting in concert with, such person. The Board of Directors of Northwest Bancshares, Inc. is authorized to construe and apply the provisions of Section D of Article 5 of the Articles of Incorporation, and to make all determinations it deems necessary or desirable to implement them, including determining the number of shares beneficially owned by any person and whether a person is an affiliate of or has an arrangement or agreement with another person, and to demand certain information from any person who is reasonably believed to beneficially own stock in excess of the 10% limit and

reimbursement for all expenses incurred by Northwest Bancshares, Inc. in connection with an investigation conducted by the Board of Directors pursuant to the provisions of Article 5, Section D of the Articles of Incorporation.

If you have selected a broker or other intermediary to hold your common stock rather than having them directly registered with our transfer agent, American Stock Transfer & Trust Company, you will receive instructions directly from your broker or other intermediary in order to vote your shares. Your brokerage firm may also provide the ability to vote your proxy by telephone or online. Please be advised that if you choose to not vote your proxy, your brokerage firm has the authority under applicable stock market rules to vote your shares FOR or AGAINST routine matters. The ratification of the appointment of the independent registered public accounting firm is deemed to be a routine matter. Accordingly, we urge you to vote by following the instructions provided by your broker, bank, or other intermediary.

We are taking advantage of Securities and Exchange Commission rules that allow companies to furnish proxy materials to stockholders via the Internet. Accordingly, we are sending a Notice of Internet Availability of Proxy Materials (the Notice) to our stockholders of record and beneficial owners, unless they have directed us to provide the materials in a different manner or hold shares of our common stock through our stock-based benefit plans. The Notice provides instructions on how to access and review all of the important information contained in the Company s Proxy Statement and Annual Report to Stockholders, as well as how to cast a vote, over the Internet or by telephone. Stockholders who receive the Notice and who would still like to receive a printed copy of the proxy materials can find instructions for requesting these materials included in the Notice. We plan to mail the Notice to stockholders by March 7, 2014.

Persons and groups who beneficially own in excess of 5% of our shares of common stock are required to file certain reports with the Securities and Exchange Commission regarding such ownership pursuant to the Securities Exchange Act of 1934. The following table sets forth, as of February 21, 2014, the shares of our common stock beneficially owned by each person known to us who was the beneficial owner of more than 5% of the outstanding shares of our common stock.

Name and Address of Beneficial Owners	**Amount of Shares Owned and Nature of Beneficial Ownership (1)**	**Percent of Shares of Common Stock Outstanding**
Black Rock, Inc. (2) 40 East 52nd Street New York , NY 10022	9,343,521	9.9%
The Vanguard Group, Inc. (3) 100 Vanguard Boulevard Malvern, PA 19355	5,461,906	5.8%
Northwest Savings Bank Employee Stock Ownership Plan 100 Liberty Street Warren, Pennsylvania 16365-2353	5,154,838	5.5%
Wellington Management Company, LLP (4) 280 Congress Street Boston, MA 02210	5,189,973	5.5%
Capital World Investors (5) 333 South Hope Street Los Angeles, CA 90071	4,850,000	5.1%

(1) In accordance with Rule 13d-3 under the Securities Exchange Act of 1934, a person is deemed to be the beneficial owner for purposes of this table, of any shares of common stock if he has shared voting or investment power with respect to such security, or has a right to acquire beneficial ownership at any time within 60 days from the date as of which beneficial ownership is being determined. As used herein, voting power is the power to vote or direct the voting of shares and investment power is the power to dispose or direct the disposition of shares, and includes all shares held directly as well as by spouses and minor children, in trust and other indirect ownership, over which shares the named individuals effectively exercise sole or shared voting or investment power.

(2) As disclosed in Amendment 2 to Schedule 13G, as filed with the Securities and Exchange Commission on January 31, 2014.

(3) As disclosed in Amendment 2 to Schedule 13G, as filed with the Securities and Exchange Commission on February 12, 2014.

(4) As disclosed in Amendment 1 to Schedule 13G, as filed with the Securities and Exchange Commission on February 14, 2014.

(5) As disclosed in a Schedule 13G, as filed with the Securities and Exchange Commission on February 13, 2014.

REVOCATION OF PROXIES

Stockholders who execute proxies in the form solicited hereby retain the right to revoke them in the manner described below. Unless so revoked, the shares represented by such proxies will be voted at the annual meeting and all adjournments thereof. Proxies solicited on behalf of our Board of Directors will be voted in accordance with the directions given thereon. **You may vote by Internet or telephone as described on your Proxy Card**. **You may also vote by signing and returning your Proxy Card to Northwest Bancshares, Inc. Proxies we receive that are signed, but contain no instructions for voting, will be voted FOR the proposals set forth in this Proxy Statement for consideration at the annual meeting.**

Proxies may be revoked by sending written notice of revocation to the Secretary of Northwest Bancshares, Inc., Gregory C. LaRocca, at the address shown above, or by returning a duly executed proxy bearing a later date by mail, or voting on a later date by Internet or telephone, as described on your Proxy Card. The presence at the annual meeting of any stockholder who had given a proxy shall not revoke such proxy unless the stockholder delivers his or her ballot in person at the annual meeting or delivers a written revocation to the Secretary prior to the voting of such proxy.

PROPOSAL 1 ELECTION OF DIRECTORS

Our Board of Directors will consist of nine members, effective immediately following the annual meeting. Our bylaws provide that directors are divided into three classes, as nearly equal in number as reasonably possible, such that approximately one-third of the directors are to be elected annually. Our directors are generally elected to serve for a three-year period, or a shorter period if the director is elected to fill a vacancy, and until their respective successors shall have been elected and shall qualify. Four directors will be elected at the annual meeting and will serve until their successors have been elected and qualified. The Nominating Committee has nominated William J. Wagner, A. Paul King, William F. McKnight and Sonia M. Probst to serve as directors for three-year terms. Each individual is currently a member of the Board of Directors.

The table below sets forth certain information regarding our nominees and the composition of our Board of Directors as of February 21, 2014 (with age information as of December 31, 2013), including the terms of office of Board members. It is intended that the proxies solicited on behalf of the Board of Directors (other than proxies in which the vote is withheld as to a nominee) will be voted at the annual meeting for the election of the nominees identified below. If one or more nominees is unable to serve, the shares represented by all such proxies will be voted for the election of such substitute or substitutes as the Nominating Committee may recommend. At this time, the Board of Directors knows of no reason why the nominees might be unable to serve, if elected. Except as indicated herein, there are no arrangements or understandings between the nominees and any other person pursuant to which such nominees were selected.

Name (1)	Age	Positions Held in Northwest Bancshares, Inc.	Director Since (2)	Current Term to Expire	Shares of Common Stock Beneficially Owned (3)	Percent of Class
NOMINEES						
William J. Wagner	60	Chairman of the Board, President and Chief Executive Officer	1994	2014	789,141(4)	*
A. Paul King	70	Director	2001	2014	142,880(5)	*
Sonia M. Probst	55	Director	2011	2014	33,197(6)	*
William F. McKnight	62	Director	2013	2014	23,993(7)	
DIRECTORS CONTINUING IN OFFICE						
Philip M. Tredway	65	Director	2007	2015	64,558(8)	*
Deborah J. Chadsey	56	Director	2012	2015	9,710(9)	*
Richard E. McDowell	70	Director	1972	2016	218,525(10)	*
John P. Meegan	54	Director	2010	2016	75,311(11)	*
Timothy B. Fannin	60	Director	2013	2016	4,861(12)	
EXECUTIVE OFFICERS WHO ARE NOT DIRECTORS						
Gregory C. LaRocca	63	Executive Vice President and Corporate Secretary	N/A	N/A	447,101(13)	*
William W. Harvey, Jr.	47	Executive Vice President- Finance and Chief Financial Officer	N/A	N/A	238,797(14)	*
Steven G. Fisher	56	Executive Vice President-Banking Services	N/A	N/A	348,668(15)	*
Timothy A. Huber	56	Executive Vice President-Chief Lending Officer	N/A	N/A	481,759(16)	*
All directors, nominees and executive officers as a group (16 persons) (17)					3,325,488(18)	3.5%

* Less than 1%.

(1) The mailing address for each person listed is 100 Liberty Street, Warren, Pennsylvania 16365-2353.

(2) Reflects initial appointment to the Board of Directors of Northwest Savings Bank for directors elected prior to 1998.

(3) See definition of beneficial ownership in the table in Voting Securities and Principal Holders Thereof.

(4) Includes options to purchase 196,984 shares of common stock, which are exercisable within 60 days of the date as of which beneficial ownership is being determined.

(5) Includes options to purchase 49,305 shares of common stock, which are exercisable within 60 days of the date as of which beneficial ownership is being determined.

(6) Includes options to purchase 13,732 shares of common stock, which are exercisable within 60 days of the date as of which beneficial ownership is being determined.

(7) Includes options to purchase 720 shares of common stock, which are exercisable within 60 days of the date as of which beneficial ownership is being determined.

(8) Includes options to purchase 31,305 shares of common stock, which are exercisable within 60 days of the date as of which beneficial ownership is being determined.

(9) Includes options to purchase 2,160 shares of common stock, which are exercisable within 60 days of the date as of which beneficial ownership is being determined.

(10) Includes options to purchase 49,305 shares of common stock, which are exercisable within 60 days of the date as of which beneficial ownership is being determined.

(11) Includes options to purchase 17,161 shares of common stock, which are exercisable within 60 days of the date as of which beneficial ownership is being determined.

(12) Includes options to purchase 720 shares of common stock, which are exercisable within 60 days of the date as of which beneficial ownership is being determined.

(13) Includes options to purchase 108,430 shares of common stock, which are exercisable within 60 days of the date as of which beneficial ownership is being determined.

(14) Includes options to purchase 114,717 shares of common stock, which are exercisable within 60 days of the date as of which beneficial ownership is being determined.

(15) Includes options to purchase 99,931 shares of common stock, which are exercisable within 60 days of the date as of which beneficial ownership is being determined.

(16) Includes options to purchase 98,788 shares of common stock, which are exercisable within 60 days of the date as of which beneficial ownership is being determined.

(17) Includes directors John M. Bauer, Richard L. Carr and Joseph F. Long, who are retiring, effective at the annual meeting.

(18) Includes options to purchase 931,173 shares of common stock, which are exercisable within 60 days of the date as of which beneficial ownership is being determined.

Directors and Nominees

The biographies of each of the nominees and continuing board members below contains information regarding the person s business experience and the experiences, qualifications, attributes or skills that caused the Nominating Committee and the Board of Directors to determine that the person should serve as a director. The principal occupation during the past five years of each of our directors and nominees is set forth below. All directors have held their present positions for five years unless otherwise stated. Each existing director is also a director of Northwest Savings Bank.

William J. Wagner was named President and Chief Executive Officer of Northwest Savings Bank in August 1998, President and Chief Executive Officer of Northwest Bancshares, Inc. in June 2001 and Chairman of the Board of Northwest Savings Bank and Northwest Bancshares, Inc. in July 2003. Mr. Wagner was the Chief Financial Officer of Northwest Savings Bank upon joining the bank in 1984 and was named Chief Operating Officer in 1996. Mr. Wagner was appointed Executive Vice President in 1992 and was elected to the Board of Directors in 1994. He serves on the Board of the Warren County Chamber of Business and Industry and the Board of the University of Pittsburgh at Bradford. Mr. Wagner is a certified public accountant and holds a BS degree in accounting from Indiana University of Pennsylvania. Mr. Wagner has deep and extensive knowledge of our market area, accounting matters and banking matters, making him uniquely qualified to be our Chairman of the Board and Chief Executive Officer.

Deborah J. Chadsey is an attorney who has practiced law for over 25 years. She is currently a partner in the Buffalo, New York law firm Kavinoky Cook LLP. Prior to joining Kavinoky Cook LLP, Ms. Chadsey practiced law with Lippes, Silverstein as well as Phillips, Lytle, both also in Buffalo, New York. She has been on the Northwest Savings Bank Board of Directors since December 2011. In addition, she sits on the Board of Directors for the Western New York Land Conservancy and Kensington-Bailey Neighborhood Housing Services/Gloria Parks Community Center. Ms. Chadsey graduated from Columbia University Law School in New York, New York where she was a Harlen Fiske Stone Scholar and is licensed to practice law in Pennsylvania, New York, and multiple federal district, bankruptcy and appellate courts. Ms. Chadsey brings to the Board specialization and experience in environmental and municipal law as well as commercial finance, land use and contract law.

Timothy B. Fannin is a partner in the firm Catalano, Case, Catalano & Fannin, Certified Public Accountants headquartered in Clearfield, Pennsylvania where he has worked since 1986. Mr. Fannin is a U.S. Army Veteran and graduated from the University of Pittsburgh with a BS in Business/Public Administration and holds an MBA from Clarion University of Pennsylvania. He holds the designations of Certified Public Accountant in the State of Pennsylvania, Certified Valuation Analyst, and is Certified in Financial Forensics. In addition, he was an adjunct Professor of Accounting and Finance at Pennsylvania State University from 2007 to 2009. He has been an Advisory Board Member of Northwest Savings Bank since 1998. Mr. Fannin s public accounting background and professional designations will assist the Board in its oversight of the audit, tax, financial reporting and risk management areas.

Dr. A. Paul King recently retired from Oral Surgery of Erie, Erie, Pennsylvania, where he had been President since 1999, and was Vice President from 1974 through 1999. He was previously a Director of The Heritage Trust Company, which was acquired by Northwest Savings Bank in 2000. Dr. King served as President of both the Erie County Dental Association and the Western Pennsylvania Society of Oral Surgeons. He is a U.S. Army Veteran and received his BA degree from Washington and Jefferson College, and his Medical degree from the University of Pittsburgh. Dr. King s knowledge of running a small business and the Erie, Pennsylvania business environment provide an important perspective to the Board of Directors.

William F. McKnight has been the controller for Interstate Chemical Company, Inc. in Hermitage, Pennsylvania since 2006. Prior to joining Interstate Chemical Company, Inc. he was a partner with the CPA firm McGill, Power, Bell & Associates where he specialized in tax planning and advising. Mr. McKnight holds a Bachelor of Science in Business Management from Drake University and is a Certified Public Accountant.

He has been a member of Northwest Savings Bank s Meadville Advisory Board since September 2002. Mr. McKnight s industry experience and background in tax and public accounting will assist the Board in its oversight of the audit, tax, financial reporting and risk management areas.

John P. Meegan is Executive Vice President and Chief Operating Officer of Hefren-Tillotson, Inc., a Pittsburgh-based investment management firm. Prior to joining Hefren-Tillotson he held various senior level positions with both regional and national brokerage firms. Mr. Meegan previously served as a director of Prestige Bank, which was acquired by Northwest Savings Bank in 2002. He served on Northwest Savings Bank s Southwest Region Advisory Board since that time, and in October 2009 he was elected to the Northwest Savings Bank Board of Directors. Mr. Meegan is a certified public accountant, having worked for KPMG LLP in New York City, and holds a degree in Economics from Amherst College and an MBA from New York University. He also serves as Chairman of the Financial Responsibility and Uniform Practice Committees for FINRA. Mr. Meegan s extensive knowledge of investment management matters enhances the oversight of our trust and investment activities, and his work with FINRA broadens the Board of Directors knowledge of the capital markets.

Dr. Richard E. McDowell is President Emeritus of the University of Pittsburgh at Bradford, Bradford, Pennsylvania. He served as President of the University from 1973 until August 2002 and during his tenure he had overall responsibility for the fiscal, academic, funding and facility management of the University s Bradford Campus. As a member of the University of Pittsburgh s administration, he served on numerous task forces and committees, and in a variety of University-wide capacities, including the Council of Deans. He is currently an Associate Professor who teaches courses in the departments of biology, management/entrepreneurship, and public relations. Dr. McDowell holds a BS degree from High Point University and MS and PhD. degrees from St. Louis University. Dr. McDowell brings expertise in business management, corporate governance and public relations matters.

Sonia M. Probst is the retired Chief Executive Officer of the Rouse Estate in Youngsville Pennsylvania, where she was employed for 28 years. The Rouse Estate is a campus of skilled nursing, assisted living and child day care facilities serving western Pennsylvania. In this highly regulated healthcare environment, she served as Compliance Officer and developed and oversaw the Compliance Program. In addition, she was responsible for: strategic planning; development; revenue growth; compensation and benefit structures; financial and regulatory audits; and investment management of pension, 403(b) and depreciation funds. Ms. Probst earned a BA from Lebanon Valley College and an MSW from West Virginia University. She has served as a Director of Northwest Savings Bank since May 2010. She also serves on the Warren County Chamber of Business and Industry Board of Directors and the Steering Committee for Leadership Warren County. Ms. Probst brings to the Board firsthand experience in managing compliance, finance and operations in a diverse, highly regulated, multiple service organization.

Philip M. Tredway has been President and Chief Executive Officer of Erie Molded Plastics, Inc., Erie, Pennsylvania since 1982. His responsibilities include management and financial reporting for the company. He was recently appointed to the Pittsburgh Region Advisory Board of the Federal Reserve Bank of Cleveland. He is also a past Chairman and Board member of the Manufacturers and Business Association of Erie, Pennsylvania and past Board member and Treasurer of the Erie Community Foundation. He holds both BA and MBA degrees in Finance from Lehigh University. Mr. Tredway has extensive knowledge of financial reporting issues and his term on the Federal Reserve Bank of Cleveland advisory board provides insight into regional economic conditions, the banking industry, and the regulatory environment.

Executive Officers who are not Directors

The principal occupation during the past five years of each of our executive officers, other than Mr. Wagner, is set forth below. All executive officers have held their present positions for five years unless otherwise stated.

Gregory C. LaRocca was employed by Northwest Savings Bank beginning in 1992, and currently serves as Executive Vice President and Corporate Secretary for Northwest Savings Bank and Northwest Bancshares, Inc. and as manager of the Wealth Management, Retirement and Insurance Services Group. Mr. LaRocca was previously Chief Executive Officer of American Federal Savings, which was acquired by Northwest Savings Bank in March 1992. He holds BA and MBA degrees from Gannon University.

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William W. Harvey, Jr. has been employed by Northwest Savings Bank since 1996 and currently serves as Executive Vice President, Finance and Chief Financial Officer for Northwest Savings Bank and Northwest Bancshares, Inc. Prior to joining Northwest, Mr. Harvey served as a senior auditor and tax specialist for KPMG LLP in Pittsburgh, Pennsylvania. Mr. Harvey is a certified public accountant and holds a BS degree in accounting from Indiana University of Pennsylvania.

Steven G. Fisher has been employed by Northwest Savings Bank since 1983, most recently as Executive Vice President of the Banking Services Group. He was formerly Senior Vice President of Operations of Northwest Savings Bank. Mr. Fisher holds a BS degree from West Virginia Wesleyan College and is a graduate of the Graduate School of Banking at the University of Wisconsin-Madison.

Timothy A. Huber has been employed by Northwest Savings Bank since 1985, most recently as Executive Vice President and Chief Lending Officer. He was formerly Senior Vice President of the Commercial Lending Division of Northwest Savings Bank. Prior to joining Northwest, Mr. Huber was an examiner with the Office of the Comptroller of the Currency. Mr. Huber holds a BA degree from West Virginia Wesleyan College and an MBA from Penn State University.

Board Independence

The Board of Directors has determined that Directors Chadsey, Fannin, King, McDowell, McKnight, Meegan, Probst and Tredway are independent within the meaning of the Nasdaq corporate governance listing standards. Mr. Wagner is not independent by virtue of being an employee of Northwest Savings Bank. Upon the retirement of Mr. Carr, the Board of Directors is expected to appoint Mr. Tredway as the Lead Director. In this capacity, Mr. Tredway will chair the meetings of the independent directors and other meetings of the Board when the Chairman is excused or absent. Mr. Tredway will also act as liaison between the Chairman and the independent directors.

In determining the independence of the directors and the nominees listed above, the Board of Directors reviewed the following transactions, none of which are required to be reported under Transactions With Certain Related Persons, below. Each of the following products or services are with Northwest Savings Bank. Director McKnight has a residential mortgage loan. Director McDowell has a home equity line of credit and a credit card. Director King has a home equity line of credit. Director Fannin has an unsecured line of credit. Director Chadsey has a residential mortgage loan and a home equity line of credit, and Kavinoky Cook, LLP, where she is a law partner, has a commercial line of credit. Kavinoky Cook, LLP also received legal fees from Northwest Savings Bank, directly and indirectly, during the year ended December 31, 2013. Additional loans (including mortgage loans, lines of credit, credit cards and automobile loans) have been made to related persons of Directors Chadsey, King, McDowell, McKnight and Tredway.

Board Leadership Structure and Oversight

The Board of Directors currently combines the role of Chairman of the Board with the role of Chief Executive Officer, coupled with a lead director position to further strengthen the governance structure. The Board believes this provides us an efficient and effective leadership model. Combining the Chairman and Chief Executive Officer roles fosters clear accountability, effective decision-making, and alignment on corporate strategy. To assure effective independent oversight, the board has adopted a number of governance practices, including:

- a strong, independent, clearly-defined lead director role;
- periodic meetings of the independent directors; and
- annual performance evaluations of the Chairman and Chief Executive Officer by the independent directors.

The board recognizes that, depending on the circumstances, other leadership models, such as a separate independent chairman of the board, might be appropriate. Accordingly, the board periodically reviews its leadership structure.

A key responsibility of the Chief Executive Officer and the board is ensuring that an effective process is in place to provide continuity of leadership over the long term at all levels in our company. Each year, succession planning reviews are held at every significant organizational level of our company, culminating in a full review of senior leadership talent by the independent directors. During this review, the Chief Executive Officer and the independent directors discuss future candidates for senior leadership positions, succession timing for those positions, and development plans for the highest-quality candidates. This process ensures continuity of leadership over the long term, and it forms the basis on which we make ongoing leadership assignments. It is a key success factor in managing the long-term planning and investment lead times of our business.

In addition, the Chief Executive Officer maintains in place at all times, and reviews with the independent directors, a confidential plan for the timely and efficient transfer of his or her responsibilities in the event of an emergency or his or her sudden incapacitation or departure.

The Board of Directors is actively involved in oversight of risks that could affect Northwest Bancshares, Inc. This oversight is conducted primarily through committees of the Board of Directors, but the full Board of Directors has retained responsibility for general oversight of risks. The Board has designated a Risk Management Committee, consisting of all independent directors, to meet quarterly for the specific purpose of evaluating our exposure to all risks specifically identified in banking regulations: credit, interest rate, strategic/capital, market price, liquidity, operational, business resumption, compliance/legal/regulatory, foreign exchange and reputation. The Risk Management Committee reports are prepared and presented by our Chief Risk Officer. The Board of Directors also satisfies this responsibility through reports to the Board of Directors by the committee chair of all board committees regarding the committees considerations and actions, through review of minutes of committee meetings and through regular reports directly from officers responsible for oversight of particular risks within Northwest Bancshares, Inc. Risks relating to the direct operations of Northwest Savings Bank are further overseen by the Board of Directors of Northwest Savings Bank, which generally consists of the same individuals who serve on the Board of Directors of Northwest Bancshares, Inc. The Board of Directors of Northwest Savings Bank also has additional committees that conduct risk oversight, and such committees typically meet jointly with the committees of Northwest Bancshares, Inc. All committees are responsible for the establishment of policies that guide management and staff in the day-to-day operation of Northwest Bancshares, Inc. and Northwest Savings Bank such as lending, risk management, asset/liability management, investment management and others.

Meetings and Committees of the Board of Directors

The business of Northwest Bancshares, Inc. is conducted at regular and special meetings of the full Board and its standing committees. In addition, our independent directors meet in executive sessions. The standing committees consist of the Executive, Audit, Compensation, Compliance, Nominating, Risk Management, Governance and Trust Committees. Mr. Wagner, our Chairman of the Board, President and Chief Executive Officer, is a member of the Executive and Trust Committees. During the year ended December 31, 2013, the Board of Directors of Northwest Bancshares, Inc. met at 12 regular meetings and no special meetings. No member of the Board or any committee thereof attended fewer than 75% of the aggregate of: (i) the total number of meetings of the Board of Directors (held during the period for which he or she has been a director); and (ii) the total number of meetings held by all committees of the Board on which he or she served (during the periods that he or she served).

The following table sets forth the members of our Compensation, Audit and Nominating Committees. Messrs Bauer, Carr and Long are retiring, effective at the annual meeting, as they have reached the directors mandatory retirement age of 72.

Director	Compensation Committee	Audit Committee	Nominating Committee
John M. Bauer	X	X*	X
Richard L. Carr	X*	X	X*
Deborah J. Chadsey			
Timothy B. Fannin	X	X	X
A. Paul King	X	X	
Joseph F. Long	X	X	X
Richard E. McDowell	X	X	X
William F. McKnight	X	X	
John P. Meegan	X	X	X
Sonia M. Probst	X	X	
Philip M. Tredway	X	X	X

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* Denotes Chairperson.

The duties and responsibilities of the Compensation, Audit and Nominating Committees are as follows.

Compensation Committee. Each member of the Audit Committee is independent as defined in the Nasdaq corporate governance listing standards and under Securities and Exchange Commission Rule 10C-1. Such committee members also must not receive, directly or indirectly, fees in excess of $10,000 per year from us other than fees for service as a director. The Compensation Committee meets at least quarterly, or more frequently if necessary. Our Governance Committee has adopted a written charter for the Compensation Committee, which is available on our website at http://www.northwestsavingsbank.com. The Compensation Committee of Northwest Bancshares, Inc. met four times during the year ended December 31, 2013. The purpose of the Compensation Committee is to, among other things, evaluate:

- the compensation of the executive officers, other senior officers and employees, including oversight of base salary, cash incentive compensation, equity-based awards and other benefits and perquisites; and

- the performance of the Chief Executive Officer on an annual basis and approve the base salary, cash incentive bonus, equity-based incentive awards and other compensation of the Chief Executive Officer.

In furtherance of these objectives, the Compensation Committee is responsible, among others, for:

- approving the corporate compensation philosophy, including overseeing and monitoring the executive compensation policies, plans and programs for such officers to ensure that they are consistent with the compensation philosophy and the long-term interests of our stockholders;

- reviewing and, if appropriate, amending and approving management s recommendations for compensation issues such as salary ranges, annual merit increases, annual bonuses and long-term incentive plans, including equity-based compensation programs such as stock options and restricted stock awards;

- annually reviewing the Chief Executive Officer s evaluation of the performance of the senior executives who report directly to the Chief Executive Officer in connection with its overall review of executive compensation;

- evaluating, reviewing and approving the execution of management contracts and severance agreements for senior executives and reviewing the annual renewal of such contracts;
- reviewing and approving all employee benefit plans, including retirement plans and health insurance;
- at least annually, in consultation with the Chief Executive Officer, reviewing succession planning and management development activities and strategies regarding the Chief Executive Officer and other members of senior management;
- annually issuing the Compensation Committee Report, which is included in our annual proxy statement; and
- annually reviewing Management s Annual Risk Review Analysis of our compensation practices.

The Compensation Committee has available to it the resources and authority necessary to properly discharge its duties and responsibilities, including the authority to retain counsel and other experts or consultants. The Compensation Committee, in performing these duties and responsibilities with respect to director and executive officer compensation, relies on the assistance of professionals within our Human Resources Department. Although the Human Resources Department utilizes survey information provided by compensation consultants in recommending compensation levels, the Compensation Committee does not directly utilize compensation consultants in determining director or executive officer compensation.

Audit Committee. Each member of the Audit Committee is independent as defined in the Nasdaq corporate governance listing standards and under Securities and Exchange Commission Rule 10A-3. The Board of Directors has determined that each of Messrs. Fannin, McKnight and Meegan qualifies as an audit committee financial expert as that term is used in the rules and regulations of the Securities and Exchange Commission. Information with respect to the experience of Messrs. Fannin, McKnight and Meegan is included in Directors. Our Governance Committee has adopted a written charter for the Audit Committee, which is available on our website at http://www.northwestsavingsbank.com. The Audit Committee of Northwest Bancshares, Inc. met five times during the year ended December 31, 2013.

The duties and responsibilities of the Audit Committee include, among other things:

- retaining, overseeing and evaluating an independent registered public accounting firm to audit our annual financial statements;
- overseeing our external financial reporting processes;

- approving all engagements for audit and non-audit services by the independent registered public accounting firm;

- reviewing the audited financial statements with management and the independent registered public accounting firm;

- considering whether certain relationships with the independent registered public accounting firm and services not related to the annual audit and quarterly reviews is consistent with maintaining the independent registered public accounting firm s independence;

- overseeing the activities of the internal audit staff and reviewing management s administration of the system of internal accounting controls;

- engaging a third-party provider of internal audit services and determining that the provider has adequate expertise to fulfill its duties; and

- conducting an annual performance evaluation of the Committee and annually reviewing the adequacy of its charter.

Nominating Committee. The Nominating Committee Charter provides that the Nominating Committee will consist of all independent directors not subject to reelection at the next annual meeting of stockholders. Each member of the Nominating Committee is considered independent as defined in the Nasdaq corporate governance listing standards. Such committee members also must not receive, directly or indirectly, fees in excess of $10,000 per year from us other than fees for service as a director. Our Governance Committee has adopted a written charter for the Nominating Committee, which is available on our website at http://www.northwestsavingsbank.com. The Nominating Committee of Northwest Bancshares, Inc. met once during the year ended December 31, 2013.

The functions of the Nominating Committee include the following:

- leading the search for individuals qualified to become members of the Board and selecting director nominees to be presented for stockholder approval;

- developing and recommending to the Board of Directors other specific criteria for the selection of individuals to be considered for election or re-election to the Board of Directors;

- adopting procedures for the submission of recommendations by stockholders for nominees for the Board of Directors; and

- conducting an annual performance evaluation of the Committee and annually reviewing the adequacy of its charter and recommending any proposed changes to the Board of Directors.

The Nominating Committee identifies nominees by first evaluating the current members of the Board of Directors willing to continue in service. Current members of the Board with skills and experience that are relevant to our business and who are willing to continue in service are first considered for re-nomination, balancing the value of continuity of service by existing members of the Board with that of obtaining a new perspective. In addition, the Committee is authorized by its charter to engage a third party to assist in the identification of director nominees, if it chooses to do so. The Nominating Committee would seek to identify a candidate who, at a minimum, satisfies the following criteria:

- the highest personal and professional ethics and integrity and whose values are compatible with our values;

- experience and achievements that have given them the ability to exercise and develop good business judgment;

- a willingness to devote the necessary time to the work of the Board and its committees, which includes being available for Board and committee meetings;
- a familiarity with the communities in which we operate and/or is actively engaged in community activities;
- involvement in other activities or interests that do not create a conflict with their responsibilities to Northwest Bancshares, Inc. and its stockholders; and
- the capacity and desire to represent the balanced, best interests of our stockholders as a group, and not primarily a special interest group or constituency.

The Board seeks independent directors who represent a mix of backgrounds and experiences that will enhance the quality of the Board s deliberations and decisions. The board is particularly interested in maintaining a mix that includes active or retired business professionals and senior executives, particularly those with experience in

management, operations, finance, accounting, banking, risk management, compliance, or marketing and sales. As part of its periodic self-assessment process, the Board discusses the diversity of specific skills and characteristics necessary for the optimal functioning of the Board in its oversight of Northwest Bancshares, Inc. over both the short- and longer term. The Nominating Committee then gives consideration to these specific skill areas or experiences when considering candidates for nomination. Specific qualities or experiences could include matters such as experience in our industry, financial or technological expertise, leadership experience and relevant geographical experience. The effectiveness of the Board s diverse mix of skills and experiences is considered as part of each Board self-assessment.

In addition to meeting these qualifications, a person is not qualified to serve as a director if he or she: (1) is under indictment for, or has ever been convicted of, a criminal offense involving dishonesty or breach of trust and the penalty for such offense could be imprisonment for more than one year; (2) is a person against whom a banking agency has, within the past ten years, issued a cease and desist order for conduct involving dishonesty or breach of trust and that order is final and not subject to appeal; or (3) has been found either by a regulatory agency whose decision is final and not subject to appeal or by a court to have (i) breached a fiduciary duty involving personal profit or (ii) committed a willful violation of any law, rule or regulation governing banking, securities, commodities or insurance, or any final cease and desist order issued by a banking, securities, commodities or insurance regulatory agency.

The Nominating Committee will also take into account whether a candidate satisfies the criteria for independence under the Nasdaq corporate governance listing standards. We have not adopted stock ownership guidelines at this time, although we analyze such guidelines as they relate to best practices for corporate governance, and we may adopt such guidelines in the future.

Although the Board of Directors has not established a specific policy setting forth governance guidelines, the Board of Directors believes that its members are subject to many of the same requirements that would be set forth in such guidelines. These requirements are included in its Code of Ethics and the Nominating Committee Charter and other committee charters. In addition, directors are required to have ongoing education, and the Board of Directors reviews director compensation to confirm the reasonableness of such compensation.

Procedures for the Recommendation of Director Nominees by Stockholders. The Nominating Committee has adopted procedures for the submission of recommendations for director nominees by stockholders. There have been no material changes to these procedures since they were previously disclosed in Northwest Bancshares, Inc. s proxy statement for the 2013 Annual Meeting of Stockholders. If a determination is made that an additional candidate is needed for the Board of Directors, the Nominating Committee will consider candidates submitted by our stockholders. Stockholders can submit the names of qualified candidates for Director by writing to us at 100 Liberty Street, P.O. Box 128, Warren, Pennsylvania 16365, Attention: Corporate Secretary. The Corporate Secretary must receive a submission not less than 180 days prior to the anniversary date of our proxy materials for the preceding year s annual meeting, which, for the 2015 Annual Meeting of Stockholders, is no later than September 6, 2014.

The submission must include the following information:

- a statement that the writer is a stockholder and is proposing a candidate for consideration by the Committee;

- the name and address of the stockholder as they appear on our books, and number of shares of our common stock that are owned beneficially by such stockholder (if the stockholder is not a holder of record, appropriate evidence of the stockholder s ownership will be required);

- the name, address and contact information for the candidate, and the number of shares of our common stock that are owned by the candidate (if the candidate is not a holder of record, appropriate evidence of the stockholder s ownership should be provided);

- a statement of the candidate s business and educational experience;

- such other information regarding the candidate as would be required to be included in the proxy statement pursuant to Securities and Exchange Commission Regulation 14A;

- a statement detailing any relationship between the candidate and any customer, supplier or competitor of Northwest Bancshares, Inc. or its affiliates;

- detailed information about any relationship or understanding between the proposing stockholder and the candidate;

- a statement of the candidate that the candidate is willing to be considered and willing to serve as a director if nominated and elected; and

- A statement that the candidate is not: (1) under indictment for, or has ever been convicted of, a criminal offense involving dishonesty or breach of trust and the penalty for such offense could be imprisonment for more than one year; (2) a person against whom a banking agency has, within the past ten years, issued a cease and desist order for conduct involving dishonesty or breach of trust that order is final and not subject to appeal; or (3) a person who has been found either by a regulatory agency whose decision is final and not subject to appeal or by a court to have (i) breached a fiduciary duty involving personal profit or (ii) committed a willful violation of any law, rule or regulation governing banking, securities, commodities or insurance, or any final cease and desist order issued by a banking, securities, commodities or insurance regulatory agency.

A nomination submitted by a stockholder for presentation by the stockholder at an annual meeting of stockholders must comply with the procedural and informational requirements described in our Bylaws.

Stockholder Communications with the Board. A stockholder of Northwest Bancshares, Inc. who wants to communicate with the Board of Directors or with any individual director can write to: Board of Directors, Northwest Bancshares, Inc., 100 Liberty Street, P.O. Box 128, Warren, Pennsylvania 16365, Attention: Corporate Secretary. The letter should indicate that the author is a stockholder of Northwest Bancshares, Inc. and, if shares are not held of record, should include appropriate evidence of stock ownership. Depending on the subject matter, the Corporate Secretary will:

- forward the communication to the director or directors to whom it is addressed; or

- attempt to handle the inquiry directly, or forward the communication for response by another employee of Northwest Bancshares, Inc. For example, a request for information about us on a stock-related matter may be forwarded to our stockholder relations officer; or

- not forward the communication if it is primarily commercial in nature or relates to an improper or irrelevant topic.

The Corporate Secretary will prepare a general summary of those communications that were not forwarded and provide a summary of activity to the Board of Directors each quarter.

Attendance at Annual Meetings of Stockholders

Although we do not have a formal written policy regarding director attendance at annual meetings of stockholders, it is expected that directors will attend these meetings absent unavoidable scheduling conflicts. All of our then-current directors attended our prior year s annual meeting of stockholders.

Codes of Ethics

We have adopted a Code of Ethics that is applicable to our directors, officers and employees, including a Code of Ethics for Senior Financial Officers attached thereto. The Code of Ethics is available on our website at

http://www.northwestsavingsbank.com. Amendments to and waivers from the Code of Ethics with respect to directors and executive officers will also be disclosed on our website.

Audit Committee Report

The Audit Committee has issued a report that states as follows:

- we have reviewed and discussed with management and the independent registered public accounting firm our audited consolidated financial statements for the year ended December 3yle="font-size: 1pt">

Under the terms of the 1999 Unifi Inc. Long-Term Incentive Plan (1999 Long-Term Incentive Plan), the maximum number of shares to be issued was approved at 6,000,000. Of the 6,000,000 shares approved for issuance, no more than 3,000,000 may be issued as restricted stock. As of June 28, 2009, 257,866 shares have been issued as restricted stock of which all are vested. Any option or restricted stock that is forfeited may be reissued under the terms of the plan. The amount forfeited or canceled is included in the number of securities remaining available for future issuance in column (c) in the above table. The total number of securities remaining available for future issuance under the 1999 Long-Term Incentive Plan included in column (c) of the table presented above is 403,539. The 1999 Long-Term Incentive Plan expired on June 30, 2009.

On October 29, 2008, the shareholders of the Company approved the 2008 Unifi, Inc. Long-Term Incentive Plan (2008 Long-Term Incentive Plan). The 2008 Long-Term Incentive Plan authorized the issuance of up to 6,000,000 shares of Common Stock pursuant to the grant or exercise of stock options, including Incentive Stock Options (ISO), Non-Qualified Stock Options (NQSO) and restricted stock, but not more than 3,000,000 shares may be issued as restricted stock. As of June 28, 2009 there were no restricted stock awards issued under this plan. Any option or restricted stock that is forfeited may be reissued under the terms of the plan. The amount forfeited or canceled is included in the number of securities remaining available for future issuance in column (c) in the above table. The total number of securities remaining available for future issuance under the 2008 Long-Term Incentive Plan included in column (c) of the table presented above is 5,750,000.

Recent Sales of Unregistered Securities

On January 1, 2007, the Company issued approximately 8,300,000 shares of its common stock, in exchange for specified assets purchased from Dillon Yarn Company (Dillon) by Unifi Manufacturing, Inc. one of the Company s wholly owed subsidiaries. There were no underwriters used in the transaction. The issuance of these shares of common stock was made in reliance on the exemptions from registration provided by Section 4(2) of the Securities Act of 1933, as amended, as offers and sales not involving a public offering. On February 9, 2007, the Company filed Form S-3 Registration statement under the Securities Act of 1933 to register the resale of these shares.

Purchases of Equity Securities

On April 25, 2003, the Company announced that its Board had reinstituted the Company s previously authorized stock repurchase plan at its meeting on April 24, 2003. The plan was originally announced by the Company on July 26, 2000 and authorized the Company to repurchase of up to 10,000,000 shares of its common stock. During fiscal years 2004 and 2003, the Company repurchased approximately 1,300,000 and 500,000 shares, respectively. The repurchase plan has no stated expiration or termination date, however the repurchase program was suspended in November 2003 and the Company has no plans to reinstitute it.

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PERFORMANCE GRAPH SHAREHOLDER RETURN ON COMMON STOCK

Set forth below is a line graph comparing the cumulative total Shareholder return on the Company s Common Stock with (i) the New York Stock Exchange Composite Index, a broad equity market index, and (ii) a peer group selected by the Company in good faith (the Peer Group), assuming in each case, the investment of $100 on June 27, 2004 and reinvestment of dividends. Including the Company, the Peer Group consists of thirteen publicly traded textile companies, including Albany International Corp., Culp, Inc., Decorator Industries, Inc., Dixie Group, Inc., Hallwood Group Inc., Hampshire Group, Limited, Innovise PLC, Interface, Inc., JPS Industries, Inc., Lydall, Inc., Mohawk Industries, Inc., and Quaker Fabric Corporation.

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN*
Among Unifi, Inc., The NYSE Composite Index
And A Peer Group

* $100 invested on 6/27/04 in stock or index, including reinvestment of dividends.

	June 27, 2004	June 26, 2005	June 25, 2006	June 24, 2007	June 29, 2008	June 28, 2009
Unifi, Inc.	**100.00**	**148.87**	**110.90**	**104.89**	**95.11**	**53.01**
NYSE Composite	**100.00**	**112.15**	**126.02**	**143.43**	**143.43**	**101.26**
Peer Group	**100.00**	**108.45**	**102.30**	**136.36**	**91.84**	**46.85**

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Item 6. ***Selected Financial Data***

	June 28, 2009 (52 Weeks)	June 29, 2008 (53 Weeks)	June 24, 2007 (52 Weeks)	June 25, 2006 (52 Weeks)	June 26, 2005 (52 Weeks)
	(Amounts in thousands, except per share data)				
Summary of Operations:					
Net sales	$ 553,663	$ 713,346	$ 690,308	$ 738,665	$ 792,774
Cost of sales	525,157	662,764	651,911	692,225	759,792
Restructuring charges (recoveries) (1)	91	4,027	(157)	(254)	(341)
Write down of long-lived assets (2)	350	2,780	16,731	2,366	603
Goodwill impairment (3)	18,580				
Selling, general and administrative expenses	39,122	47,572	44,886	41,534	42,211
Provision for bad debts	2,414	214	7,174	1,256	13,172
Other operating (income) expense, net	(5,491)	(6,427)	(2,601)	(1,466)	(2,320)
Non-operating (income) expense:					
Interest income	(2,933)	(2,910)	(3,187)	(6,320)	(3,173)
Interest expense	23,152	26,056	25,518	19,266	20,594
(Gain) loss on extinguishment of debt (4)	(251)		25	2,949	
Equity in (earnings) losses of unconsolidated affiliates	(3,251)	(1,402)	4,292	(825)	(6,938)
Write down of investment in unconsolidated affiliates (5)	1,483	10,998	84,742		
Minority interest income					(530)
Loss from continuing operations before income taxes and extraordinary item	(44,760)	(30,326)	(139,026)	(12,066)	(30,296)
Provision (benefit) for income taxes	4,301	(10,949)	(21,769)	301	(12,360)
Loss from continuing operations before extraordinary item	(49,061)	(19,377)	(117,257)	(12,367)	(17,936)
Income (loss) from discontinued operations, net of tax	65	3,226	1,465	360	(22,644)
Loss before extraordinary item	(48,996)	(16,151)	(115,792)	(12,007)	(40,580)
Extraordinary gain net of taxes of $0 (6)					1,157
Net loss	$ (48,996)	$ (16,151)	$ (115,792)	$ (12,007)	$ (39,423)
Per Share of Common Stock: (basic and diluted)					
Loss from continuing operations	$ (.79)	$ (.32)	$ (2.09)	$ (.23)	$ (.35)

Income (loss) from discontinued operations, net of tax		.05	.03		(.43)
Extraordinary gain net of taxes of $0					.02
Net loss	$ (.79)	$ (.27)	$ (2.06)	$ (.23)	$ (.76)
Balance Sheet Data:					
Working capital	$ 175,808	$ 186,817	$ 196,808	$ 187,731	$ 249,175
Gross property, plant and equipment	744,253	855,324	913,144	914,283	953,313
Total assets	476,932	591,531	665,953	737,148	847,527
Long-term debt and other obligations (4)	182,707	205,855	238,222	203,791	262,301
Shareholders equity (7)	244,969	305,669	304,954	387,464	385,727

(1) Restructuring charges (recoveries) consisted of severance and related employee termination costs and facility closure costs.

(2) The Company performs impairment testing on its long-lived assets and assets held for sale periodically, or when an event or change in market conditions indicates that the Company may not be able to recover its investment in the long-lived asset in the normal course of business. As a result of this testing, the Company has determined certain assets had become impaired and recorded impairment charges accordingly.

(3) In the third quarter of fiscal year 2009, the Company determined that it was appropriate to re-evaluate the carrying value of its goodwill based on the decline in its market capitalization and difficult market conditions. The Company updated its cash flow forecasts based upon the latest market intelligence, its discount rate and its market capitalization values. The fair value of the domestic polyester reporting unit was determined based upon a combination of a discounted cash flow analysis and a market approach utilizing market multiples of guideline publicly traded companies. As a result of the findings, the Company determined that the goodwill was impaired and recorded an impairment charge of $18.6 million.

(4) In April 2006, the Company tendered an offer for all of its outstanding 2008 notes. During the fourth quarter of fiscal year 2006, the Company recorded a $2.9 million charge which was a combination of fees associated with the tender offer and the write off of unamortized bond issuance costs related to the notes. During the fourth quarter of fiscal year 2009, the Company utilized $8.8 million of restricted cash to tender at par for its 2014 notes. In addition, the Company repurchased and retired notes having a face value of $2.0 million in open market purchases. The net effect of the gain on this repurchase and the write-off of the respective unamortized issuance cost related to the $8.8 million and $2.0 million of 2014 notes resulted in a net gain of $0.3 million.

(5) In fiscal year 2007, management determined that its investment in PAL was impaired and that the impairment was considered other than temporary. As a result, the Company recorded a non-cash impairment charge of $84.7 million to reduce the carrying value of its equity investment in PAL to $52.3 million. In fiscal year 2008, the Company determined that its investments in Unifi-SANS Technical Fibers, LLC (USTF) and YUFI were impaired resulting in non-cash impairment charges of $4.5 million and $6.4 million, respectively. In fiscal year 2009, the Company recorded a non-cash impairment charge of $1.5 million to reduce its investment in YUFI in connection with selling the Company s interest in YUFI to YCFC for $9.0 million.

(6) In fiscal year 2005, the Company completed its acquisition of the INVISTA polyester POY manufacturing assets located in Kinston, North Carolina, including inventories, valued at $24.4 million. As part of the acquisition, the Company announced its plans to curtail two production lines and downsize the workforce at its newly acquired manufacturing facility. At that time, the Company recorded a reserve of $10.7 million in related severance costs and $0.4 million in restructuring costs which were recorded as assumed liabilities in purchase accounting; and therefore, had no impact on the Consolidated Statements of Operations. As of March 27, 2005, both lines were successfully shut down and a reduction in the original restructuring estimate for severance was recorded. As a result of the reduction to the restructuring reserve, a $1.2 million extraordinary gain, net of tax, was recorded.

(7) There have been no cash dividends declared for the past five fiscal years.

Item 7. ***Management s Discussion and Analysis of Financial Condition and Results of Operations***

Forward-Looking Statements

The following discussion contains certain forward-looking statements about the Company s financial condition and results of operations.

Forward-looking statements are those that do not relate solely to historical fact. They include, but are not limited to, any statement that may predict, forecast, indicate or imply future results, performance, achievements or events. They may contain words such as believe, anticipate, expect, estimate, intend, project, plan, will, or words or similar meaning. They may relate to, among other things, the risks described under the caption Item 1A Risk Factors above and:

- the competitive nature of the textile industry and the impact of worldwide competition;
- changes in the trade regulatory environment and governmental policies and legislation;
- the availability, sourcing and pricing of raw materials;

general domestic and international economic and industry conditions in markets where the Company competes, such as recession and other economic and political factors over which the Company has no control;

changes in consumer spending, customer preferences, fashion trends and end-uses;

its ability to reduce production costs;

changes in currency exchange rates, interest and inflation rates;

the financial condition of its customers;

its ability to sell excess assets;

technological advancements and the continued availability of financial resources to fund capital expenditures;

the operating performance of joint ventures, alliances and other equity investments;

the impact of environmental, health and safety regulations;

the loss of a material customer;

employee relations;

volatility of financial and credit markets;

the continuity of the Company s leadership;

availability of and access to credit on reasonable terms; and

the success of the Company s consolidation initiatives.

These forward-looking statements reflect the Company s current views with respect to future events and are based on assumptions and subject to risks and uncertainties that may cause actual results to differ materially from trends, plans or expectations set forth in the forward-looking statements. These risks and uncertainties may include those discussed above or in Item 1A Risk Factors. New risks can emerge from time to time. It is not possible for the Company to predict all of these risks, nor can it assess the extent to which any factor, or combination of factors, may cause actual results to differ from those contained in forward-looking statements. The Company will not update these forward-looking statements, even if its situation changes in the future, except as required by federal securities laws.

Business Overview

The Company is a diversified producer and processor of multi-filament polyester and nylon yarns, including specialty yarns with enhanced performance characteristics. The Company adds value to the supply chain and enhances consumer demand for its products through the development and introduction of branded yarns that provide unique performance, comfort and aesthetic advantages. The Company manufactures partially oriented, textured, dyed, twisted and beamed polyester yarns as well as textured nylon and nylon covered spandex products. The Company sells its products to other yarn manufacturers, knitters and weavers that produce fabric for the apparel, hosiery, furnishings, automotive, industrial and other end-use markets. The Company maintains one of the industry s most comprehensive

product offerings and emphasizes quality, style and performance in all of its products.

Polyester Segment. The polyester segment manufactures partially oriented, textured, dyed, twisted and beamed yarns with sales to other yarn manufacturers, knitters and weavers that produce fabric for the apparel, automotive, hosiery, furnishings, industrial and other end-use markets. The polyester segment primarily manufactures its products in Brazil, and the U.S., which has the Company s largest operations and number of locations. The polyester segment also includes a newly formed subsidiary in China focused on the sale and promotion of the Company s specialty and PVA products in the Asian textile market, primarily within China. For fiscal years 2009, 2008, and 2007, polyester segment net sales were $403.1 million, $530.6 million, and $530.1 million, respectively.

Nylon Segment. The nylon segment manufactures textured nylon and covered spandex products with sales to other yarn manufacturers, knitters and weavers that produce fabric for the apparel, hosiery, sock and other end-use markets. The nylon segment consists of operations in the U.S. and Colombia. For fiscal years 2009, 2008, and 2007, nylon segment net sales were $150.5 million, $182.8 million, and $160.2 million, respectively.

The Company s fiscal year is the 52 or 53 weeks ending on the last Sunday in June. Fiscal year 2008 had 53 weeks while fiscal years 2009 and 2007 had 52 weeks.

Line Items Presented

Net sales. Net sales include amounts billed by the Company to customers for products, shipping and handling, net of allowances for rebates. Rebates may be offered to specific large volume customers for purchasing certain quantities of yarn over a prescribed time period. The Company provides for allowances associated with rebates in the same accounting period the sales are recognized in income. Allowances for rebates are calculated based on sales to customers with negotiated rebate agreements with the Company. Non-defective returns are deducted from revenues in the period during which the return occurs. The Company records allowances for customer claims based upon its estimate of known claims and its past experience for unknown claims.

Cost of sales. The Company s cost of sales consists of direct material, delivery and other manufacturing costs, including labor and overhead, depreciation expense with respect to manufacturing assets, fixed asset depreciation and reserves for obsolete and slow-moving inventory.

Selling general and administrative expenses. The Company s selling, general and administrative (SG&A) expenses consist of selling expense (which includes sales staff compensation), advertising and promotion expense (which includes direct marketing expenses) and administrative expense (which includes corporate expenses and compensation). In addition, SG&A expenses also include depreciation and amortization with respect to certain corporate administrative and intangible assets.

Recent Developments and Outlook

The global economic downturn eroded U.S. consumer confidence which resulted in reduced customer spending which negatively impacted all global textile markets and related supply chains beginning in October 2008. U.S. apparel retail sales, home furnishing retail sales, and automotive sales were down approximately 7%, 13% and 35%, respectively, during the last three quarters of fiscal year 2009 as compared to the same period for fiscal year 2008.

The impact of the decline in retail sales was compounded further by excessive inventory levels across the supply chains as fabric mills, finished goods producers, and retailers reduced purchase levels below their current sales levels, in an effort to match their working capital investments with the lower sales volumes that they were experiencing. As a result of the decreased demand at retail, compounded by this inventory de-stocking, the Company s revenues declined by 31%, 30% and 26% for the second, third and fourth quarters of fiscal year 2009 as compared to the same prior year quarters, respectively. However, as the March 2009 quarter progressed into the June 2009 quarter, the Company experienced sales volume improvements in certain segments as retail sales improved slightly and the effects of the de-stocking began to subside. Compared to the March 2009 quarter, the Company s revenues increased 17% in the June 2009 quarter primarily due to a combination of improved demand for the Company s products and market share gains both domestically and in Brazil. In addition, the Company s domestic sales increased approximately $3.0 million in the fourth quarter of fiscal year 2009 as compared to the third quarter of fiscal year 2009 due to an unusually high amount of sales related to aged and slow-moving inventory. The Company had approximately 69% more sales of aged and slow-moving inventory during the fourth quarter of fiscal year 2009 than its normal quarterly average as a result of a decision to monetize its investment in such aged inventory. The negative impact on gross profit of these sales

during the fourth quarter of fiscal year 2009 was approximately $1.1 million.

Like the rest of the supply chain, the Company also reacted to the reduced sales volumes by aggressively reducing our investment in working capital. Compared to June 2008, the Company reduced net customer

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receivables by $25.5 million or 24.6% and inventories by $33.2 million or 27.0% which allowed it to significantly improve its cash position in an otherwise difficult year.

In addition to the difficult economic conditions in the U.S. markets, the Company was negatively impacted by the continued rising cost of raw materials and other petrochemical driven costs during the first quarter of fiscal year 2009. The impact of the surge in crude oil prices and feedstock supply issues since the beginning of fiscal year 2008 created a spike in polyester raw material prices. As raw material prices peaked in the first quarter of fiscal year 2009, the Company was not able to pass all of these raw material increases along to its customers which resulted in lower conversion margins. Operating results for the second and third quarters of fiscal year 2009 were also adversely impacted as these higher priced products worked through the Company s inventory. However, crude oil prices declined substantially during the second quarter of fiscal year 2009 and certain supply chain issues abated, resulting in a decline in the cost of polyester feedstock. The benefit of that decline was seen in the third and fourth quarters of fiscal year 2009 as the Company regained conversion margins lost during the run-up in the first half of fiscal 2009.

Internationally, the Company is committed to identifying growth opportunities to participate in the Asian textile market, specifically China. During the fourth quarter of fiscal year 2009, the Company completed the sale of its 50% interest in YUFI to YCFC and received net proceeds of $9.0 million. Maintaining a market presence in the Asian textile market is important to the Company s PVA yarn strategy and accordingly the Company formed UTSC, a wholly owned Chinese subsidiary. UTSC obtained its business license in the second quarter of fiscal year 2009, was capitalized during the third quarter of fiscal year 2009 with $3.3 million of registered capital, and became operational at the end of the third quarter of fiscal year 2009. UTSC will continue to expand the sales and promotion of the Company s specialty and PVA products, including our 100% recycled product family Repreve®. The Company is very encouraged by the number of development projects that it has in process, including Repreve® filament and staple, Sorbtek® and Reflexx®. Similar to the U.S., the adoption timetable for some of these programs may be linked to improvements in the economy, however, the Company projects that UTSC will operate profitably in the fiscal year 2010 which will be a substantial improvement over the results of YUFI.

The CAFTA region continues to be a very important part of the Company s global sourcing strategy as U.S. brands and retailers take advantage of the shorter lead times and the competitiveness of the region. The CAFTA region s share of synthetic apparel U.S. imports is approximately 12% and is expected to grow over the next several years, making the region a critical component in the apparel supply chain. To better service customers in the CAFTA region, the Company is exploring options for placing manufacturing capabilities in Central America. At this point, all options are being explored, including joint venture opportunities as well as green-field scenarios, and the total investment in the initial stages is expected to be $10.0 million or less.

The Company s Brazilian operation had especially strong results in the first quarter of fiscal year 2009, but those results deteriorated through the second and third quarters of fiscal year 2009 due to softness in the Brazilian economy and supply chain volatility related to raw material costs and the negative impact of currency fluctuations. The subsidiary s results improved substantially during the fourth quarter of fiscal year 2009 as unit sales increased by 33% compared to the third quarter due to the strengthening of the Brazilian economy and a gain in market share.

The Company is committed to achieving operational and commercial excellence in its core businesses by driving improvement in operational discipline, statistical process control, and customer service utilizing a disciplined improvement process. During fiscal year 2009, the Company made continual and substantial improvements to its costs and operational efficiencies, resulting in a reduction of the volume level required to operate the business profitably by more than ten percent. Such improvement efforts include changes to the Company s sourcing and purchasing model; improved operational efficiencies; reduction of employee related costs from headcount reductions and benefit changes; and cost reductions achieved through asset consolidations.

On May 14, 2008, the Company announced the closing of its Staunton, Virginia facility and the transfer of certain production to its facility in Yadkinville, North Carolina. The relocation of its beaming and warp draw production is consistent with the Company s strategy to maximize operational efficiencies and reduce production costs. The Company completed this transition in November 2008.

On September 29, 2008, the Company entered into an agreement to sell certain idle real property and related assets located in Yadkinville, North Carolina, for $7.0 million. On December 19, 2008, the Company completed the

sale and recorded a net pre-tax gain of $5.2 million in the second quarter of fiscal year 2009. The gain is included in the other operating (income) expense, net line on the Consolidated Statements of Operations.

Based on a decline in its market capitalization during the third quarter of fiscal year 2009 and difficult market conditions, the Company determined that it was appropriate to re-evaluate the carrying value of its goodwill during the quarter ended March 29, 2009. In connection with this third quarter interim impairment analysis, the Company updated its cash flow forecasts based upon the latest market intelligence, its discount rate and its market capitalization values. The projected cash flows are based on the Company s forecasts of volume, with consideration of relevant industry and macroeconomic trends. The fair value of the domestic polyester reporting unit was determined based upon a combination of a discounted cash flow analysis and a market approach utilizing market multiples of guideline publicly traded companies. As a result of the findings, the Company determined that the goodwill was impaired and recorded an impairment charge of $18.6 million in the third quarter of fiscal year 2009.

During the fourth quarter of fiscal year 2009, the Company used $8.8 million of domestic restricted cash to repurchase $8.8 million of its 11.5% senior secured notes due May 15, 2014 (the 2014 notes) at par value. In addition, the Company repurchased and retired 2014 notes having a face value of $2.0 million in open market purchases. The net effect of the gain on this repurchase and the write-off of the respective unamortized issuance cost related to the $8.8 million and $2.0 million of 2014 notes resulted in a net gain of $0.3 million.

On May 28, 2009, the Company announced that the Board appointed Mr. Michael Sileck to the Board effective May 28, 2009 and was also appointed to the Audit Committee. Mr. Sileck was appointed to a term expiring at the Company s 2009 Annual Meeting of Shareholders, at which time it is expected that he will be nominated to stand for election by the Shareholders of the Company.

Key Performance Indicators

The Company continuously reviews performance indicators to measure its success. The following are the indicators management uses to assess performance of the Company s business:

- sales volume, which is an indicator of demand;

- margins, which are an indicator of product mix and profitability;

- adjusted Earnings Before Interest, Taxes, Depreciation, and Amortization (adjusted EBITDA), which the Company defines as pre-tax income before interest expense, depreciation and amortization expense and loss or income from discontinued operations, adjusted to exclude equity in earnings and losses of unconsolidated affiliates, write down of long-lived assets and unconsolidated affiliate, non-cash compensation expense net of distributions, gains and losses on sales of property, plant and equipment, hedging gains and losses, asset consolidation and optimization expense, goodwill impairment, gain and loss on extinguishment of debt, restructuring charges and recoveries, and Kinston shutdown costs, as revised from time to time, which the Company believes is a supplemental measure of its performance and ability to service debt; and

- adjusted working capital (accounts receivable plus inventory less accounts payable and accruals) as a percentage of sales, which is an indicator of the Company s production efficiency and ability to manage its inventory and receivables.

Corporate Restructurings

Severance

On April 20, 2006, the Company re-organized its domestic business operations. Approximately 45 management level salaried employees were affected by this plan of reorganization. During fiscal year 2007, the Company recorded an additional $0.3 million for severance related to this reorganization.

On April 26, 2007, the Company announced its plan to consolidate its domestic capacity and close its recently acquired Dillon polyester facility. In accordance with the provisions of SFAS No. 141, Business Combinations, the Company recorded a balance sheet adjustment to book a $0.7 million assumed liability for severance in fiscal

year 2007 with the offset to goodwill. Approximately 291 wage employees and 25 salaried employees were affected by this consolidation plan.

On August 2, 2007, the Company announced the closure of its Kinston, North Carolina polyester facility. The Kinston facility produced POY for internal consumption and third party sales. In the future, the Company will purchase its commodity POY needs from external suppliers for conversion in its texturing operations. The Company will continue to produce POY in the Yadkinville, North Carolina facility for its specialty and premium value yarns and certain commodity yarns. During fiscal year 2008, the Company recorded $1.3 million for severance related to its Kinston consolidation. Approximately 231 employees which included 31 salaried positions and 200 wage positions were affected as a result of this reorganization.

On August 22, 2007, the Company announced its plan to re-organize certain corporate staff and manufacturing support functions to further reduce costs. The Company recorded $1.1 million for severance related to this reorganization. Approximately 54 salaried employees were affected by this reorganization. In addition, the Company recorded severance of $2.4 million for its former Chief Executive Officer (CEO) in the first quarter of fiscal year 2008 and $1.7 million for severance in the second quarter of fiscal year 2008 related to its former Chief Financial Officer (CFO) during fiscal year 2008.

On May 14, 2008, the Company announced the closure of its polyester facility located in Staunton, Virginia and the transfer of certain production to its facility in Yadkinville, North Carolina which was completed in November 2008. During the first quarter of fiscal year 2009, the Company recorded $0.1 million for severance related to its Staunton consolidation. Approximately 40 salaried and wage employees were affected by this reorganization.

In the third quarter of fiscal year 2009, the Company re-organized and reduced its workforce due to the economic downturn. Approximately 200 salaried and wage employees were affected by this reorganization related to the Company s efforts to reduce costs. As a result, the Company recorded $0.3 million in severance charges related to certain salaried corporate and manufacturing support staff.

Restructuring

On October 25, 2006, the Company s Board of Directors approved the purchase of the assets of the Dillon Yarn Division (Dillon) of Dillon Yarn Corporation. This approval was based on a business plan which assumed certain significant synergies that were expected to be realized from the elimination of redundant overhead, the rationalization of under-utilized assets and certain other product optimization. The preliminary asset rationalization plan included exiting two of the three production activities currently operating at the Dillon facility and moving them to other Unifi manufacturing facilities. The plan was to be finalized once operations personnel from the Company would have full access to the Dillon facility, in order to determine the optimal asset plan for the Company s anticipated product mix. This plan was consistent with the Company s domestic market consolidation strategy discussed in the Company s Annual Report on Form 10-K for the fiscal year ended June 25, 2006. On January 1, 2007, the Company completed the Dillon asset acquisition.

Concurrent with the acquisition the Company entered into a Sales and Services Agreement (the Agreement). The Agreement covered the services of certain Dillon personnel who were responsible for product sales and certain other personnel that were primarily focused on the planning and operations at the Dillon facility. The services would be provided over a period of two years at a fixed cost of $6.0 million. In the fourth quarter of fiscal year 2007, the Company finalized its plan and announced its decision to exit its recently acquired Dillon polyester facility.

The closure of the Dillon facility triggered an evaluation of the Company s obligations arising under the Agreement. The Company evaluated the guidance contained in SFAS No. 141 Business Combinations , as well as the guidance

contained in EITF Abstract Issue No. 95-3 (EITF 95-3) Recognition of Liabilities in Connection with a Purchase Business Combination in determining the appropriate accounting for the costs associated with the Agreement. The Company determined from this evaluation that the fair value of the services to be received under the Agreement were significantly lower than the obligation to Dillon. As a result, the Company determined that a portion of the obligation should be considered an unfavorable contract as defined by SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities . The Company concluded that costs totaling approximately

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$3.1 million relating to services provided under the Agreement were for the ongoing benefit of the combined business and therefore should be reflected as an expense in the Company s Consolidated Statements of Operations, as incurred. The remaining Agreement costs totaling approximately $2.9 million were for the personnel involved in the planning and operations of the Dillon facility and related to the time period after shutdown in June 2007. Therefore, these costs were reflected as an assumed purchase liability in accordance with SFAS No. 141, since these costs no longer related to the generation of revenue and had no future economic benefit to the combined business.

In fiscal year 2008, the Company recorded $3.4 million for restructuring charges related to contract termination costs and other noncancellable contracts for continued services after the closing of the Kinston facility. See the Severance discussion above for further details related to Kinston.

The Company recorded restructuring charges in lease related costs associated with the closure of its polyester facility in Altamahaw, North Carolina during fiscal year 2004. In the second quarter of fiscal year 2008, the Company negotiated the remaining obligation on the lease and recorded a $0.3 million net favorable adjustment related to the cancellation of the lease obligation.

During the fourth quarter of fiscal year 2009, the Company recorded $0.2 million of restructuring recoveries related to retiree reserves.

The table below summarizes changes to the accrued severance and accrued restructuring accounts for the fiscal years ended June 28, 2009, June 29, 2008, and June 24, 2007, respectively (amounts in thousands):

	Balance at June 29, 2008	Additional Charges	Adjustments	Amount Used	Balance at June 28, 2009
Accrued severance	$ 3,668	$ 371	$ 5	$ (2,357)	$ 1,687(1)
Accrued restructuring	1,414		224	(1,638)	

	Balance at June 24, 2007	Additional Charges	Adjustments	Amount Used	Balance at June 29, 2008
Accrued severance	$ 877	$ 6,533	$ 207	$ (3,949)	$ 3,668(2)
Accrued restructuring	5,685	3,125	(176)	(7,220)	1,414

	Balance at June 25, 2006	Additional Charges	Adjustments	Amount Used	Balance at June 24, 2007
Accrued severance	$ 576	$ 905	$	$ (604)	$ 877
Accrued restructuring	3,550		3,133	(998)	5,685

(1) As of June 28, 2009, the Company classified $0.3 million of the executive severance as long-term.

(2) As of June 29, 2008, the Company classified $1.7 million of the executive severance as long-term.

Joint Ventures and Other Equity Investments

YUFI. In August 2005, the Company formed YUFI, a 50/50 joint venture with YCFC, to manufacture, process and market polyester filament yarn in YCFC s facilities in Yizheng, Jiangsu Province, China. During fiscal year 2008, the Company s management explored strategic options with its joint venture partner in China with the ultimate goal of determining if there was a viable path to profitability for YUFI. Management concluded that although YUFI had successfully grown its position in high value and PVA products, commodity sales would continue to be a large and unprofitable portion of the joint venture s business, due to cost constraints. In addition, the Company believed YUFI had focused too much attention and energy on non-value added issues, distracting management from its primary PVA objectives. Based on these conclusions, the Company decided to exit the joint venture and on July 30, 2008, the Company announced that it had reached a proposed agreement to sell its 50% interest in YUFI to its partner for $10 million.

As a result of the agreement with YCFC, the Company initiated a review of the carrying value of its investment in YUFI in accordance with APB 18 and determined that the carrying value of its investment in YUFI exceeded its fair value. Accordingly, the Company recorded a non-cash impairment charge of $6.4 million in the fourth quarter of fiscal year 2008.

The Company expected to close the transaction in the second quarter of fiscal year 2009 pending negotiation and execution of definitive agreements and Chinese regulatory approvals. The agreement provided for YCFC to immediately take over operating control of YUFI, regardless of the timing of the final approvals and closure of the equity sale transaction. During the first quarter of fiscal year 2009, the Company gave up one of its senior staff appointees and YCFC appointed its own designee as General Manager of YUFI, who assumed full responsibility for the operating activities of YUFI at that time. As a result, the Company lost its ability to influence the operations of YUFI and therefore the Company switched from the equity method of accounting for its investment in the joint venture to the cost method and consequently ceased recording its share of losses commencing in the same quarter in accordance with APB 18. The Company recognized equity losses of $6.1 million and $5.8 million for fiscal years 2008 and 2007, respectively.

In December 2008, the Company renegotiated the proposed agreement to sell its interest in YUFI to YCFC for $9.0 million and recorded an additional impairment charge of $1.5 million, which included approximately $0.5 million related to certain disputed accounts receivable and $1.0 million related to the fair value of its investment, as determined by the re-negotiated equity interest sales price, was lower than carrying value.

On March 30, 2009, the Company closed on the sale and received $9 million in proceeds related to its investment in YUFI. The Company continues to service customers in Asia through UTSC, a wholly-owned subsidiary based in Suzhou, China, that is dedicated to the development, sales and service of PVA yarns. UTSC is located outside of Shanghai in, Suzhou New District, which is in Jiangsu Province.

PAL. In June 1997, the Company contributed all of the assets of its spun cotton yarn operations, utilizing open-end and air jet spinning technologies, into PAL, a joint venture with Parkdale Mills, Inc. in exchange for a 34% ownership interest in the joint venture. PAL is a producer of cotton and synthetic yarns for sale to the textile and apparel industries primarily within North America. PAL has 10 manufacturing facilities primarily located in central and western North Carolina. As part of its fiscal year 2007 financial close process, the Company reviewed the carrying value of its investment in PAL, in accordance with APB 18. On July 9, 2007, the Company determined that the $137.0 million carrying value of the Company s investment in PAL exceeded its fair value. The Company recorded a non-cash impairment charge of $84.7 million in the fourth quarter of the Company s fiscal year 2007 based on an appraised fair value of PAL, less 25% for lack of marketability and its minority ownership percentage. For fiscal years 2009, 2008, and 2007, the Company reported equity income of $4.7 million, $8.3 million, and $2.5 million, respectively, from PAL. At the end of Company s fiscal year 2009, PAL had cash and cash equivalents of $47.7 million and no long-term debt. The Company received distributions of $3.7 million, $4.5 million, and $6.4 million during fiscal years 2009, 2008, and 2007, respectively.

The 2008 U.S. Farm Bill extended the existing upland cotton and extra long staple cotton programs, which includes economic adjustment assistance provisions for ten years. Eligible cotton is baled upland cotton regardless of origin which must be one of the following: Baled lint; loose; semi-processed motes or re-ginned motes as defined by the Upland Cotton Domestic User Agreement Section A-2. Eligible and Ineligible Cotton . Beginning August 1, 2008, the revised program will provide textile mills a subsidy of four cents per pound on eligible upland cotton consumed during the first four years and three cents per pound for the last six years. The economic assistance received under this program must be used to acquire, construct, install, modernize, develop, convert or expand land, plant, buildings, equipment, or machinery. Capital expenditures must be directly attributable to the purpose of manufacturing upland cotton into eligible cotton products in the U.S. The recipients have the marketing year which goes from August 1 to July 31, plus eighteen months to make the capital investments. PAL received benefits under this program in the amount of $14.0 million, representing eleven months of cotton consumption, of which $9.7 million was recognized as a reduction to PAL s cost of sales during the Company s fiscal year 2009. The remaining $4.3 million of deferred revenue will be recognized by PAL based on qualifying capital expenditures.

USTF. On September 13, 2000, the Company formed USTF, a 50/50 joint venture with SANS Fibres of South Africa (SANS Fibres), to produce low-shrinkage high tenacity nylon 6.6 light denier industrial, or LDI yarns in North Carolina. The business was operated in its plant in Stoneville, North Carolina. On January 2, 2007, the Company notified SANS Fibres that it was exercising its put right to sell its interest in the joint venture. On November 30, 2007, the Company completed the sale of its 50% interest in USTF to SANS Fibres and received net proceeds of $11.9 million. The purchase price included $3.0 million for a manufacturing facility that the Company

leased to the joint venture which had a net book value of $2.1 million. Of the remaining $8.9 million, $8.8 million was allocated to the Company s equity investment in the joint venture and $0.1 million was attributed to interest income.

UNF. On September 27, 2000, the Company formed UNF, a 50/50 joint venture with Nilit, which produces nylon POY at Nilit s manufacturing facility in Migdal Ha-Emek, Israel, that is its primary source of nylon POY for its texturing and covering operations. The Company purchases nylon POY from UNF which is produced from three dedicated production lines. The Company s investment in UNF at June 28, 2009 was $2.3 million. For the fiscal years 2009, 2008, and 2007, the Company reported equity losses of $1.5 million, $0.8 million, and $1.1 million, respectively, from UNF. The nylon segment had a supply agreement with UNF which expired in April 2008; however, the Company continues to purchase POY from the joint venture at agreed upon price points. The Company is in negotiations with Nilit to finalize a new supply agreement and restructure the UNF joint venture. The Company expects the negotiations to be completed in the first half of fiscal year 2010.

Condensed balance sheet information and income statement information as of June 28, 2009, June 29, 2008, and June 24, 2007 of combined unconsolidated equity affiliates were as follows (amounts in thousands):

	June 28, 2009				
	PAL	**YUFI(1)**	**UNF**	**USTF**	**Total**
Current assets	$ 149,959	$	$ 2,329	$	$ 152,288
Noncurrent assets	98,460		3,433		101,893
Current liabilities	21,754		1,080		22,834
Noncurrent liabilities	4,294				4,294
Shareholder s equity and capital accounts	222,371		4,682		227,053

	June 29, 2008				
	PAL	**YUFI**	**UNF**	**USTF(2)**	**Total**
Current assets	$ 132,526	$ 30,678	$ 7,528	$	$ 170,732
Noncurrent assets	112,974	59,552	5,329		177,855
Current liabilities	25,799	57,524	4,837		88,160
Noncurrent liabilities					
Shareholder s equity and capital accounts	219,701	32,706	8,020		260,427

	June 24, 2007				
	PAL	**YUFI**	**UNF**	**USTF**	**Total**
Current assets	$ 131,737	$ 17,411	$ 5,578	$ 10,148	$ 164,874
Noncurrent assets	98,088	59,183	7,067	20,975	185,313
Current liabilities	17,637	34,119	3,140	1,680	56,576
Noncurrent liabilities	4,838			6,382	11,220
Shareholder s equity and capital accounts	207,351	42,475	9,504	23,061	282,391

	Fiscal Year Ended June 28, 2009				
	PAL	**YUFI**	**UNF**	**USTF**	**Total**

Net sales	$ 408,841	$	$ 18,159	$	$ 427,000
Gross profit (loss)	26,232		(2,349)		23,883
Depreciation and amortization	18,805		1,896		20,701
Income (loss) from operations	17,618		(3,649)		13,969
Net income (loss)	13,895		(3,338)		10,557

	Fiscal Year Ended June 29, 2008				
	PAL	YUFI	UNF	USTF	Total
Net sales	$ 460,497	$ 140,125	$ 25,528	$ 6,455	$ 632,605
Gross profit (loss)	21,504	(7,545)	175	571	14,705
Depreciation and amortization	17,777	6,170	1,738	578	26,263
Income (loss) from operations	10,437	(14,192)	(1,649)	189	(5,215)
Net income (loss)	24,269	(14,922)	(1,484)	148	8,011

	Fiscal Year Ended June 24, 2007				
	PAL	YUFI	UNF	USTF	Total
Net sales	$ 440,366	$ 123,912	$ 20,852	$ 24,883	$ 610,013
Gross profit (loss)	19,785	(7,488)	(2,006)	2,507	12,798
Depreciation and amortization	24,798	5,276	1,897	2,125	34,096
Income (loss) from operations	5,043	(12,722)	(2,533)	929	(9,283)
Net income (loss)	7,376	(13,570)	(2,210)	671	(7,733)

(1) The Company completed the sale of its investment in YUFI during the fourth quarter of fiscal year 2009.

(2) The Company sold USTF in the second quarter of fiscal year 2008.

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Review of Fiscal Year 2009 Results of Operations (52 Weeks) Compared to Fiscal Year 2008 (53 Weeks)

The following table sets forth the loss from continuing operations components for each of the Company s business segments for fiscal year 2009 and fiscal year 2008. The table also sets forth each of the segments net sales as a percent to total net sales, the net income (loss) components as a percent to total net sales and the percentage increase or decrease of such components over the prior year:

	Fiscal Year 2009		Fiscal Year 2008		
		% to Total		% to Total	% Inc. (Dec.)
	(Amounts in thousands, except percentages)				
Consolidated					
Net sales					
Polyester	$ 403,124	72.8	$ 530,567	74.4	(24.0)
Nylon	150,539	27.2	182,779	25.6	(17.6)
Total	$ 553,663	100.0	$ 713,346	100.0	(22.4)
		% to Net Sales		% to Net Sales	
Cost of sales					
Polyester	$ 386,201	69.8	$ 494,209	69.3	(21.9)
Nylon	138,956	25.1	168,555	23.6	(17.6)
Total	525,157	94.9	662,764	92.9	(20.8)
Restructuring charges					
Polyester	199		3,818	0.6	(94.8)
Nylon	73		209		(65.1)
Corporate	(181)				
Total	91		4,027	0.6	(97.7)
Write down of long-lived assets					
Polyester	350		2,780	0.4	(87.4)
Nylon					
Total	350		2,780	0.4	(87.4)
Goodwill impairment					
Polyester	18,580	3.4			
Nylon					
Total	18,580	3.4			

Selling, general and administrative					
Polyester	30,972	5.6	40,606	5.7	(23.7)
Nylon	8,150	1.5	6,966	1.0	17.0
Total	39,122	7.1	47,572	6.7	(17.8)
Provision for bad debts	2,414	0.4	214		1,028.0
Other operating (income) expenses, net	(5,491)	(1.0)	(6,427)	(0.9)	(14.6)
Non-operating (income) expenses, net	18,200	3.3	32,742	4.6	(44.4)
Loss from continuing operations before income taxes	(44,760)	(8.1)	(30,326)	(4.3)	47.6
Provision (benefit) for income taxes	4,301	0.8	(10,949)	(1.5)	(139.3)
Loss from continuing operations	(49,061)	(8.9)	(19,377)	(2.8)	153.2
Income from discontinued operations, net of tax	65	0.1	3,226	0.5	(98.0)
Net loss	$ (48,996)	(8.8)	$ (16,151)	(2.3)	203.4

For fiscal year 2009, the Company recognized a $44.8 million loss from continuing operations before income taxes which was a $14.4 million increase in losses over the prior year. The decline in continuing operations was primarily attributable to decreased sales volumes in the polyester and nylon segments as a result of the economic downturn which began in the second quarter of fiscal year 2009. In addition, the Company recorded $18.6 million in goodwill impairment charges in fiscal year 2009.

Consolidated net sales from continuing operations decreased $159.7 million, or 22.4%, for fiscal year 2009. For the fiscal year 2009, unit sales volumes decreased 22.9% primarily due to the global economic downturn which impacted all textile supply chains and markets as discussed earlier. Compared to prior year, polyester volumes decreased 23.9% and nylon volumes decreased 15.8%. The weighted-average price per pound for the Company s products on a consolidated basis remained flat as compared to the prior fiscal year. Refer to the segment operations under the captions Polyester Operations and Nylon Operations for a further discussion of each segment s operating results.

At the segment level, polyester dollar net sales accounted for 72.8% of consolidated net sales in fiscal year 2009 compared to 74.4% in fiscal year 2008. Nylon accounted for 27.2% of dollar net sales for fiscal year 2009 compared to 25.6% for the prior fiscal year.

Consolidated gross profit from continuing operations decreased $22.1 million to $28.5 million for fiscal year 2009. This decrease was primarily attributable to lower sales volumes and lower conversion margins for the polyester and nylon segments offset by improved per unit manufacturing costs for both the polyester and nylon segments. The decrease in sales volumes was attributable to the global economic downturn which impacted all textile supply chains and markets. Additionally, sales were impacted by excessive inventories across the supply chain. These excessive inventory levels declined during the year as the effects of the inventory de-stocking began to subside. Conversion margins on a per pound basis decreased 12% and 3% in the polyester and nylon segments, respectively. Manufacturing costs on a per pound basis decreased 2% and 3% for the polyester and nylon segments, respectively as the Company aligned operational costs with lower sales volumes. Refer to the segment operations under the captions Polyester Operations and Nylon Operations for a further discussion of each segment s operating results.

Severance and Restructuring Charges

On August 22, 2007, the Company announced its plan to re-organize certain corporate staff and manufacturing support functions to further reduce costs. The Company recorded $1.1 million for severance related to this reorganization. Approximately 54 salaried employees were affected by this reorganization. In addition, the Company recorded severance of $2.4 million for its former CEO in the first quarter of fiscal year 2008 and $1.7 million for severance in the second quarter of fiscal year 2008 related to its former CFO during fiscal year 2008.

In fiscal year 2008, the Company recorded $3.4 million for restructuring charges related to contract termination costs and other noncancellable contracts for continued services and $1.3 million in severance costs all related to the closure of its Kinston, North Carolina polyester facility offset by $0.3 million in favorable adjustments related to a lease obligation associated with the closure of its Altamahaw, North Carolina facility.

On May 14, 2008, the Company announced the closure of its polyester facility located in Staunton, Virginia and the transfer of certain production to its facility in Yadkinville, North Carolina. During the first quarter of fiscal year 2009, the Company recorded $0.1 million for severance related to the Staunton consolidation. Approximately 40 salaried and wage employees were affected by this reorganization.

In the third quarter of fiscal year 2009, the Company re-organized and reduced its workforce due to the economic downturn. Approximately 200 salaried and wage employees were affected by this reorganization related to the Company s efforts to reduce costs. As a result, the Company recorded $0.3 million in severance charges related to

certain salaried corporate and manufacturing support staff. During the fourth quarter of fiscal year 2009, the Company recorded $0.2 million of restructuring recoveries related to retiree reserves.

Write downs of Long-Lived Assets

During the first quarter of fiscal year 2008, the Company s Brazilian polyester operation continued its modernization plan for its facilities by abandoning four of its older machines and replacing these machines with

newer machines that it purchased from the Company s domestic polyester division. As a result, the Company recognized a $0.5 million non-cash impairment charge on the older machines.

During the second quarter of fiscal year 2008, the Company evaluated the carrying value of the remaining machinery and equipment at Dillon. The Company sold several machines to a foreign subsidiary and in addition transferred several other machines to its Yadkinville, North Carolina facility. Six of the remaining machines were leased under an operating lease to a manufacturer in Mexico at a fair market value substantially less than their carrying value. The last five remaining machines were scrapped for spare parts inventory. These eleven machines were written down to fair market value determined by the lease; and as a result, the Company recorded a non-cash impairment charge of $1.6 million in the second quarter of fiscal year 2008. The adjusted net book value will be depreciated over a two year period which is consistent with the life of the lease.

In addition, during the second quarter of fiscal year 2008, the Company negotiated with a third party to sell its Kinston, North Carolina polyester facility. Based on appraisals, management concluded that the carrying value of the real estate exceeded its fair value. Accordingly, the Company recorded $0.7 million in non-cash impairment charges. On March 20, 2008, the Company completed the sale of assets located in Kinston. The Company retained the right to sell certain idle polyester assets for a period of two years ending in March 2010. At that time, the assets will revert back to DuPont with no consideration paid to the Company.

During the fourth quarter of fiscal year 2009, the Company determined that a SFAS No. 144 review of the remaining assets held for sale located in Kinston, North Carolina was necessary as a result of sales negotiations. The cash flow projections related to these assets were based on the expected sales proceeds, which were estimated based on the current status of negotiations with a potential buyer. As a result of this review, the Company determined that the carrying value of the assets exceeded the fair value and recorded $0.4 million in non-cash impairment charges related to these assets held for sale.

Goodwill Impairment

The Company accounts for its goodwill and other intangibles under the provisions of SFAS No. 142, Goodwill and Other Intangible Assets . SFAS No. 142 requires that these assets be reviewed for impairment annually, unless specific circumstances indicate that a more timely review is warranted. This impairment test involves estimates and judgments that are critical in determining whether any impairment charge should be recorded and the amount of such charge if an impairment loss is deemed to be necessary. In accordance with the provisions of SFAS No. 142, the Company determined that its reportable segments were comprised of three reporting units; domestic polyester, non-domestic polyester, and nylon.

The Company s balance sheet at December 28, 2008 reflected $18.6 million of goodwill, all of which related to the acquisition of Dillon in January 2007. The Company previously determined that all of this goodwill should be allocated to the domestic polyester reporting unit. Based on a decline in its market capitalization during the third quarter of fiscal year 2009 and difficult market conditions, the Company determined that it was appropriate to re-evaluate the carrying value of its goodwill during the quarter ended March 29, 2009. In connection with this third quarter interim impairment analysis, the Company updated its cash flow forecasts based upon the latest market intelligence, its discount rate and its market capitalization values. The projected cash flows are based on the Company s forecasts of volume, with consideration of relevant industry and macroeconomic trends. The fair value of the domestic polyester reporting unit was determined based upon a combination of a discounted cash flow analysis and a market approach utilizing market multiples of guideline publicly traded companies. As a result of the findings, the Company determined that the goodwill was impaired and recorded an impairment charge of $18.6 million in the third quarter of fiscal year 2009.

Selling, General, and Administrative Expenses

Consolidated SG&A expenses decreased by $8.5 million or 17.8% for fiscal year 2009. The decrease in SG&A for fiscal year 2009 was primarily a result of decreases of $4.1 million in executive severance costs in fiscal year 2008, $1.2 million in deposit write-offs in fiscal year 2008, $1.3 million in salaries and fringe benefit costs, $1.3 million related to the Brazilian operation, $0.8 million in depreciation expenses, $0.7 million in insurance expenses, and $0.2 million in equipment leases and maintenance expenses offset by increases of $0.6 million in

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deferred compensation charges, $0.3 million in amortization of Dillon acquisition costs, and $0.2 million in amortization of Burke Mills Inc. acquisition costs. Included in the above decreases in SG&A was a decrease of $0.9 million primarily due to currency exchange differences related to the translation of the Company s Brazilian operation.

Provision for Bad Debts

For fiscal year 2009, the Company recorded a $2.4 million provision for bad debts. This compares to a provision of $0.2 million recorded in the prior fiscal year. In fiscal year 2008, the Company recorded favorable adjustments to the reserve related to its domestic and Brazilian operations, however in fiscal year 2009, the Company experienced unfavorable adjustments as a result of the recent decline in economic conditions.

Other Operating (Income) Expense, Net

Other operating (income) expense decreased from $6.4 million of income in fiscal year 2008 to $5.5 million of income in fiscal year 2009. The following table shows the components of other operating (income) expense:

	Fiscal Years Ended	
	June 28, 2009	June 29, 2008
	(Amounts in thousands)	
Net gains on sales of fixed assets	$ (5,856)	$ (4,003)
Gain from sale of nitrogen credits		(1,614)
Currency losses	354	522
Technology fees from China joint venture		(1,398)
Other, net	11	66
	$ (5,491)	$ (6,427)

Interest Expense (Interest Income)

Interest expense decreased from $26.1 million in fiscal year 2008 to $23.2 million in fiscal year 2009 due primarily to lower borrowings under the Amended Credit Agreement and lower average outstanding debt related to the Company s 2014 notes. The Company had nil and $3.0 million of outstanding borrowings under its Amended Credit Agreement as of June 28, 2009 and June 29, 2008, respectively. The weighted average interest rate of Company debt outstanding at June 28, 2009 and June 29, 2008 was 11.4% and 11.3%, respectively. Interest income was $2.9 million in both fiscal years 2009 and 2008.

Equity in (Earnings) Losses of Unconsolidated Affiliates

Equity in net income of its equity affiliates was $3.3 million in fiscal year 2009 compared to equity in net income of $1.4 million in fiscal year 2008. The Company s 50% share of YUFI s net losses decreased from $6.1 million of losses in fiscal year 2008 to nil in fiscal year 2009 due to the Company s sale of its interest in YUFI. The Company s 34% share of PAL s earnings decreased from $8.3 million of income in fiscal year 2008 to $4.7 million of income in fiscal year 2009. Earnings of PAL decreased in fiscal year 2009 compared to fiscal year 2008 primarily due to the effects of the economic crisis on PAL s volumes, decreased favorable litigation settlements recorded in fiscal year 2008 offset by

income from cotton rebates in fiscal year 2009 as discussed above. The Company expects to continue to receive cash distributions from PAL.

Write downs of Investment in Unconsolidated Affiliates

During the first quarter of fiscal year 2008, the Company determined that a review of the carrying value of its investment in USTF was necessary as a result of sales negotiations. As a result of this review, the Company determined that the carrying value exceeded its fair value. Accordingly, the Company recorded a non-cash impairment charge of $4.5 million in the first quarter of fiscal year 2008.

In July 2008, the Company announced a proposed agreement to sell its 50% ownership interest in YUFI to its partner, YCFC, for $10.0 million, pending final negotiation and execution of definitive agreements and the receipt of Chinese regulatory approvals. In connection with a review of the YUFI value during negotiations related to the sale, the Company initiated a review of the carrying value of its investment in YUFI in accordance with APB 18. As a result of this review, the Company determined that the carrying value of its investment in YUFI exceeded its fair value. Accordingly, the Company recorded a non-cash impairment charge of $6.4 million in the fourth quarter of fiscal year 2008.

During the second quarter of fiscal year 2009, the Company and YCFC renegotiated the proposed agreement to sell the Company s interest in YUFI to YCFC from $10.0 million to $9.0 million. As a result, the Company recorded an additional impairment charge of $1.5 million, which included approximately $0.5 million related to certain disputed accounts receivable and $1.0 million related to the fair value of its investment, as determined by the re-negotiated equity interest sales price, was lower than carrying value. During the fourth quarter of fiscal year 2009, the Company completed the sale of YUFI to YCFC.

Income Taxes

The Company has established a valuation allowance to completely offset its U.S. net deferred tax asset. The valuation allowance is primarily attributable to investments and federal net operating loss carryforwards. The Company s realization of other deferred tax assets is based on future taxable income within a certain time period and is therefore uncertain. Although the Company has reported cumulative losses for both financial and U.S. tax reporting purposes over the last several years, it has determined that deferred tax assets not offset by the valuation allowance are more likely than not to be realized primarily based on expected future reversals of deferred tax liabilities, particularly those related to property, plant and equipment.

The valuation allowance increased by approximately $20.3 million in fiscal year 2009 compared to a decrease of approximately $12.0 million in fiscal year 2008. The net increase in fiscal year 2009 resulted primarily from an increase in federal net operating loss carryforwards and the impairment of goodwill. The net decrease in fiscal year 2008 resulted primarily from a reduction in federal net operating loss carryforwards and the expiration of state income tax credit carryforwards. The net impact of changes in the valuation allowance to the effective tax rate reconciliation for fiscal years 2009 and 2008 were 45.2% and (26.0)%, respectively.

The Company recognized income tax expense in fiscal year 2009 at (9.6)% effective tax rate compared to a benefit of 36.1% in fiscal year 2008. The fiscal year 2009 effective rate was negatively impacted by the change in the deferred tax valuation allowance. The fiscal year 2008 effective rate was positively impacted by the change in the deferred tax valuation allowance, partially offset by negative impacts from foreign losses for which no tax benefit was recognized, expiration of North Carolina income tax credit carryforwards and tax expense not previously accrued for repatriation of foreign earnings. The fiscal year 2007 effective rate was negatively impacted by the change in the deferred tax valuation allowance.

In fiscal year 2008, the Company accrued federal income tax on approximately $5 million of dividends expected to be distributed from a foreign subsidiary in future periods and approximately $0.3 million of dividends distributed from a foreign subsidiary in fiscal year 2008. During the third quarter of fiscal year 2009, management revised its assertion with respect to the repatriation of $5.0 million of dividends and now intends to permanently reinvest this amount outside of the U.S.

On June 25, 2007, the Company adopted Financial Interpretation No. 48, Accounting for Uncertainty in Income Taxes, an interpretation of SFAS No. 109, Accounting for Income Taxes (FIN 48). There was a $0.2 million cumulative adjustment to retained earnings upon adoption of FIN 48 in fiscal year 2008.

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Polyester Operations

The following table sets forth the segment operating loss components for the polyester segment for fiscal year 2009 and fiscal year 2008. The table also sets forth the percent to net sales and the percentage increase or decrease over the prior year:

	Fiscal Year 2009		Fiscal Year 2008		
		% to Net Sales		% to Net Sales	% Inc. (Dec.)
	(Amounts in thousands, except percentages)				
Net sales	$ 403,124	100.0	$ 530,567	100.0	(24.0)
Cost of sales	386,201	95.8	494,209	93.1	(21.9)
Restructuring charges	199	0.0	3,818	0.7	(94.8)
Write down of long-lived assets	350	0.1	2,780	0.5	(87.4)
Goodwill impairment	18,580	4.6			
Selling, general and administrative expenses	30,972	7.7	40,606	7.7	(23.7)
Segment operating loss	$ (33,178)	(8.2)	$ (10,846)	(2.0)	205.9

In fiscal year 2009, consolidated polyester net sales decreased $127.4 million, or 24.0% compared to fiscal year 2008. The Company s polyester segment sales volumes decreased approximately 23.9% and the weighted-average selling price decreased approximately 0.2%.

Domestically, polyester net sales decreased $115.4 million, or 28.7% as compared to fiscal year 2008. Domestic sales volumes decreased 32.1% while average unit prices increased approximately 3.4%. The decline in domestic polyester sales volume related to difficult market conditions in fiscal year 2009 and management s decision to exit unprofitable commodity POY business in Kinston, North Carolina. The increase in domestic weighted-average selling price reflects a shift of the Company s product offerings to PVA products and an incremental sales price increase driven by higher material costs.

Gross profit for the consolidated polyester segment decreased $19.4 million, or 53.4% over fiscal year 2008. On a per unit basis gross profit decreased 40.0%. The impact of the surge in crude oil since the beginning of fiscal year 2008 created a spike in polyester raw material prices. As raw material prices peaked in the first quarter of fiscal year 2009, the Company was initially only able to pass along a portion of these raw material increases to its customers which resulted in lower conversion margins on a per unit basis of 12%. The decline in conversion margin was partially offset by decreases in per unit manufacturing costs of 2% which consisted of decreased per unit variable manufacturing costs of 10% and increased per unit fixed manufacturing costs of 8% caused by lower sales volumes.

Domestic gross profit decreased $21.0 million, or 91.5% over fiscal year 2008 as a result of lower sales volumes and increased raw material costs. The Company experienced a decline in its domestic polyester conversion margin of $47.2 million, a per unit decrease of 2% over the prior fiscal year. Variable manufacturing costs decreased $22.2 million primarily as a result of lower volumes, utility costs, wage expenses, and other miscellaneous manufacturing costs, however on a per unit basis variable manufacturing costs increased 12% due to the lower sales volumes. Fixed manufacturing costs also declined $3.9 million as compared to fiscal year 2008 primarily as a result of

lower depreciation expense and reduced costs related to asset consolidations while increasing 20% on a per unit basis also due to lower sales volumes.

On a local currency basis, per unit net sales from the Company s Brazilian texturing operation remained flat while raw material costs increased 11%, variable manufacturing costs decreased by 63% and fixed manufacturing costs increased 5%. The increase in raw material prices was the result of the global effect of rising crude oil prices on raw material costs discussed above and fluctuations in foreign currency exchange rates as the Company s Brazilian operation predominately purchases its raw material in U.S. dollars whereas the functional currency is the Brazilian real. Variable manufacturing costs decreased primarily due to lower volumes, an increase in certain tax incentives, reduced wages and fringe benefits and reduced packaging costs. Fixed manufacturing costs increased on a per unit basis due to lower manufactured sales pounds. Net sales, conversion, and gross profit were further reduced

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on a U.S. dollar basis due to unfavorable changes in the currency exchange rate. On a per unit basis, net sales, conversion margin and gross profit decreased an additional 12%, 9% and 10%, respectively related to the unfavorable change in the currency exchange rate. The effect of the change in currency on net sales, conversion margin and gross profit on a U.S. dollar basis was $17.5 million, $6.0 million and $2.0 million, respectively.

SG&A expenses for the polyester segment decreased $9.6 million for fiscal year 2009 compared to fiscal year 2008. The polyester segment s SG&A expenses consist of unallocated polyester foreign subsidiaries costs and allocated domestic costs. The percentage of domestic SG&A costs allocated to each segment is determined at the beginning of every year based on specific budgeted cost drivers which resulted in a lower allocation percentage in fiscal year 2009 as compared to the prior year.

The polyester segment net sales, gross profit and SG&A expenses as a percentage of total consolidated amounts were 72.8%, 59.4% and 79.2% for fiscal year 2009 compared to 74.4%, 71.9% and 85.4% for fiscal year 2008, respectively.

Nylon Operations

The following table sets forth the segment operating profit components for the nylon segment for fiscal year 2009 and fiscal year 2008. The table also sets forth the percent to net sales and the percentage increase or decrease over the prior year:

	Fiscal Year 2009		Fiscal Year 2008		
		% to Net Sales		% to Net Sales	% Inc. (Dec.)
	(Amounts in thousands, except percentages)				
Net sales	$ 150,539	100.0	$ 182,779	100.0	(17.6)
Cost of sales	138,956	92.3	168,555	92.2	(17.6)
Restructuring charges	73		209	0.1	(65.1)
Write down of long-lived assets					
Selling, general and administrative expenses	8,150	5.4	6,966	3.8	17.0
Segment operating profit	$ 3,360	2.3	$ 7,049	3.9	(52.3)

Fiscal year 2009 nylon net sales decreased $32.2 million, or 17.6% compared to fiscal year 2008. The Company s nylon segment sales volumes decreased approximately 15.8% while the weighted-average selling price decreased approximately 1.9%. The decline in nylon sales volume was primarily due to the market decline, and the reduction in sales price was due to shift in product mix.

Gross profit for the nylon segment decreased $2.6 million, or 18.6% in fiscal year 2009. The nylon segment experienced a decrease in conversion margins of $12.3 million, or 3% on a per unit basis, offset by a decrease in manufacturing costs of $9.7 million or 3% on a per unit basis, primarily as a result of lower wage and fringe expenses and lower depreciation expense. Variable manufacturing costs increased $4.1 million, or 10.8%, however, on a per unit basis increased 6% due to reduced sales volumes. Fixed manufacturing costs decreased $5.5 million, or 34.5%, and on a per unit basis decreased 23.0% due to lower depreciation expense.

SG&A expenses for the nylon segment increased $1.2 million in fiscal year 2009. The nylon s segment s SG&A expenses consist of unallocated nylon foreign subsidiary costs and allocated domestic costs. The percentage of domestic SG&A costs allocated to each segment is determined at the beginning of every year based on specific budgeted cost drivers which resulted in a higher allocation percentage in fiscal year 2009 as compared to the prior year.

The nylon segment net sales, gross profit and SG&A expenses as a percentage of total consolidated amounts were 27.2%, 40.6% and 20.8% for fiscal year 2009 compared to 25.6%, 28.1% and 14.6% for fiscal year 2008, respectively.

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Review of Fiscal Year 2008 Results of Operations (53 Weeks) Compared to Fiscal Year 2007 (52 Weeks)

The following table sets forth the loss from continuing operations components for each of the Company s business segments for fiscal year 2008 and fiscal year 2007. The table also sets forth each of the segments net sales as a percent to total net sales, the net income (loss) components as a percent to total net sales and the percentage increase or decrease of such components over the prior year:

	Fiscal Year 2008		Fiscal Year 2007		
		% to Total		% to Total	% Inc. (Dec.)
	(Amounts in thousands, except percentages)				
Consolidated					
Net sales					
Polyester	$ 530,567	74.4	$ 530,092	76.8	0.1
Nylon	182,779	25.6	160,216	23.2	14.1
Total	$ 713,346	100.0	$ 690,308	100.0	3.3
		% to Net Sales		% to Net Sales	
Cost of sales					
Polyester	$ 494,209	69.3	$ 499,290	72.3	(1.0)
Nylon	168,555	23.6	152,621	22.1	10.4
Total	662,764	92.9	651,911	94.4	1.7
Restructuring charges (recovery)					
Polyester	3,818	0.6	(103)		
Nylon	209		(54)		
Total	4,027	0.6	(157)		
Write down of long-lived assets					
Polyester	2,780	0.4	6,930	1.0	(59.9)
Nylon			8,601	1.2	(100.0)
Corporate			1,200	0.2	(100.0)
Total	2,780	0.4	16,731	2.4	(83.4)
Selling, general and administrative					
Polyester	40,606	5.7	35,704	5.2	13.7
Nylon	6,966	1.0	9,182	1.3	(24.1)
Total	47,572	6.7	44,886	6.5	6.0
Provision for bad debts	214		7,174	1.0	(97.0)
Other operating (income) expenses	(6,427)	(0.9)	(2,601)	(0.3)	147.1

Non-operating (income) expenses	32,742	4.6	111,390	16.1	(70.6)
Loss from continuing operations before income taxes	(30,326)	(4.3)	(139,026)	(20.1)	(78.2)
Benefit for income taxes	(10,949)	(1.5)	(21,769)	(3.1)	(49.7)
Loss from continuing operations	(19,377)	(2.8)	(117,257)	(17.0)	(83.5)
Income from discontinued operations, net of tax	3,226	0.5	1,465	0.2	120.2
Net loss	$ (16,151)	(2.3)	$ (115,792)	(16.8)	(86.1)

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For fiscal year 2008, the Company recognized a $30.3 million loss from continuing operations before income taxes which was a $108.7 million improvement over the prior year. The improvement in continuing operations was primarily attributable to decreased charges of $87.7 million for asset impairments and increased polyester and nylon gross profits which were offset by increased SG&A expenses. During fiscal years 2008 and 2007, raw material prices increased for polyester ingredients in POY.

Consolidated net sales from continuing operations increased $23.0 million, or 3.3%, for fiscal year 2008. For the fiscal year 2008, the weighted-average price per pound for the Company s products on a consolidated basis increased 10.1% compared to the prior fiscal year. Unit volume from continuing operations decreased 6.7% for the fiscal year partially due to management s decision to focus on profitable business as well as market conditions. See Polyester Operations and Nylon Operations sections below for additional discussion.

At the segment level, polyester dollar net sales accounted for 74.4% in fiscal year 2008 compared to 76.8% in fiscal year 2007. Nylon accounted for 25.6% of dollar net sales for fiscal year 2008 compared to 23.2% for the prior fiscal year.

Gross profit from continuing operations increased $12.2 million to $50.6 million for fiscal year 2008. This increase was primarily attributable to higher sales volume in the nylon segment, higher conversion margins for the polyester segment, and decreases in the per unit manufacturing costs for both the polyester and nylon segments. Higher sales volumes in the nylon segment were driven by consumer preferences and fashion trends for sheer hosiery and shape-wear products. Direct manufacturing costs related to the domestic operations decreased $3.0 million in wages and fringes, $7.0 million in utility expenses, and $4.3 million in depreciation expenses which were driven primarily by the execution of consolidation synergies and by management s continued focus on operational cost improvements in the remaining operating facilities. Indirect manufacturing costs related to the domestic operations decreased $1.5 million in fiscal year 2008 as compared to the prior year due to workforce reductions, lower depreciation expense and equipment maintenance costs, partially offset by decreased production credits as a result of lower production volumes. For further detailed discussion of the polyester and nylon segments, see Polyester Operations and Nylon Operations sections below.

Severance and Restructuring Charges

On August 22, 2007, the Company announced its plan to re-organize certain corporate staff and manufacturing support functions to further reduce costs. The Company recorded $1.1 million for severance related to this reorganization. Approximately 54 salaried employees were affected by this reorganization. In addition, the Company recorded severance of $2.4 million for its former CEO and $1.7 million for severance related to its former CFO during fiscal year 2008.

In fiscal year 2008, the Company recorded $3.4 million for restructuring charges related to contract termination costs and other noncancellable contracts for continued services and $1.3 million in severance costs all related to the closure of its Kinston, North Carolina polyester facility offset by $0.3 million in favorable adjustments related to a lease obligation associated with the closure of its Altamahaw, North Carolina facility.

Write downs of Long-Lived Assets

During the first quarter of fiscal year 2008, the Company s Brazilian polyester operation continued its modernization plan for its facilities by abandoning four of its older machines and replacing these machines with newer machines that it purchased from the Company s domestic polyester division. As a result, the Company recognized a $0.5 million non-cash impairment charge on the older machines.

During the second quarter of fiscal year 2008, the Company evaluated the carrying value of the remaining machinery and equipment at Dillon. The Company sold several machines to a foreign subsidiary and in addition transferred several other machines to its Yadkinville, North Carolina facility. Six of the remaining machines were leased under an operating lease to a manufacturer in Mexico at a fair market value substantially less than their carrying value. The last five remaining machines were scrapped for spare parts inventory. These eleven machines were written down to fair market value determined by the lease; and as a result, the Company recorded a non-cash

impairment charge of $1.6 million in the second quarter of fiscal year 2008. The adjusted net book value will be depreciated over a two year period which is consistent with the life of the lease.

In addition, during the second quarter of fiscal year 2008, the Company began negotiations with a third party to sell its Kinston, North Carolina polyester facility. Based on appraisals, management concluded that the carrying value of the real estate exceeded its fair value. Accordingly, the Company recorded $0.7 million in non-cash impairment charges.

During fiscal year 2007, the Company recorded $16.7 million in impairment charges related to write downs of long-lived assets. See the discussion under the caption Review of Fiscal Year 2007 Results of Operations (52 Weeks) Compared to Fiscal 2006 (52 Weeks) included in the Company s Annual Report on Form 10-K for fiscal year ended June 24, 2007.

Selling, General, and Administrative Expenses

SG&A expenses increased by 6.0% or $2.7 million for fiscal year 2008. The increase in SG&A for fiscal year 2008 was primarily a result of increases of $4.1 million in executive severance costs, $1.2 million in deposit write-offs, $0.9 million in Dillon acquisition related amortization and service fees, and $0.4 million in professional fees, insurance, and USTF management fees, and $0.2 million in other miscellaneous expenses, offset by decreases of $2.2 million in stock-based compensation and deferred compensation charges, $1.4 million in salaries and fringes, $0.6 million in employee welfare, wellness, and benefits outsourcing expenses, $0.5 million in equipment leases and maintenance expenses, and $0.5 million in depreciation expenses. Included in the above increases in SG&A was an increase of $1.0 million primarily due to currency exchange differences related to the Company s Brazilian operation.

Provision for Bad Debts

For the fiscal year 2008, the Company recorded a $0.2 million provision for bad debts. This compares to a provision of $7.2 million recorded in the prior fiscal year. The decrease was related to the Company s domestic operations and was primarily attributable to the improved accounts receivable aging. During fiscal year 2007, the Company wrote off the balances related to two customers who filed bankruptcy, as is noted in the Review of Fiscal Year 2007 Results of Operations (52 Weeks) Compared to Fiscal 2006 (52 Weeks) included in the Company s Annual Report on Form 10-K for fiscal year ended June 24, 2007. Management believes that its reserve for uncollectible accounts receivable is adequate.

Other Operating (Income) Expense, Net

Other operating (income) expense increased from $2.6 million of income in fiscal year 2007 to $6.4 million of income in fiscal year 2008. The following table shows the components of other operating (income) expense:

	Fiscal Years Ended	
	June 29, 2008	**June 24, 2007**
	(Amounts in thousands)	
Net gains on sales of fixed assets	$ (4,003)	$ (1,225)
Gain from sale of nitrogen credits	(1,614)	
Currency (gains) losses	522	(393)
Technology fees from China joint venture	(1,398)	(1,226)
Other, net	66	243

$	(6,427)	$	(2,601)

Interest Expense (Interest Income)

Interest expense increased from $25.5 million in fiscal year 2007 to $26.1 million in fiscal year 2008, due primarily to borrowings under the Amended Credit Agreement, related to the January 2007 acquisition of Dillon. The Company had $3.0 million of outstanding borrowings under its Amended Credit Agreement as of June 29,

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2008. The weighted average interest rate of Company debt outstanding at June 29, 2008 and June 24, 2007 was 11.3% and 10.8%, respectively. Interest income decreased from $3.2 million in fiscal year 2007 to $2.9 million in fiscal year 2008.

Equity in (Earnings) Losses of Unconsolidated Affiliates

Equity in net income of its equity affiliates, PAL, USTF, UNF, and YUFI was $1.4 million in fiscal year 2008 compared to equity in net losses of $4.3 million in fiscal year 2007. The decrease in losses is primarily attributable to income from its investment in PAL offset by YUFI as discussed above. The Company s 34% share of PAL s earnings increased from $2.5 million of income in fiscal year 2007 to $8.3 million of income in fiscal year 2008. Other (income) expense for PAL increased by $14.6 million for fiscal year 2008 compared to fiscal year 2007 primarily due to gains on derivatives and income from legal settlements. The Company expects to continue to receive cash distributions from PAL. The Company s share of YUFI s net losses increased from $5.8 million in fiscal year 2007 to $6.1 million in fiscal year 2008.

Write downs of Investment in Unconsolidated Affiliates

During the first quarter of fiscal year 2008, the Company determined that a review of the carrying value of its investment in USTF was necessary as a result of sales negotiations. As a result of this review, the Company determined that the carrying value exceeded its fair value. Accordingly, a non-cash impairment charge of $4.5 million was recorded in the first quarter of fiscal year 2008.

The Company announced a proposed agreement to sell its 50% ownership interest in YUFI to its partner, YCFC, for $10.0 million, pending final negotiation and execution of definitive agreements and the receipt of Chinese regulatory approvals. In connection with a review of the YUFI value during negotiations related to the sale, the Company initiated a review of the carrying value of its investment in YUFI in accordance with APB 18. As a result of this review, the Company determined that the carrying value of its investment in YUFI exceeded its fair value. Accordingly, the Company recorded a non-cash impairment charge of $6.4 million in the fourth quarter of fiscal year 2008.

During the fourth quarter of fiscal year 2007, the Company recorded a non-cash impairment charge of $84.7 million related to its investment in PAL. See the discussion under the caption Review of Fiscal Year 2007 Results of Operations (52 Weeks) Compared to Fiscal 2006 (52 Weeks) included in the Company s Annual Report on Form 10-K for fiscal year ended June 24, 2007.

Income Taxes

The Company has established a valuation allowance to completely offset its U.S. net deferred tax asset. The valuation allowance is primarily attributable to investments. The Company s realization of other deferred tax assets is based on future taxable income within a certain time period and is therefore uncertain. Although the Company has reported cumulative losses for both financial and U.S. tax reporting purposes over the last several years, it has determined that deferred tax assets not offset by the valuation allowance are more likely than not to be realized primarily based on expected future reversals of deferred tax liabilities, particularly those related to property, plant and equipment, the accumulated depreciation for which is expected to reverse approximately $61.0 million through fiscal year 2018. Actual future taxable income may vary significantly from management s projections due to the many complex judgments and significant estimations involved, which may result in adjustments to the valuation allowance which may impact the net deferred tax liability and provision for income taxes.

The valuation allowance decreased by approximately $12.0 million in fiscal year 2008 compared to an increase of approximately $22.6 million in fiscal year 2007. The net decrease in fiscal year 2008 resulted primarily from a reduction in federal net operating loss carryforwards and the expiration of state income tax credit carryforwards. The net increase in fiscal year 2007 resulted primarily from investment and real property impairment charges that could result in nondeductible capital losses. The net impact of changes in the valuation allowance to the effective tax rate reconciliation for fiscal years 2008 and 2007 were (26.0)% and 18.0%, respectively. The percentage decrease from fiscal year 2007 to fiscal year 2008 was primarily attributable to reductions in net operating loss carryforwards, North Carolina income tax credit carryforwards and estimated capital losses related to certain fixed assets.

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The Company recognized an income tax benefit in fiscal year 2008 at a 36.1% effective tax rate compared to a benefit of 15.7% in fiscal year 2007. The fiscal year 2008 effective rate was positively impacted by the change in the deferred tax valuation allowance partially offset by negative impacts from foreign losses for which no tax benefit was recognized, expiration of North Carolina income tax credit carryforwards and tax expense not previously accrued for repatriation of foreign earnings. The fiscal year 2007 effective rate was negatively impacted by the change in the deferred tax valuation allowance.

In fiscal year 2008, the Company accrued federal income tax on approximately $5 million of dividends expected to be distributed from a foreign subsidiary in future periods and approximately $0.3 million of dividends distributed from a foreign subsidiary in fiscal year 2008. In fiscal year 2007, the Company accrued federal income tax on approximately $9.2 million of dividends distributed from a foreign subsidiary in fiscal year 2008. Federal income tax on dividends was accrued in a fiscal year prior to distribution when previously unremitted foreign earnings were no longer deemed to be indefinitely reinvested outside the U.S.

On June 25, 2007, the Company adopted Financial Interpretation No. 48, Accounting for Uncertainty in Income Taxes, an interpretation of SFAS No. 109, Accounting for Income Taxes (FIN 48). There was a $0.2 million cumulative adjustment to retained earnings upon adoption of FIN 48 in fiscal year 2008.

In late July 2007, the Company began repatriating dividends of approximately $9.2 million from its Brazilian manufacturing operation. Federal income tax on the dividends was accrued during fiscal year 2007 since the previously unrepatriated foreign earnings were no longer deemed to be indefinitely reinvested outside the U.S.

Polyester Operations

The following table sets forth the segment operating gain (loss) components for the polyester segment for fiscal year 2008 and fiscal year 2007. The table also sets forth the percent to net sales and the percentage increase or decrease over the prior year:

	Fiscal Year 2008		Fiscal Year 2007		
		% to Net Sales		% to Net Sales	% Inc. (Dec.)
	(Amounts in thousands, except percentages)				
Net sales	$ 530,567	100.0	$ 530,092	100.0	0.1
Cost of sales	494,209	93.1	499,290	94.2	(1.0)
Selling, general and administrative expenses	40,606	7.7	35,704	6.7	13.7
Restructuring charges (recovery)	3,818	0.7	(103)		
Write down of long-lived assets	2,780	0.5	6,930	1.3	(59.9)
Segment operating loss	$ (10,846)	(2.0)	$ (11,729)	(2.2)	(7.5)

Fiscal year 2008 polyester net sales increased $0.5 million, or 0.1% compared to fiscal year 2007. The Company s polyester segment sales volumes decreased approximately 8.9% while the weighted-average selling price increased approximately 9.0%.

Domestically, polyester sales volumes decreased 11.3% while average unit prices increased approximately 7.0%. The decline in domestic polyester sales volume was due to the market decline and decreases in POY sales resulting from the shutdown of the Company s Kinston operations, which was partially offset by increases in textured and twisted volumes resulting from the Dillon acquisition. The increase in domestic average sales price reflects changes in sales mix and price increases driven by higher material costs. Sales from the Company s Brazilian texturing operation, on a local currency basis, decreased 2.0% over fiscal year 2007. The Brazilian texturing operation predominately purchased all of its raw materials in U.S. dollars. The impact on net sales from this operation on a U.S. dollar basis as a result of the change in currency exchange rate was an increase of $19.7 million in fiscal year 2008. The Company s international polyester pre-tax results of operations for the polyester segment s Brazilian location increased $3.1 million in fiscal year 2008 over fiscal year 2007, or 53.9%.

Per unit conversion margins for the polyester segment improved 1.5% in fiscal year 2008, as compared to fiscal year 2007 primarily due to the impact of the change in currency exchange rate on the translation of the Company s

Brazilian operations. Domestic polyester per unit conversion margins were flat year over year, despite improvements in sales mix resulting from the shutdown of the Kinston facility, as increases in average sales prices were offset by increases in average raw material costs. In fiscal year 2008, the Company s business was negatively impacted by rising raw materials and other petrochemical driven costs. The impact of the surge in crude oil prices since the beginning of fiscal year 2008 created a spike in polyester and nylon raw material prices. Polyester polymer costs during June 2008 were 17% higher as compared to the same period last year.

Although consolidated polyester fiber costs increased as a percent of net sales to 56.4% in fiscal year 2008 from 53.1% in fiscal year 2007, fixed and variable manufacturing costs decreased as a percentage of consolidated polyester net sales to 35.2% in fiscal year 2008 from 39.4% in fiscal year 2007. Domestically, fixed and variable manufacturing expenses decreased 4.4% as a percentage of sales. Variable manufacturing expenses decreased in fiscal year 2008 as a result of lower utility costs, wage and fringe expenses, and other various expenses primarily due to the closure of the Kinston, North Carolina facility and the consolidation of the Dillon, South Carolina facility into other manufacturing operations. Fixed manufacturing expenses for the domestic polyester operations decreased in fiscal year 2008 primarily as a result of lower depreciation expense and the above mentioned plant closure and consolidation. As a result of the lower expenses described herein, gross profit on sales for the polyester operations increased $5.6 million, or 18.0%, over fiscal year 2007, and gross margin (gross profit as a percentage of net sales) increased to 6.9% in fiscal year 2008 from 5.8% in fiscal year 2007.

SG&A expenses for the polyester segment increased $4.9 million for fiscal year 2008 compared to fiscal year 2007. The percentage of SG&A costs allocated to each segment is determined at the beginning of every year based on specific cost drivers.

The polyester segment net sales, gross profit and SG&A expenses as a percentage of total consolidated amounts were 74.4%, 71.9% and 85.4% for fiscal year 2008 compared to 76.8%, 80.2% and 79.5% for fiscal year 2007, respectively.

Nylon Operations

The following table sets forth the segment operating profit (loss) components for the nylon segment for fiscal year 2008 and fiscal year 2007. The table also sets forth the percent to net sales and the percentage increase or decrease over the prior year:

	Fiscal Year 2008	**% to Net Sales**	**Fiscal Year 2007**	**% to Net Sales**	**% Inc. (Dec.)**
	(Amounts in thousands, except percentages)				
Net sales	$ 182,779	100.0	$ 160,216	100.0	14.1
Cost of sales	168,555	92.2	152,621	95.3	10.4
Selling, general and administrative expenses	6,966	3.8	9,182	5.7	(24.1)
Restructuring charges (recoveries)	209	0.1	(54)		
Write down of long-lived assets			8,601	5.4	
Segment operating profit (loss)	$ 7,049	3.9	$ (10,134)	(6.4)	(169.6)

Fiscal year 2008 nylon net sales increased $22.6 million, or 14.1% while the weighted-average selling price decreased 0.4% compared to fiscal year 2007. Net sales increased for fiscal year 2008 as a result of the 14.5% improvement in unit sales volumes due to changing consumer preferences and fashion trends for sheer hosiery and shape-wear products.

Gross profit for the nylon segment increased $6.6 million, or 87.3% in fiscal year 2008 and gross margin (gross profit as a percentage of net sales) increased to 7.8% in fiscal year 2008 from 4.7% in fiscal year 2007. This was primarily attributable to improved sales volume and a decrease in per unit converting costs. Fiber costs increased as a percent of net sales to 62.2% in fiscal year 2008 from 60.3% in fiscal year 2007. Fixed and variable manufacturing costs decreased as a percentage of sales to 28.6% in fiscal year 2008 from 33.0% in fiscal year 2007. As discussed in the Polyester section above, the increases in crude oil prices during fiscal year 2008 have driven higher nylon raw material prices. Nylon polymer costs during June 2008 were 12% higher as compared to the same period last year.

As a percentage of sales, fixed and variable manufacturing expenses decreased 3.5% in the Company s domestic nylon operations due to improved plant operating efficiencies reflective of higher volumes. Fixed manufacturing expenses decreased due to lower depreciation expense.

SG&A expenses for the nylon segment decreased $2.2 million in fiscal year 2008. The percentage of SG&A costs allocated to each segment is determined at the beginning of every year based on specific cost drivers.

The nylon segment net sales, gross profit and SG&A expenses as a percentage of total consolidated amounts were 25.6%, 28.1% and 14.6% for fiscal year 2008 compared to 23.2%, 19.8% and 20.5% for fiscal year 2007, respectively.

Liquidity and Capital Resources

Liquidity Assessment

The Company s primary capital requirements are for working capital, capital expenditures and service of indebtedness. Historically the Company has met its working capital and capital maintenance requirements from its operations. Asset acquisitions and joint venture investments have been financed by asset sales proceeds, cash reserves and borrowing under its financing agreements discussed below.

In addition to its normal operating cash and working capital requirements and service of its indebtedness, the Company will also require cash to fund capital expenditures and enable cost reductions through restructuring projects as follows:

Capital Expenditures. During fiscal year 2009, the Company spent $15.3 million on capital expenditures compared to $12.3 million in the prior year. The increased expenditures included $3.5 million related to specific projects designed to enhance the Company s ability to produce PVA products. The Company estimates its fiscal year 2010 capital expenditures will be within a range of $8 million to $9 million. From time to time, the Company may have restricted cash from the sale of certain nonproductive assets reserved for domestic capital expenditures in accordance with its long-term borrowing agreements. As of June 28, 2009, the Company had no restricted cash funds that are required to be used for domestic capital expenditures. The Company s capital expenditures primarily relate to maintenance of existing assets and equipment and technology upgrades. Management continuously evaluates opportunities to further reduce production costs, and the Company may incur additional capital expenditures from time to time as it pursues new opportunities for further cost reductions.

Joint Venture Investments. During fiscal year 2009, the Company received $3.7 million in dividend distributions from its joint ventures. Although historically over the past five years the Company has received distributions from certain of its joint ventures, there is no guarantee that it will continue to receive distributions in the future. The Company may from time to time increase its interest in its joint ventures, sell its interest in its joint ventures, invest in new joint ventures or transfer idle equipment to its joint ventures.

In December 2008, the Company renegotiated the proposed agreement to sell its interest in YUFI to YCFC for $9.0 million and recorded an additional impairment charge of $1.5 million, which included approximately $0.5 million adjustment related to certain disputed accounts receivable and a $1.0 million adjustment related to the fair value of its investment, as determined by the re-negotiated equity interest sales price. On March 30, 2009, the Company closed on the sale and received $9 million in proceeds related to its investment in YUFI.

Investment. The Company s management decided that a fundamental change in its approach was required to maximize its earnings and growth opportunities in the Chinese market. Accordingly, the Company formed

UTSC, a wholly-owned subsidiary based in Suzhou, China, that is dedicated to the development, sales and service of PVA yarns. UTSC obtained its business license in the second quarter of fiscal year 2009, was capitalized during the third quarter of fiscal year 2009 with $3.3 million of registered capital and became operational at the end of the third quarter of fiscal year 2009.

The Company is exploring options for placing manufacturing capabilities in Central America. At this point, all options are being explored, including joint venture opportunities as well as green-field scenarios, and the

total investment in the initial stages is expected to be $10.0 million or less. The Company expects to begin executing its plans over the next three to six months.

As discussed below in Long-Term Debt , the Company s Amended Credit Agreement contains customary covenants for asset based loans which restrict future borrowings and capital spending. It includes a trailing twelve month fixed charge coverage ratio that restricts the Company s ability to invest in certain assets if the ratio becomes less than 1.0 to 1.0, after giving effect to such investment on a pro forma basis. As of June 28, 2009 the Company had a fixed charge coverage ratio of less than 1.0 to 1.0 and was therefore subjected to these restrictions. These restrictions will likely apply in future quarters until such time as the Company s financial performance improves.

Cash Provided by Continuing Operations

The following table summarizes the net cash provided by continuing operations for the fiscal years ended June 28, 2009, June 29, 2008 and June 24, 2007.

	Fiscal Years Ended		
	June 28, 2009	**June 29, 2008**	**June 24, 2007**
	(Amounts in millions)		
Cash provided by continuing operations			
Cash Receipts:			
Receipts from customers	$ 572.6	$ 708.7	$ 691.8
Dividends from unconsolidated affiliates	3.7	4.5	2.7
Other receipts	2.7	6.5	4.3
Cash Payments:			
Payments to suppliers and other operating cost	432.3	549.4	530.5
Payments for salaries, wages, and benefits	99.9	117.2	130.3
Payments for restructuring and severance	4.0	11.2	1.6
Payments for interest	22.6	25.3	23.1
Payments for taxes	3.2	2.9	2.7
Cash provided by continuing operations	$ 17.0	$ 13.7	$ 10.6

Cash received from customers decreased from $708.7 million in fiscal year 2008 to $572.6 million in fiscal year 2009 due to lower net sales related to the economic downturn which began in the second quarter of fiscal year 2009. Payments to suppliers and for other operating costs decreased from $549.4 million in 2008 to $432.3 million in fiscal year 2009 primarily as a result of the reduction in production as the Company focused on reducing its inventories to conform to lower consumer demand. Salary, wage and benefit payments decreased from $117.2 million to $99.9 million, also as a result of reduced production and asset consolidation efficiencies. Interest payments decreased from $25.3 million in fiscal year 2008 to $22.6 million in fiscal year 2009 primarily due to the reduction of outstanding 2014 bonds discussed below. Restructuring and severance payments were $4.0 million for fiscal 2009 compared to $11.2 million for fiscal year 2008 as a result of the completion of many of the Company s reorganization strategies. Taxes paid by the Company increased from $2.9 million to $3.2 million as a result of an increase in tax liabilities related to the Company s Brazilian subsidiary. The Company received cash dividends of $3.7 million and $4.5 million from PAL in fiscal years 2009 and 2008, respectively. Other receipts declined from $6.5 million in fiscal year 2008 to $2.7 million in fiscal year 2009 due to the one time sale of nitrogen credits in fiscal year 2008. Other

receipts include miscellaneous income items and interest income.

Cash received from customers increased from $691.8 million in fiscal year 2007 to $708.7 million in fiscal year 2008 primarily due to higher net sales which are primarily attributable to increases in nylon sales volumes. Payments to suppliers and for other operating costs increased from $530.5 million in 2007 to $549.4 million in 2008 primarily as a result of increased fiber costs. Salaries, wages and benefit payments decreased from $130.3 million to $117.2 million due to the Company s asset consolidations. Interest payments increased from $23.1 million in fiscal year 2007 to $25.3 million in fiscal year 2008 due to the higher outstanding debt. Restructuring and severance

payments were $1.6 million for fiscal year 2007 compared to $11.2 million for fiscal year 2008. Taxes paid by the Company increased from $2.7 million to $2.9 million primarily due to the timing of tax payments made by its Brazilian subsidiary. The Company received cash dividends of $2.7 million and $4.5 million from PAL in fiscal years 2007 and 2008 respectively. Other cash receipts were derived from miscellaneous items and interest income.

Cash received from customers decreased from $752.0 million in fiscal year 2006 to $691.8 million in fiscal year 2007 primarily due to a decline in both polyester and nylon sales volumes. Payments to suppliers and for other operating costs decreased from $570.1 million in 2006 to $530.5 million in 2007 primarily as a result of decreased sales. Payments for salaries, wages and benefits remained flat when comparing fiscal year 2006 to fiscal year 2007. Interest payments increased from $22.6 million in fiscal year 2006 to $23.1 million in fiscal year 2007 primarily due to the higher interest rates on the revolver. Taxes paid by the Company decreased from $3.2 million to $2.7 million primarily due to the income generated from the Company s Brazilian subsidiary. The Company received cash dividends of $2.7 million as a result of higher profits for PAL compared to fiscal year 2006. Other cash from operations was derived from miscellaneous items such as other income (expense), interest income and currency gains.

Working capital decreased from $186.8 million at June 29, 2008 to $175.8 million at June 28, 2009 due to decreases in inventory of $33.2 million, accounts receivable of $25.5 million, restricted cash of $2.8 million, assets held for sale of $2.8 million, and deferred income taxes of $1.1 million, offset by decreases in accounts payables and accruals of $27.3 million, increases in cash of $22.4 million, increases in other current assets of $1.8 million, and decreases in current maturities of long-term debt of $2.9 million.

Cash provided by continuing operations increased from $13.7 million in fiscal year 2008 to $17.0 million in fiscal year 2009 primarily due to reductions in working capital. The Company is expecting cash from operations to continue to improve in fiscal year 2010 but on a declining basis. The positive effect of the decrease in working capital on cash flows from continuing operations for fiscal year 2009 is not sustainable. However, while sales are expected to remain flat, gross margins are expected to improve due to reduced manufacturing costs and improved sales mix resulting in an overall increase in projected cash generated from operations.

Cash Used in Investing Activities and Financing Activities

The Company provided $25.3 million for net investing activities and utilized $16.8 million in net financing activities during fiscal year 2009. The primary cash expenditures during fiscal year 2009 included $20.3 million net for payments of debt, $15.3 million for capital expenditures, $0.5 million of acquisitions, $0.3 million for other financing activities, and $0.2 million of split dollar life insurance premiums, offset by transfers of $25.3 million in restricted cash, $9.0 million from proceeds from the sale of equity affiliate, $7.0 million from the proceeds from the sale of capital assets, and $3.8 million from exercise of stock options. Related to the sales of capital assets, the Company sold one property totaling 380,000 square feet at an average selling price of $18.45 per square foot.

The Company utilized $1.6 million for net investing activities and utilized $35.0 million in net financing activities during fiscal year 2008. The primary cash expenditures during fiscal year 2008 included $34.3 million net for payments of the credit line revolver, $14.2 million for restricted cash, $12.8 million for capital expenditures, $1.1 million of acquisitions, $1.1 million for other financing activities, $0.2 million of split dollar life insurance premiums and $0.1 million of other investing activities offset by $17.8 million from the proceeds from the sale of capital assets, $8.7 million from proceeds from the sale of equity affiliate, $0.4 million from exercise of stock options, and $0.3 million from collection of notes receivable. Related to the sales of capital assets, the Company sold several properties totaling 2.7 million square feet with an average selling price of $9.81 per square foot adjusted down for partial sales and nonproductive assets.

The Company utilized $43.5 million for net investing activities and provided $35.9 million in net financing activities during fiscal year 2007. The primary cash expenditures during fiscal year 2007 included $97.0 million for payment of the credit line revolver, $42.2 million for the Dillon asset acquisition, $7.8 million for capital expenditures, $4.0 million for restricted cash, $0.9 million for additional acquisition related expenses, $0.6 million for the payment of sale leaseback obligations, $0.5 million for issuance and debt refinancing costs, and $0.2 million of split dollar life insurance premiums, offset by $133.0 million in proceeds from borrowings on the credit line revolver, $5.0 million from proceeds from the sale of capital assets, $3.6 million from return of capital from equity

affiliates, $1.8 million from split dollar life insurance surrender proceeds, $1.3 million from collection of notes receivable, and $0.9 million, net of other investing activities. Related to the sales of capital assets, the Company sold real property totaling 0.6 million square feet for an average selling price of $7.78 per square foot.

The Company s ability to meet its debt service obligations and reduce its total debt will depend upon its ability to generate cash in the future which, in turn, will be subject to general economic, financial, business, competitive, legislative, regulatory and other conditions, many of which are beyond its control. The Company may not be able to generate sufficient cash flow from operations and future borrowings may not be available to the Company under its Amended Credit Agreement in an amount sufficient to enable it to repay its debt or to fund its other liquidity needs. If its future cash flow from operations and other capital resources are insufficient to pay its obligations as they mature or to fund its liquidity needs, the Company may be forced to reduce or delay its business activities and capital expenditures, sell assets, obtain additional debt or equity capital or restructure or refinance all or a portion of its debt on or before maturity. The Company may not be able to accomplish any of these alternatives on a timely basis or on satisfactory terms, if at all. In addition, the terms of its existing and future indebtedness, including the 2014 notes and its Amended Credit Agreement, may limit its ability to pursue any of these alternatives. See Item 1A Risk Factors The Company will require a significant amount of cash to service its indebtedness, and its ability to generate cash depends on many factors beyond its control. Some risks that could adversely affect its ability to meet its debt service obligations include, but are not limited to, intense domestic and foreign competition in its industry, general domestic and international economic conditions, changes in currency exchange rates, interest and inflation rates, the financial condition or its customers and the operating performance of joint ventures, alliances and other equity investments.

Other Factors Affecting Liquidity

Asset Sales. Under the terms of the Company s debt agreements, the sale or other disposition of any assets or rights as well as the issuance or sale of equity interests in the Company s subsidiaries is considered an asset sale (Asset Sale) subject to various exceptions. The Company has granted liens to its lenders on substantially all of its domestic operating assets (Collateral) and its foreign investments. Further, the debt agreements place restrictions on the Company s ability to dispose of certain assets which do not qualify as Collateral (Non-Collateral). Pursuant to the debt agreements, the Company is restricted from selling or otherwise disposing of either its Collateral or its Non-Collateral, subject to certain exceptions, such as ordinary course of business inventory sales and sales of assets having a fair market value of less than $2.0 million.

As of June 28, 2009, the Company has $1.4 million of assets held for sale, which the Company believes are probable to be sold during fiscal year 2010. Included in assets held for sale are the remaining assets at the Kinston site with a carrying value of $1.4 million that would be considered an Asset Sale of Collateral. However, there can be no assurances that a sale will occur.

The Indenture with respect to the 2014 notes dated May 26, 2006 between the Company and its subsidiary guarantors and U.S. Bank, National Association, as the trustee (the Indenture) governs the sale of both Collateral and Non-Collateral and the use of sales proceeds. The Company may not sell Collateral unless it satisfies four requirements. They are:

1. The Company must receive fair market value for the Collateral sold or disposed of;

2. Fair market value must be certified by the Company s CEO or CFO and for sales of Collateral in excess of $5.0 million, by the Company s Board;

3. At least 75% of the consideration for the sale of the Collateral must be in the form of cash or cash equivalents and 100% of the proceeds must be deposited by the Company into a specified account designated under the Indenture (the

Collateral Account); and

4. Any remaining consideration from an asset sale that is not cash or cash equivalents must be pledged as Collateral.

Within 360 days after the deposit of proceeds from the sale of Collateral into the Collateral Account, the Company may invest the proceeds in certain other assets, such as capital expenditures or certain permitted capital

investments (Other Assets). Any proceeds from the sale of Collateral that are not applied or invested as set forth above, shall constitute excess collateral proceeds (Excess Collateral Proceeds).

Once Excess Collateral Proceeds from sales of Collateral exceed $10.0 million, the Company must make an offer, no later than 365 days after such sale of Collateral to all holders of the Company s 2014 notes to repurchase such 2014 notes at par (Collateral Sale Offer). The Collateral Sale Offer must be made to all holders to purchase 2014 notes to the extent of the Excess Collateral Proceeds. Any Excess Collateral Proceeds remaining after the completion of a Collateral Sale Offer, may be used by the Company for any purpose not prohibited by the Indenture. On April 3, 2009 the Company used $8.8 million of Excess Collateral Proceeds to repurchase $8.8 million of 2014 notes at par. As of June 28, 2009, there were no funds remaining in the Collateral Account and no such amount shown as restricted cash on the balance sheet.

The Indenture also governs sales of Non-Collateral. The Company may not sell Non-Collateral unless it satisfies three specific requirements. They are:

1. The Company must receive fair market value for the Non-Collateral sold or disposed of;

2. Fair market value must be certified by the Company s Chief Executive Officer or Chief Financial Officer and for asset sales in excess of $5.0 million, by the Company s Board of Directors; and,

3. At least 75% of the consideration for the sale of Non-Collateral must be in the form of cash or cash equivalents.

The Indenture does not require the proceeds to be deposited by the Company into the applicable Collateral Account, since the assets sold were not Collateral under the terms of the Indenture.

Within 360 days after receipt of the proceeds from a sale of Non-Collateral, the Company may utilize the proceeds in one of the following ways: 1) repay, repurchase or otherwise retire the 2014 notes; 2) repay, repurchase or otherwise retire other indebtedness of the Company that is *pari passu* with the notes, on a pro rata basis; 3) repay indebtedness of certain subsidiaries identified in the Indenture, none of which are a Guarantor; or 4) acquire or invest in other assets. Any net proceeds from a sale of Non-Collateral that are not applied or invested with the 360 day period shall constitute excess proceeds (Excess Proceeds).

Once Excess Proceeds from sales of Non-Collateral exceed $10.0 million, the Company must make an offer, no later than 365 days after such sale of Non-Collateral to all holders of the 2014 notes and holders of other indebtedness that is *pari passu* with the 2014 notes to purchase or redeem the maximum amount of 2014 notes and/or other *pari passu* indebtedness that may be purchased out of the Excess Proceeds (Asset Sale Offer). The purchase price of such an Asset Sale Offer must be equal to 100% of the principal amount of the 2014 notes and such other indebtedness. Any Excess Proceeds remaining after completion of the Asset Sale Offer may be used by the Company for any purpose not prohibited by the Indenture. As of June 28, 2009, the Company had $2.3 million of Excess Proceeds.

On March 20, 2008, the Company completed the sale of assets located at Kinston. The Company retains certain rights to sell idle assets for a period of two years. If after the two year period the assets have not sold, the Company will convey them to the buyer for no value. As of June 28, 2009, the Company expects a sale to be consummated prior to March 2010 therefore the $1.4 million carrying value of these assets are accounted for as assets held for sale. Should such sale be completed, the proceeds would be considered a sale of Collateral under the terms of the Indenture.

In the first quarter of fiscal year 2009, the Company entered into an agreement to sell a 380,000 square foot facility in Yadkinville for $7.0 million and such sale was a sale of Non-Collateral assets. On December 19, 2008, the Company completed the sale which resulted in net proceeds of $6.6 million and a net pre-tax gain of $5.2 million in the second

quarter of fiscal year 2009. The proceeds were utilized to repay outstanding borrowings under the Company s Amended Credit Agreement in accordance with the Indenture.

In the fourth quarter of fiscal year 2009, the Company completed its sale of its equity interest in YUFI and received proceeds of $9.0 million. In accordance with the Indenture, the sale of the YUFI equity interest was an

exception to the definition of an Asset Sale and therefore the use restrictions applicable to the proceeds of Asset Sales do not apply.

Note Repurchases from Sources Other than Sales of Collateral and Non-Collateral. In addition to the offers to repurchase notes set forth above, the Company may also, from time to time, seek to retire or purchase its outstanding debt, in open market purchases, in privately negotiated transactions or otherwise. Such retirement or purchase of debt may come from the operating cash flows of the business or other sources and will depend upon prevailing market conditions, liquidity requirements, contractual restrictions and other factors, and the amounts involved may be material.

The preceding description is qualified in its entirety by reference to the Indenture and the 2014 notes which are listed on the Exhibit Index of this Annual Report on Form 10-K.

Stock Repurchase Program. Effective July 26, 2000, the Board increased the remaining authorization to repurchase up to 10.0 million shares of its common stock. The Company purchased 1.4 million shares in fiscal year 2001 for a total of $16.6 million. There were no significant stock repurchases in fiscal year 2002. Effective April 24, 2003, the Board re-instituted the stock repurchase program. Accordingly, the Company purchased 0.5 million shares in fiscal year 2003 and 1.3 million shares in fiscal year 2004. As of June 28, 2009, the Company had remaining authority to repurchase approximately 6.8 million shares of its common stock under the repurchase plan. The repurchase program was suspended in November 2003, and the Company has no immediate plans to reinstitute the program.

Environmental Liabilities. The land for the Kinston site was leased pursuant to a 99 year Ground Lease with DuPont. Since 1993, DuPont has been investigating and cleaning up the Kinston site under the supervision of the EPA and DENR pursuant to the Resource Conservation and Recovery Act Corrective Action program. The Corrective Action program requires DuPont to identify all potential AOCs, assess the extent of contamination at the identified AOCs and clean them up to comply with applicable regulatory standards. Effective March 20, 2008, the Company entered into a Lease Termination Agreement associated with conveyance of certain of the assets at Kinston to DuPont. This agreement terminated the Ground Lease and relieved the Company of any future responsibility for environmental remediation, other than participation with DuPont, if so called upon, with regard to the Company s period of operation of the Kinston site. However, the Company continues to own a satellite service facility acquired in the INVISTA transaction that has contamination from DuPont s operations and is monitored by DENR. This site has been remediated by DuPont and DuPont has received authority from DENR to discontinue remediation, other than natural attenuation. DuPont s duty to monitor and report to DENR with respect to this site will be transferred to the Company in the future, at which time DuPont must pay the Company seven years of monitoring and reporting costs and the Company will assume responsibility for any future remediation and monitoring of this site. At this time, the Company has no basis to determine if and when it will have any responsibility or obligation with respect to the AOCs or the extent of any potential liability for the same.

Long-Term Debt

On May 26, 2006, the Company issued $190 million of 11.5% 2014 notes due May 15, 2014. In connection with the issuance, the Company incurred $7.3 million in professional fees and other expenses which are being amortized to expense over the life of the 2014 notes. Interest is payable on the 2014 notes on May 15 and November 15 of each year. The 2014 notes are unconditionally guaranteed on a senior, secured basis by each of the Company s existing and future restricted domestic subsidiaries. The 2014 notes and guarantees are secured by first-priority liens, subject to permitted liens, on substantially all of the Company s and the Company s subsidiary guarantors assets other than the assets securing the Company s obligations under its Amended Credit Agreement as discussed below. The assets include but are not limited to, property, plant and equipment, domestic capital stock and some foreign capital stock. Domestic capital stock includes the capital stock of the Company s domestic subsidiaries and certain of its joint

ventures. Foreign capital stock includes up to 65% of the voting stock of the Company s first-tier foreign subsidiaries, whether now owned or hereafter acquired, except for certain excluded assets. The 2014 notes and guarantees are secured by second-priority liens, subject to permitted liens, on the Company and its subsidiary guarantors assets that will secure the 2014 notes and guarantees on a first-priority basis. The estimated fair value of the 2014 notes, based on quoted market prices, at June 28, 2009 was approximately $112.9 million.

Through fiscal year 2009, the Company sold property, plant and equipment secured by first-priority liens in aggregate amount of $25.0 million. In accordance with the 2014 notes collateral documents and the Indenture, the proceeds from the sale of the property, plant and equipment (First Priority Collateral) were deposited into the First Priority Collateral Account whereby the Company may use the restricted funds to purchase additional qualifying assets. Through fiscal year 2009, the Company had utilized $16.2 million to repurchase qualifying assets. On April 3, 2009, the Company used the remaining $8.8 million of First Priority Collateral restricted funds to repurchase $8.8 million of the 2014 notes at par. As of June 28, 2009, the Company had no funds remaining in the First Priority Collateral Account.

Prior to May 15, 2009, the Company could elect to redeem up to 35% of the principal amount of the 2014 notes with the proceeds of certain equity offerings at a redemption price equal to 111.5% of par value, otherwise the Company cannot redeem the 2014 notes prior to May 15, 2010. After May 15, 2010, the Company can elect to redeem some or all of the 2014 notes at redemption prices equal to or in excess of par depending on the year the optional redemption occurs. As of June 28, 2009 no such optional redemptions had occurred. The Company may purchase its 2014 notes, in open market purchases or in privately negotiated transactions and then retire them. Such purchases of the 2014 notes will depend on prevailing market conditions, liquidity requirements, contractual restrictions and other factors. In addition, the Company repurchased and retired notes having a face value of $2.0 million in open market purchases. The net effect of the gain on this repurchase and the write-off of the respective unamortized issuance cost related to the $8.8 million and $2.0 million of 2014 notes resulted in a net gain of $0.3 million.

Concurrently with the issuance of the 2014 notes, the Company amended its senior secured asset-based revolving credit facility to provide for a $100 million revolving borrowing base to extend its maturity to 2011, and revise some of its other terms and covenants. The Amended Credit Agreement is secured by first-priority liens on the Company s and its subsidiary guarantors inventory, accounts receivable, general intangibles (other than uncertificated capital stock of subsidiaries and other persons), investment property (other than capital stock of subsidiaries and other persons), chattel paper, documents, instruments, supporting obligations, letter of credit rights, deposit accounts and other related personal property and all proceeds relating to any of the above, and by second-priority liens, subject to permitted liens, on the Company s and its subsidiary guarantors assets securing the 2014 notes and guarantees on a first-priority basis, in each case other than certain excluded assets. The Company s ability to borrow under the Company s Amended Credit Agreement is limited to a borrowing base equal to specified percentages of eligible accounts receivable and inventory and is subject to other conditions and limitations.

Borrowings under the Amended Credit Agreement bear interest at rates of LIBOR plus 1.50% to 2.25% and/or prime plus 0.00% to 0.50%. The interest rate matrix is based on the Company s excess availability under the Amended Credit Agreement. The Amended Credit Agreement also includes a 0.25% LIBOR margin pricing reduction if the Company s fixed charge coverage ratio is greater than 1.5 to 1.0. The unused line fee under the Amended Credit Agreement is 0.25% to 0.35% of the borrowing base. In connection with the refinancing, the Company incurred fees and expenses aggregating $1.2 million, which are being amortized over the term of the Amended Credit Agreement.

As of June 28, 2009, under the terms of the Amended Credit Agreement, the Company had no outstanding borrowings and borrowing availability of $62.7 million. As of June 29, 2008, under the terms of the Amended Credit Agreement, the Company had $3.0 million of outstanding borrowings at a rate of 5% and borrowing availability of $89.2 million.

The Amended Credit Agreement contains affirmative and negative customary covenants for asset-based loans that restrict future borrowings and capital spending. The covenants under the Amended Credit Agreement are more restrictive than those in the Indenture. Such covenants include, without limitation, restrictions and limitations on (i) sales of assets, consolidation, merger, dissolution and the issuance of the Company s capital stock, each subsidiary guarantor and any domestic subsidiary thereof, (ii) permitted encumbrances on the Company s property, each subsidiary guarantor and any domestic subsidiary thereof, (iii) the incurrence of indebtedness by the Company, any subsidiary guarantor or any domestic subsidiary thereof, (iv) the making of loans or investments by the Company, any

subsidiary guarantor or any domestic subsidiary thereof, (v) the declaration of dividends and

redemptions by the Company or any subsidiary guarantor and (vi) transactions with affiliates by the Company or any subsidiary guarantor.

The Amended Credit Agreement contains customary covenants for asset based loans which restrict future borrowings and capital spending. It includes a trailing twelve month fixed charge coverage ratio that restricts the Company s ability to invest in certain assets if the ratio becomes less than 1.0 to 1.0, after giving effect to such investment on a pro forma basis. As of June 28, 2009 the Company had a fixed charge coverage ratio of less than 1.0 to 1.0 and was therefore subjected to these restrictions. These restrictions will likely apply in future quarters until such time as the Company s financial performance improves.

Under the Amended Credit Agreement, the maximum capital expenditures are limited to $30 million per fiscal year with a 75% one-year unused carry forward. The Amended Credit Agreement permits the Company to make distributions, subject to standard criteria, as long as pro forma excess availability is greater than $25 million both before and after giving effect to such distributions, subject to certain exceptions. Under the Amended Credit Agreement, acquisitions by the Company are subject to pro forma covenant compliance. If borrowing capacity is less than $25 million at any time, covenants will include a required minimum fixed charge coverage ratio of 1.1 to 1.0, receivables are subject to cash dominion, and annual capital expenditures are limited to $5.0 million per year of maintenance capital expenditures.

Unifi do Brazil, receives loans from the government of the State of Minas Gerais to finance 70% of the value added taxes due by Unifi do Brazil to the State of Minas Gerais. These twenty-four month loans were granted as part of a tax incentive program for producers in the State of Minas Gerais. The loans have a 2.5% origination fee and bear an effective interest rate equal to 50% of the Brazilian inflation rate, which was 1.5% on June 28, 2009. The loans are collateralized by a performance bond letter issued by a Brazilian bank, which secures the performance by Unifi do Brazil of its obligations under the loans. In return for this performance bond letter, Unifi do Brazil makes certain restricted cash deposits with the Brazilian bank in amounts equal to 100% of the loan amounts. The deposits made by Unifi do Brazil earn interest at a rate equal to approximately 100% of the Brazilian prime interest rate which was 9.3% as of June 28, 2009. The ability to make new borrowings under the tax incentive program ended in May 2008.

The following table summarizes the maturities of the Company s long-term debt and other noncurrent liabilities on a fiscal year basis:

	Aggregate Maturities (Amounts in thousands)					
Balance at June 28, 2009	**2010**	**2011**	**2012**	**2013**	**2014**	**Thereafter**
$ 189,552	$ 6,845	$ 1,275	$ 511	$ 148	$ 179,331	$ 1,442

The Company believes that, based on current levels of operations and anticipated growth, cash flow from operations, together with other available sources of funds, including borrowings under its Amended Credit Agreement, will be adequate to fund anticipated capital and other expenditures and to satisfy its working capital requirements for at least the next twelve months.

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Contractual Obligations

The Company s significant long-term obligations as of June 28, 2009 are as follows:

	Cash Payments Due by Period (Amounts in thousands)				
Description of Commitment	Total	Less Than 1 Year	1-3 Years	3-5 Years	More Than 5 Years
2014 notes	$ 179,222	$	$	$ 179,222	$
Amended credit facility					
Capital lease obligation	1,037	368	668		
Other long-term obligations(1)	9,293	6,477	1,118	257	1,442
Subtotal	189,552	6,845	1,786	179,479	1,442
Letters of credits	5,085	5,085			
Interest on long-term debt and other obligations	102,834	21,406	41,925	39,504	
Operating leases	5,458	1,318	1,797	1,342	1,001
Purchase obligations(2)	4,264	2,896	1,286	82	
	$ 307,193	$ 37,550	$ 46,794	$ 220,407	$ 2,443

(1) Other long-term obligations include the Brazilian government loans and other noncurrent liabilities.

(2) Purchase obligations consist of a Dillon acquisition related sales and service agreement and utility agreements.

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Recent Accounting Pronouncements

In June 2009, Financial Accounting Standards Board (FASB) issued SFAS No. 168 The FASB Accounting Standards Codification^{tm} and the Hierarchy of Generally Accepted Accounting Principles a replacement for SFAS No. 162, The Hierarchy of Generally Accepted Accounting Principles . This statement establishes a single source of generally accepted accounting principles (GAAP) called the codification and is to be applied by nongovernmental entities. All guidance contained in the codification carries an equal level of authority; however there are standards that will remain authoritative until such time that each is integrated into the codification. The SEC also issues rules and interpretive releases that are also sources of authoritative GAAP for publicly traded registrants. This statement shall be effective for financial statements issued for interim and annual periods ending after September 15, 2009.

In May 2009, the FASB issued SFAS No. 165, Subsequent Events , which establishes general standards of accounting for and disclosure of events that occur between the balance sheet and the financial statements issue date. This statement is effective for all interim and annual periods ending after June 15, 2009. The adoption of SFAS No. 165 did not have an impact on the Company s consolidated financial position or results of operations.

On December 29, 2008, the Company adopted SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities an amendment of FASB Statement No. 133 , requiring enhancements to the disclosure requirements for derivative and hedging activities. The objective of the enhanced disclosure requirement is to provide the user of financial statements with a clearer understanding of how the entity uses derivative instruments, how derivatives are accounted for, and how derivatives affect an entity s financial position, cash flows and performance. The statement applies to all derivative and hedging instruments. SFAS No. 161 is effective for all fiscal years and interim periods beginning after November 15, 2008. The adoption of SFAS No. 161 did not materially change the Company s disclosures of derivative and hedging instruments.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements . SFAS No. 157 addresses how companies should measure fair value when companies are required to use a fair value measure for recognition or disclosure purposes under GAAP. As a result of SFAS No. 157, there is now a common definition of fair value to be used throughout GAAP. The FASB believes that the new standard will make the measurement of fair value more

consistent and comparable and improve disclosures about those measures. The provisions of SFAS No. 157 were to be effective for fiscal years beginning after November 15, 2007. On February 12, 2008, the FASB issued FASB Staff Position (FSP) FAS 157-2 which delayed the effective date of SFAS No. 157 for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). This FSP partially deferred the effective date of SFAS No. 157 to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years for items within the scope of this FSP. Effective for fiscal year 2009, the Company adopted SFAS No. 157 except as it applies to those nonfinancial assets and nonfinancial liabilities as noted in FSP FAS 157-2 and the adoption of this standard did not have a material effect on its consolidated financial statements.

In December 2007, the FASB issued SFAS No. 141R, Business Combinations-Revised . This new standard replaces SFAS No. 141 Business Combinations . SFAS No. 141R requires that the acquisition method of accounting, instead of the purchase method, be applied to all business combinations and that an acquirer is identified in the process. The statement requires that fair market value be used to recognize assets and assumed liabilities instead of the cost allocation method where the costs of an acquisition are allocated to individual assets based on their estimated fair values. Goodwill would be calculated as the excess purchase price over the fair value of the assets acquired; however, negative goodwill will be recognized immediately as a gain instead of being allocated to individual assets acquired. Costs of the acquisition will be recognized separately from the business combination. The end result is that the statement improves the comparability, relevance and completeness of assets acquired and liabilities assumed in a business combination. SFAS No. 141R is effective for business combinations which occur in fiscal years beginning on or after December 15, 2008.

Off Balance Sheet Arrangements

The Company is not a party to any off-balance sheet arrangements that have, or are reasonably likely to have, a current or future material effect on the Company s financial condition, revenues, expenses, results of operations, liquidity, capital expenditures or capital resources.

Critical Accounting Policies

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. The SEC has defined a company s most critical accounting policies as those involving accounting estimates that require management to make assumptions about matters that are highly uncertain at the time and where different reasonable estimates or changes in the accounting estimate from quarter to quarter could materially impact the presentation of the financial statements. The following discussion provides further information about accounting policies critical to the Company and should be read in conjunction with Footnote 1-Significant Accounting Policies and Financial Statement Information of its audited historical consolidated financial statements included elsewhere in this Annual Report on Form 10-K.

Allowance for Doubtful Accounts. An allowance for losses is provided for known and potential losses arising from yarn quality claims and for amounts owed by customers. Reserves for yarn quality claims are based on historical claim experience and known pending claims. The collectability of accounts receivable is based on a combination of factors including the aging of accounts receivable, historical write-off experience, present economic conditions such as customer bankruptcy filings within the industry and the financial health of specific customers and market sectors. Since losses depend to a large degree on future economic conditions, and the health of the textile industry, a significant level of judgment is required to arrive at the allowance for doubtful accounts. Accounts are written off when they are no longer deemed to be collectible. The reserve for bad debts is established based on certain percentages applied to accounts receivable aged for certain periods of time and are supplemented by specific reserves

for certain customer accounts where collection is no longer certain. The Company s exposure to losses as of June 28, 2009 on accounts receivable was $81.6 million against which an allowance for losses and claims of $4.8 million was provided. The Company s exposure to losses as of June 29, 2008 on accounts receivable was $104.7 million against which an allowance for losses of $4.0 million was provided. Establishing reserves for yarn claims and bad debts requires management judgment and estimates, which may impact the ending accounts receivable valuation, gross margins (for yarn claims) and the provision for bad debts. The Company does not believe

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there is a reasonable likelihood that there will be a material change in the estimates and assumptions it uses to assess allowance for losses. Certain unforeseen events, which the Company considers to be remote, such as a customer bankruptcy filing, could have a material impact on the Company s results of operations. The Company has not made any material changes to the methodology used in establishing its accounts receivable loss reserves during the past three fiscal years. A plus or minus 10% change in its aged accounts receivable reserve percentages would not be material to the Company s financial statements for the past three years.

Inventory Reserves. Inventory reserves are established based on percentage markdowns applied to inventories aged for certain time periods. Specific reserves are established based on a determination of the obsolescence of the inventory and whether the inventory value exceeds amounts to be recovered through expected sales prices, less selling costs. Estimating sales prices, establishing markdown percentages and evaluating the condition of the inventories require judgments and estimates, which may impact the ending inventory valuation and gross margins. The Company uses current and historical knowledge to record reasonable estimates of its markdown percentages and expected sales prices. The Company believes it is unlikely that differences in actual demand or selling prices from those projected by management would have a material impact on the Company s financial condition or results of operations. The Company has not made any material changes to the methodology used in establishing its inventory loss reserves during the past three fiscal years. A plus or minus 10% change in its aged inventory markdown percentages would not be material to the Company s financial statements for the past three years.

Impairment of Long-Lived Assets. In accordance with SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets , long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. For assets held and used, an impairment may occur if projected undiscounted cash flows are not adequate to cover the carrying value of the assets. In such cases, additional analysis is conducted to determine the amount of loss to be recognized. The impairment loss is determined by the difference between the carrying amount of the asset and the fair value measured by future discounted cash flows. The analysis requires estimates of the amount and timing of projected cash flows and, where applicable, judgments associated with, among other factors, the appropriate discount rate. Such estimates are critical in determining whether any impairment charge should be recorded and the amount of such charge if an impairment loss is deemed to be necessary. The Company s judgment regarding the existence of circumstances that indicate the potential impairment of an asset s carrying value is based on several factors including, but not limited to, a decline in operating cash flows or a decision to close a manufacturing facility. The variability of these factors depends on a number of conditions, including uncertainty about future events and general economic conditions; therefore, the Company s accounting estimates may change from period to period. These factors could cause the Company to conclude that a potential impairment exists and the related impairment tests could result in a write down of the long-lived assets. To the extent the forecasted operating results of the long-lived assets are achieved and the Company maintains its assets in good condition, the Company believes that it is unlikely that future assessments of recoverability would result in impairment charges that are material to the Company s financial condition and results of operations. The Company reviewed its long-lived assets for recoverability during fiscal year 2009 and determined that the projected undiscounted cash flows were adequate to cover the carrying value of the assets. The Company has not made any material changes to the methodology used to perform impairment testing during the past three fiscal years. A 10% decline in the Company s forecasted cash flows would not have resulted in a failure of the FAS 144 undiscounted cash flow test.

For assets held for sale, an impairment charge is recognized if the carrying value of the assets exceeds the fair value less costs to sell. Estimates are required to determine the fair value, the disposal costs and the time period to dispose of the assets. Such estimates are critical in determining whether any impairment charge should be recorded and the amount of such charge if an impairment loss is deemed to be necessary. Actual cash flows received or paid could differ from those used in estimating the impairment loss, which would impact the impairment charge ultimately recognized and the Company s cash flows. The Company engages independent appraisers in the determination of the

fair value of any significant assets held for sale. The Company s estimates have been materially accurate in the past, and accordingly, at this time, management expects to continue to utilize the present estimation processes. In fiscal years 2008 and 2009, the Company performed impairment testing which resulted in the write down of polyester and nylon plant, machinery and equipment of $2.8 million and $0.4 million, respectively.

Goodwill Impairment. In accordance with SFAS No. 142 Goodwill and Other Intangible Assets , the Company performs annual impairment tests on goodwill in the fourth quarter of each fiscal year, or when events occur or circumstances change that would, more likely than not, reduce the fair value of a reporting unit below its carrying value. Events or changes in circumstances that may trigger interim impairment reviews include significant changes in business climate, operating results, planned investments in the reporting unit, or an expectation that the carrying amount may not be recoverable, among other factors. The impairment test requires the Company to estimate the fair value of its reporting units. If the carrying value of a reporting unit exceeds its fair value, the goodwill of that reporting unit is potentially impaired and the Company proceeds to step two of the impairment analysis. In step two of the analysis, the Company measures and records an impairment loss equal to the excess of the carrying value of the reporting unit s goodwill over its implied fair value should such a circumstance arise.

Based on a decline in its market capitalization during the third quarter of fiscal year 2009 and difficult market conditions, the Company determined that it was appropriate to re-evaluate the carrying value of its goodwill during the quarter ended March 29, 2009. In connection with this third quarter interim impairment analysis, the Company updated its cash flow forecasts based upon the latest market intelligence, its discount rate and its market capitalization values. The projected cash flows are based on the Company s forecasts of volume, with consideration of relevant industry and macroeconomic trends. The fair value of the domestic polyester reporting unit was determined based upon a combination of a discounted cash flow analysis and a market approach utilizing market multiples of guideline publicly traded companies. As a result of the findings, the Company determined that the goodwill was fully impaired and recorded an impairment charge of $18.6 million in the third quarter of fiscal year 2009.

Impairment of Joint Venture Investments. APB 18 states that the inability of the equity investee to sustain sufficient earnings to justify its carrying value on an other-than-temporary basis should be assessed for impairment purposes. The Company evaluates its equity investments at least annually to determine whether there is evidence that an investment has been permanently impaired. As of June 24, 2007, the Company had completed its evaluations of its equity investees and determined that its investment in PAL was impaired. The Company recorded a non-cash impairment charge of $84.7 million in the fourth quarter of the Company s fiscal year 2007 based on an appraised fair value of PAL, less 25% for lack of marketability and its minority ownership percentage. The Company used an income approach to estimate the fair value of its investment in PAL. This approach utilized a discounted cash flow methodology to determine the fair value. The analysis required estimates of the amount and timing of projected cash flows and judgments associated with other factors including the appropriate discount rate and the discount reflecting the lack of marketability of the Company s minority interest in PAL. Although the fair value used in the PAL analysis represented what the Company believed to be the most probable economic outcome, it was subject to the assumptions and estimates discussed above. The Company has not made any material changes to the methodology used to perform impairment testing during the past three fiscal years. A one percent increase or decrease in the discount rate used in the June 2007 valuation would have resulted in changes in the fair value of the Company s investment in PAL of $(5.2) million and $6.4 million, respectively.

During the first quarter of fiscal year 2008, the Company determined that a review of the carrying value of its investment in USTF was necessary as a result of sales negotiations. As a result of this review, the Company determined that the carrying value exceeded its fair value. Accordingly, a non-cash impairment charge of $4.5 million was recorded in the first quarter of fiscal year 2008.

In July 2008, the Company announced a proposed agreement to sell its 50% ownership interest in YUFI to its partner, YCFC, for $10.0 million, pending final negotiation and execution of definitive agreements and the receipt of Chinese regulatory approvals. In connection with a review of the YUFI value during negotiations related to the sale, the Company initiated a review of the carrying value of its investment in YUFI in accordance with APB 18. As a result of this review, the Company determined that the carrying value of its investment in YUFI exceeded its fair value. Accordingly, the Company recorded a non-cash impairment charge of $6.4 million in the fourth quarter of fiscal year

2008. The Company does not anticipate that the impairment charge will result in any future cash expenditures.

In December 2008, the Company re-negotiated the proposed agreement to sell its interest in YUFI to YCFC for $9.0 million and recorded an additional impairment charge of $1.5 million, which included approximately

$0.5 million related to certain disputed accounts receivable and $1.0 million related to the fair value of its investment, as determined by the re-negotiated equity interest sales price, was lower than carrying value.

On March 30, 2009, the Company closed on the sale and received $9 million in proceeds related to its investment in YUFI. The Company continues to service customers in Asia through UTSC, a wholly-owned subsidiary based in Suzhou, China, that is dedicated to the development, sales and service of PVA yarns. UTSC is located in the Gold River Center (room 1101), No. 88 Shishan Road, Suzhou New District, Suzhou, which is in Jiangsu Province.

Accruals for Costs Related to Severance of Employees and Related Health Care Costs. From time to time, the Company establishes accruals associated with employee severance or other cost reduction initiatives. Such accruals require that estimates be made about the future payout of various costs, including, for example, health care claims. The Company uses historical claims data and other available information about expected future health care costs to estimate its projected liability. Such costs are subject to change due to a number of factors, including the incidence rate for health care claims, prevailing health care costs and the nature of the claims submitted, among others. Consequently, actual expenses could differ from those expected at the time the provision was estimated, which may impact the valuation of accrued liabilities and results of operations. The Company s estimates have been materially accurate in the past; and accordingly, at this time management expects to continue to utilize the present estimation processes. A plus or minus 10% change in its estimated claims assumption would not be material to the Company s financial statements. The Company has not made any material changes to the methodology used in establishing its severance and related health care cost accruals during the past three fiscal years.

Management and the Company s audit committee discussed the development, selection and disclosure of all of the critical accounting estimates described above.

Item 7A. ***Quantitative and Qualitative Disclosure About Market Risk***

The Company is exposed to market risks associated with changes in interest rates and currency fluctuation rates, which may adversely affect its financial position, results of operations and cash flows. In addition, the Company is also exposed to other risks in the operation of its business.

Interest Rate Risk: The Company is exposed to interest rate risk through its borrowing activities which is further described in Footnote 3-Long-Term Debt and Other Liabilities included in Item 8. Financial Statements and Supplementary Data . The majority of the Company s borrowings are in long-term fixed rate bonds. Therefore, the market rate risk associated with a 100 basis point change in interest rates would not be material to the Company s results of operation at the present time.

Currency Exchange Rate Risk: The Company accounts for derivative contracts and hedging activities under Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities which requires all derivatives to be recorded on the balance sheet at fair value. If the derivative is a hedge, depending on the nature of the hedge, changes in the fair value of derivatives are either offset against the change in fair value of the hedged assets, liabilities, or firm commitments through earnings or are recorded in other comprehensive income until the hedged item is recognized in earnings. The ineffective portion of a derivative s change in fair value is immediately recognized in earnings. The Company does not enter into derivative financial instruments for trading purposes nor is it a party to any leveraged financial instruments.

The Company conducts its business in various foreign currencies. As a result, it is subject to the transaction exposure that arises from foreign exchange rate movements between the dates that foreign currency transactions are recorded and the dates they are consummated. The Company utilizes some natural hedging to mitigate these transaction exposures. The Company primarily enters into foreign currency forward contracts for the purchase and sale of

European, North American and Brazilian currencies to use as economic hedges against balance sheet and income statement currency exposures. These contracts are principally entered into for the purchase of inventory and equipment and the sale of Company products into export markets. Counter-parties for these instruments are major financial institutions.

Currency forward contracts are used to hedge exposure for sales in foreign currencies based on specific sales made to customers. Generally, 60-75% of the sales value of these orders is covered by forward contracts. Maturity

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dates of the forward contracts are intended to match anticipated receivable collections. The Company marks the outstanding accounts receivable and forward contracts to market at month end and any realized and unrealized gains or losses are recorded as other operating (income) expense. The Company also enters currency forward contracts for committed inventory purchases made by its Brazilian subsidiary. Generally 5% of these inventory purchases are covered by forward contracts although 100% of the cost may be covered by individual contracts in certain instances. The latest maturity for all outstanding purchase and sales foreign currency forward contracts are August 2009 and October 2009, respectively.

In September 2006, the FASB issued SFAS No. 157 Fair Value Measurements . SFAS No. 157 addresses how companies should measure fair value when companies are required to use a fair value measure for recognition or disclosure purposes under GAAP. As a result of SFAS No. 157, there is now a common definition of fair value to be used throughout GAAP. SFAS No. 157 establishes a hierarchy for fair value measurements based on the type of inputs that are used to value the assets or liabilities at fair value.

The levels of the fair value hierarchy are:

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date,

Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly, or

Level 3 inputs are unobservable inputs for the asset or liability. Unobservable inputs shall be used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date.

The dollar equivalent of these forward currency contracts and their related fair values are detailed below:

	June 28, 2009	**June 29, 2008**	**June 24, 2007**
	(Amounts in thousands)		
Foreign currency purchase contracts:	Level 2	Level 2	Level 2
Notional amount	$ 110	$ 492	$ 1,778
Fair value	130	499	1,783
Net gain	$ (20)	$ (7)	$ (5)
Foreign currency sales contracts:			
Notional amount	$ 1,121	$ 620	$ 397
Fair value	1,167	642	400
Net loss	$ (46)	$ (22)	$ (3)

The fair values of the foreign exchange forward contracts at the respective year-end dates are based on discounted year-end forward currency rates. The total impact of foreign currency related items that are reported on the line item

other operating (income) expense, net in the Consolidated Statements of Operations, including transactions that were hedged and those that were not hedged, was a pre-tax loss of $0.4 million and $0.5 million for fiscal years ended June 28, 2009 and June 29, 2008 and a pre-tax gain of $0.4 million for fiscal year ended June 24, 2007.

Inflation and Other Risks: The inflation rate in most countries the Company conducts business has been low in recent years and the impact on the Company s cost structure has not been significant. The Company is also exposed to political risk, including changing laws and regulations governing international trade such as quotas, tariffs and tax laws. The degree of impact and the frequency of these events cannot be predicted.

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Item 8. ***Financial Statements and Supplementary Data***

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders of Unifi, Inc.

We have audited the accompanying consolidated balance sheets of Unifi, Inc. as of June 28, 2009 and June 29, 2008, and the related consolidated statements of operations, changes in shareholders equity, and cash flows for each of the three years in the period ended June 28, 2009. Our audits also include the financial statement schedule in the Index at Item 15(a). These financial statements and schedule are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Unifi, Inc. at June 28, 2009 and June 29, 2008, and the consolidated results of its operations and its cash flows for each of the three years in the period ended June 28, 2009, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Unifi, Inc. s internal control over financial reporting as of June 28, 2009, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated September 11, 2009 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Greensboro, North Carolina
September 11, 2009

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CONSOLIDATED BALANCE SHEETS

	June 28, 2009	June 29, 2008
	(Amounts in thousands, except per share data)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 42,659	$ 20,248
Receivables, net	77,810	103,272
Inventories	89,665	122,890
Deferred income taxes	1,223	2,357
Assets held for sale	1,350	4,124
Restricted cash	6,477	9,314
Other current assets	5,464	3,693
Total current assets	224,648	265,898
Property, plant and equipment:		
Land	3,489	3,696
Buildings and improvements	147,395	150,368
Machinery and equipment	542,205	622,546
Other	51,164	78,714
	744,253	855,324
Less accumulated depreciation	(583,610)	(678,025)
	160,643	177,299
Investments in unconsolidated affiliates	60,051	70,562
Restricted cash	453	26,048
Goodwill		18,579
Intangible assets, net	17,603	20,386
Other noncurrent assets	13,534	12,759
	$ 476,932	$ 591,531
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 26,050	$ 44,553
Accrued expenses	15,269	24,042
Income taxes payable	676	681
Current maturities of long-term debt and other current liabilities	6,845	9,805
Total current liabilities	48,840	79,081

Long-term debt and other liabilities	182,707	205,855
Deferred income taxes	416	926
Commitments and contingencies		
Shareholders equity:		
Common stock, $0.10 par (500,000 shares authorized, 62,057 and 60,689 shares outstanding)	6,206	6,069
Capital in excess of par value	30,250	25,131
Retained earnings	205,498	254,494
Accumulated other comprehensive income	3,015	19,975
	244,969	305,669
	$ 476,932	$ 591,531

The accompanying notes are an integral part of the financial statements.

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CONSOLIDATED STATEMENTS OF OPERATIONS

	Fiscal Years Ended		
	June 28, 2009	June 29, 2008	June 24, 2007
	(Amounts in thousands, except per share data)		
Summary of Operations:			
Net sales	$ 553,663	$ 713,346	$ 690,308
Cost of sales	525,157	662,764	651,911
Restructuring charges (recoveries)	91	4,027	(157)
Write down of long-lived assets	350	2,780	16,731
Goodwill impairment	18,580		
Selling, general and administrative expenses	39,122	47,572	44,886
Provision for bad debts	2,414	214	7,174
Other operating (income) expense, net	(5,491)	(6,427)	(2,601)
Non-operating (income) expense:			
Interest income	(2,933)	(2,910)	(3,187)
Interest expense	23,152	26,056	25,518
(Gain) loss on extinguishment of debt	(251)		25
Equity in (earnings) losses of unconsolidated affiliates	(3,251)	(1,402)	4,292
Write down of investment in unconsolidated affiliates	1,483	10,998	84,742
Loss from continuing operations before income taxes	(44,760)	(30,326)	(139,026)
Provision (benefit) for income taxes	4,301	(10,949)	(21,769)
Loss from continuing operations	(49,061)	(19,377)	(117,257)
Income from discontinued operations, net of tax	65	3,226	1,465
Net loss	$ (48,996)	$ (16,151)	$ (115,792)
Loss per common share (basic and diluted):			
Loss from continuing operations	$ (.79)	$ (.32)	$ (2.09)
Income from discontinued operations, net of tax		.05	.03
Net loss per common share	$ (.79)	$ (.27)	$ (2.06)

The accompanying notes are an integral part of the financial statements.

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CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY

	Shares Outstanding	Common Stock	Capital in Excess of Par Value	Retained Earnings	Other Comprehensive Income (Loss)	Total Shareholders Equity	Comprehensive Income (Loss) Note 1
	(Amounts in thousands)						
Balance June 25, 2006	52,208	$ 5,220	$ 929	$ 386,592	$	$ (5,278)	$ 387,463
Issuance of stock	8,334	834	21,166			22,000	
Stock registration costs			(63)			(63)	
Stock option expense			1,691			1,691	
Currency translation adjustments					9,655	9,655	$ 9,655
Net loss				(115,792)		(115,792)	(115,792)
Balance June 24, 2007	60,542	6,054	23,723	270,800	4,377	304,954	$ (106,137)
Adoption of FIN 48				(155)		(155)	
Options exercised	147	15	396			411	
Stock registration costs			(3)			(3)	
Stock option expense			1,015			1,015	
Currency translation adjustments					15,598	15,598	$ 15,598
Net loss				(16,151)		(16,151)	(16,151)
Balance June 29, 2008	60,689	6,069	25,131	254,494	19,975	305,669	$ (553)
Options exercised	1,368	137	3,694			3,831	
Stock option expense			1,425			1,425	
Currency translation adjustments					(16,960)	(16,960)	$ (16,960)
Net loss				(48,996)		(48,996)	(48,996)
Balance June 28, 2009	62,057	$ 6,206	$ 30,250	$ 205,498	$ 3,015	$ 244,969	$ (65,956)

The accompanying notes are an integral part of the financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Fiscal Years Ended		
	June 28, 2009	June 29, 2008	June 24, 2007
	(Amounts in thousands)		
Cash and cash equivalents at beginning of year	$ 20,248	$ 40,031	$ 35,317
Operating activities:			
Net loss	(48,996)	(16,151)	(115,792)
Adjustments to reconcile net loss to net cash provided by continuing operating activities:			
Income from discontinued operations	(65)	(3,226)	(1,465)
Net (earnings) loss of unconsolidated affiliates, net of distributions	437	3,060	7,029
Depreciation	28,043	36,931	41,594
Amortization	4,430	4,643	3,264
Stock-based compensation expense	1,425	1,015	1,691
Deferred compensation expense, net	165		1,619
Net gain on asset sales	(5,856)	(4,003)	(1,225)
Non-cash portion of (gain) loss on extinguishment of debt	(251)		25
Non-cash portion of restructuring charges (recoveries), net	91	4,027	(157)
Non-cash write down of long-lived assets	350	2,780	16,731
Non-cash effect of goodwill impairment	18,580		
Non-cash write down of investment in unconsolidated affiliates	1,483	10,998	84,742
Deferred income tax	360	(15,066)	(23,776)
Provision for bad debts	2,414	214	7,174
Other	400	(8)	(866)
Changes in assets and liabilities, excluding effects of acquisitions and foreign currency adjustments:			
Receivables	18,781	(5,163)	(2,522)
Inventories	27,681	14,144	5,619
Other current assets	(5,329)	1,641	187
Accounts payable and accrued expenses	(27,283)	(22,525)	(12,158)
Income taxes payable	100	362	(1,094)
Net cash provided by continuing operating activities	16,960	13,673	10,620
Investing activities:			
Capital expenditures	(15,259)	(12,809)	(7,840)
Acquisitions	(500)	(1,063)	(43,165)
Return of capital from unconsolidated affiliates			3,630
Proceeds from sale of unconsolidated affiliate	9,000	8,750	
Collection of notes receivable	1	250	1,266
Proceeds from sale of capital assets	7,005	17,821	5,099
Change in restricted cash	25,277	(14,209)	(4,036)
Net proceeds from split dollar life insurance surrenders			1,757

Split dollar life insurance premiums	(219)	(216)	(217)
Other		(85)	
Net cash provided by (used in) investing activities	25,305	(1,561)	(43,506)
Financing activities:			
Payment of long-term debt	(97,345)	(181,273)	(97,000)
Borrowing of long-term debt	77,060	147,000	133,000
Debt issuance costs			(455)
Proceeds from stock option exercises	3,831	411	
Other	(305)	(1,144)	321
Net cash (used in) provided by financing activities	(16,759)	(35,006)	35,866
Cash flows of discontinued operations			
Operating cash flow	(341)	(586)	277
Investing cash flow			
Net cash (used in) provided by discontinued operations	(341)	(586)	277
Effect of exchange rate changes on cash and cash equivalents	(2,754)	3,697	1,457
Net increase (decrease) in cash and cash equivalents	22,411	(19,783)	4,714
Cash and cash equivalents at end of year	$ 42,659	$ 20,248	$ 40,031

The accompanying notes are an integral part of the financial statements.

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Non-cash investing and financing activities

In fiscal year 2007, the Company issued 8.3 million shares of Unifi, Inc. common stock with a value of $22.0 million in connection with the Dillon Yarn Corporation asset acquisition .

Supplemental cash flow information is summarized below:

	Fiscal Years Ended		
	June 28, 2009	**June 29, 2008**	**June 24, 2007**
	(Amounts in thousands)		
Cash payments for:			
Interest	$ 22,639	$ 25,285	$ 23,145
Income taxes, net of refunds	3,164	2,898	2,677

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Significant Accounting Policies and Financial Statement Information

Principles of Consolidation. The consolidated financial statements include the accounts of the Company and all majority-owned subsidiaries. The accounts of all foreign subsidiaries have been included on the basis of fiscal periods ended three months or less prior to the dates of the Consolidated Balance Sheets. All significant intercompany accounts and transactions have been eliminated. Investments in 20% to 50% owned companies and partnerships where the Company is able to exercise significant influence, but not control are accounted for by the equity method in accordance with Accounting Principles Board Opinion 18, The Equity Method of Accounting for Investments in Common Stock (APB 18) and therefore consolidated income includes the Company s share of the investees income or losses. Intercompany profits and losses between the Company and its unconsolidated affiliates are eliminated until realized by the Company or the investee. Profits or losses from sales by the equity investees to the Company (upstream sales) are eliminated at the Company s percentage ownership until realized on the equity in (earnings) losses of unconsolidated affiliates line on the Consolidated Statements of Operations and the investments in unconsolidated affiliates line of the Consolidated Balance Sheets. Profits or losses from sales by the Company to its equity investees (downstream sales) are eliminated at the Company s percentage ownership until realized in the cost of goods sold line on the Consolidated Statements of Operations and the inventories line of the Consolidated Balance Sheets. Other intercompany income or expense items are matched to the offsetting expense or income at the Company s percentage ownership on the equity in (earnings) losses of unconsolidated affiliates line on the Consolidated Statements of Operations.

Fiscal Year. The Company s fiscal year is the 52 or 53 weeks ending on the last Sunday in June. Fiscal year 2008 was comprised of 53 weeks. Fiscal years 2009 and 2007 were comprised of 52 weeks.

Reclassification. The Company has reclassified the presentation of certain prior year information to conform to the current year presentation.

Revenue Recognition. Generally revenues from sales are recognized at the time shipments are made which is when the significant risks and rewards of ownership are transferred to the customer, and include amounts billed to customers for shipping and handling. Costs associated with shipping and handling are included in cost of sales in the Consolidated Statements of Operations. Revenue excludes value added taxes or other sales taxes and is arrived at after deduction of trade discounts and sales returns. Freight paid by customers is included in net sales in the Consolidated Statements of Operations. The Company records allowances for customer claims based upon its estimate of known claims and its past experience for unknown claims.

Foreign Currency Translation. Assets and liabilities of foreign subsidiaries are translated at year-end rates of exchange and revenues and expenses are translated at the average rates of exchange for the year. Gains and losses resulting from translation are accumulated in a separate component of shareholders equity and included in comprehensive income (loss). Gains and losses resulting from foreign currency transactions (transactions denominated in a currency other than the subsidiary s functional currency) are included in other operating (income) expense, net in the Consolidated Statements of Operations.

Cash and Cash Equivalents. Cash equivalents are defined as short-term investments having an original maturity of three months or less. The carrying amounts reflected in the Consolidated Balance Sheets for cash and cash equivalents approximate fair value.

Restricted Cash. Cash deposits held for a specific purpose or held as security for contractual obligations are classified as restricted cash. See Footnote 3-Long-Term Debt and Other Liabilities for further discussion on restricted cash.

Concentration of Credit Risk. Financial instruments which potentially subject the Company to credit risk consist primarily of cash in bank accounts. In October 2008, the Emergency Economic Stabilization Act was passed which raised the covered limit to $250,000 per depositor. In addition, the Company s primary domestic financial institution participated in the Federal Deposit Insurance Corporation (FDIC) Transaction Account Guarantee Program, which provides unlimited coverage. For the years ended June 28, 2009 and June 29, 2008, the Company s domestic and restricted cash deposits in excess of federally insured limits were nil and $22.2 million, respectively.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

In addition, the Brazilian government insures cash deposits up to R$60 thousand per depositor. For the years ended June 28, 2009 and June 29, 2008, the Company s uninsured Brazilian deposits were $18.2 million and $14.2 million, respectively.

Receivables. The Company extends unsecured credit to certain customers as part of its normal business practices. An allowance for losses is provided for known and potential losses arising from yarn quality claims and for amounts owed by customers. General reserves are established based on the percentages applied to accounts receivable aged for certain periods of time and are supplemented by specific reserves for certain customer accounts where collection becomes uncertain. Reserves for yarn quality claims are based on historical experience and known pending claims. The Company s ability to collect its accounts receivable is based on a combination of factors including the aging of accounts receivable, collection experience and the financial condition of specific customers. Accounts are written off against the reserve when they are no longer deemed to be collectible. Establishing reserves for yarn claims and bad debts requires management judgment and estimates, which may impact the ending accounts receivable valuation, gross margins (for yarn claims) and the provision for bad debts. The reserve for such losses was $4.8 million at June 28, 2009 and $4.0 million at June 29, 2008.

Inventories. The Company utilizes the first-in, first-out (FIFO) or average cost method for valuing inventory. Inventories are valued at lower of cost or market including a provision for slow moving and obsolete items. General reserves are established based on percentage markdowns applied to inventories aged for certain time periods based on the expected net realizable value of an item. Specific reserves are established based on a determination of the obsolescence of the inventory and whether the inventory value exceeds amounts to be recovered through expected sales prices, less selling costs. Estimating sales prices, establishing markdown percentages and evaluating the condition of the inventories require judgments and estimates, which may impact the ending inventory valuation and gross margins. The total inventory reserves on the Company s books at June 28, 2009 and June 29, 2008 were $3.7 million and $6.6 million, respectively. The following table reflects the composition of the Company s inventory as of June 28, 2009 and June 29, 2008:

	June 28, 2009	June 29, 2008
	(Amounts in thousands)	
Raw materials and supplies	$ 42,351	$ 51,810
Work in process	5,936	7,021
Finished goods	41,378	64,059
	$ 89,665	$ 122,890

Other Current Assets. Other current assets consist of prepaid insurance ($1.7 million and $0.8 million), prepaid VAT taxes ($2.0 million and $2.1 million), sales and service contract ($0.4 million and $0), information technology services ($0.3 million and $0.1 million), subscriptions ($0.1 million and $0.1 million), deposits ($0.7 million and $0.3 million) and other assets ($0.2 million and $0.3 million) as of June 28, 2009 and June 29, 2008, respectively.

Property, Plant and Equipment. Property, plant and equipment are stated at cost. Depreciation is computed for asset groups primarily utilizing the straight-line method for financial reporting and accelerated methods for tax reporting.

For financial reporting purposes, asset lives have been assigned to asset categories over periods ranging between three and forty years. The range of asset lives by category is as follows: buildings and improvements fifteen to forty years, machinery and equipment seven to fifteen years, and other assets three to seven years. Amortization of assets recorded under capital leases is included as part of depreciation expense. See Footnote 3-Long-Term Debt and Other Liabilities for further discussion of capital leases. The Company had no significant binding commitments for capital expenditures as of June 28, 2009.

The Company capitalizes internal software costs from time to time when the costs meet or exceed its capitalization policy. The Company has $6.0 million and $6.8 million of capitalized internal software costs and $5.2 million and $6.1 million in accumulated amortization included in its property plant and equipment as of

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

June 28, 2009 and June 29, 2008, respectively. Internal software costs that are capitalized are amortized over a period of three years.

Costs related to property, plant and equipment which do not significantly increase the useful life of an existing asset or do not significantly alter, modify or change the process or production capacity of an existing asset are expensed as repairs and maintenance. For the fiscal years ended June 28, 2009, June 29, 2008, and June 24, 2007, the Company incurred $7.7 million, $8.8 million, and $9.9 million, respectively, related to repair and maintenance expenses.

Impairment of Long-Lived Assets. In accordance with Statements of Financial Accounting Standards (SFAS) No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. For assets held and used, impairments may occur if projected undiscounted cash flows are not adequate to cover the carrying value of the assets. In such cases, additional analysis is conducted to determine the amount of loss to be recognized. The impairment loss is determined by the difference between the carrying amount of the asset and the fair value measured by future discounted cash flows. The analysis requires estimates of the amount and timing of projected cash flows and, where applicable, judgments associated with, among other factors, the appropriate discount rate. Such estimates are critical in determining whether any impairment charge should be recorded and the amount of such charge if an impairment loss is deemed to be necessary. During the fiscal year 2009, the Company evaluated the carrying amount of its long-lived assets in conjunction with its interim review of goodwill discussed below and determined that the carrying amount was recoverable and that no impairment charge was necessary.

For assets held for disposal, an impairment charge is recognized if the carrying value of the assets exceeds the fair value less costs to sell. Estimates are required of fair value, disposal costs and the time period to dispose of the assets. Such estimates are critical in determining whether any impairment charge should be recorded and the amount of such charge if an impairment loss is deemed to be necessary. Actual cash flows received or paid could differ from those used in estimating the impairment loss, which would impact the impairment charge ultimately recognized and the Company s cash flows. See Footnote 8 Impairment Charges for further discussion of impairment testing and related charges.

Impairment of Joint Venture Investments. APB 18 states that the inability of the equity investee to sustain sufficient earnings to justify its carrying value on other than a temporary basis should be assessed for impairment purposes. The Company evaluates its equity investments at least annually to determine whether there is evidence that an investment has been permanently impaired. See Footnote 8 Impairment Charges for further discussion of these impairment charges.

Goodwill and Other Intangible Assets, Net. The Company accounts for its goodwill and other intangibles under the provisions of SFAS No. 142, Goodwill and Other Intangible Assets . SFAS No. 142 requires that these assets be reviewed for impairment annually, unless specific circumstances indicate that a more timely review is warranted. The Company s goodwill impairment test is conducted annually commencing with the first day of its fourth quarter. Due to economic conditions and declining market capitalization of the Company during the third quarter of fiscal year 2009, the Company performed an interim impairment test resulting in an $18.6 million impairment charge to write off the goodwill. This impairment test involves estimates and judgments that are critical in determining whether any impairment charge should be recorded and the amount of such charge if an impairment loss is deemed to be necessary. In addition, future events impacting cash flows for existing assets could render a write-down necessary that previously required no such write-down. See Footnote 8-Impairment Charges for further discussion of goodwill charges.

Other Noncurrent Assets. Other noncurrent assets at June 28, 2009, and June 29, 2008, consist primarily of cash surrender value of key executive life insurance policies ($3.4 million and $3.2 million), bond issue costs and debt origination fees ($4.7 million and $6.1 million), long-term deposits ($5.2 million and $2.7 million), and other miscellaneous assets ($0.2 million and $0.8 million), respectively. Debt related origination costs have been amortized on the straight-line method over the life of the corresponding debt, which approximates the effective

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

interest method. At June 28, 2009 and June 29, 2008, accumulated amortization for debt origination costs was $3.5 million and $2.4 million, respectively.

Accrued Expenses. The following table reflects the composition of the Company s accrued expenses as of June 28, 2009 and June 29, 2008:

	June 28, 2009	June 29, 2008
	(Amounts in thousands)	
Payroll and fringe benefits	$ 6,957	$ 11,101
Severance	1,385	1,935
Interest	2,496	2,813
Utilities	2,085	3,114
Closure reserve		1,414
Retiree reserve	190	244
Property taxes	1,094	1,132
Other	1,062	2,289
	$ 15,269	$ 24,042

Defined Contribution Plan. The Company matches employee contributions made to the Unifi, Inc. Retirement Savings Plan (the DC Plan), an existing 401(k) defined contribution plan, which covers eligible salaried and hourly employees. Under the terms of the DC Plan, the Company matches 100% of the first three percent of eligible employee contributions and 50% of the next two percent of eligible contributions. In March 2009, the Company terminated its match due to economic conditions and will periodically re-evaluate its matching of contributions as conditions improve in the future. For the fiscal years ended June 28, 2009, June 29, 2008, and June 24, 2007, the Company incurred $1.5 million, $2.1 million, and $2.2 million, respectively, of expense for its obligations under the matching provisions of the DC Plan.

Income Taxes. The Company and its domestic subsidiaries file a consolidated federal income tax return. Income tax expense is computed on the basis of transactions entering into pre-tax operating results. Deferred income taxes have been provided for the tax effect of temporary differences between financial statement carrying amounts and the tax basis of existing assets and liabilities. Except as disclosed in Footnote 5-Income Taxes, income taxes have not been provided for the undistributed earnings of certain foreign subsidiaries as such earnings are deemed to be permanently invested.

Operating Leases. The Company is obligated under operating leases relating primarily to real estate and equipment. Future obligations for minimum rentals under the leases during fiscal years after June 28, 2009 are $1.3 million in 2010, $1.0 million in 2011, $0.8 million in 2012, and $0.7 million in 2013, $0.7 million in 2014, and $1.0 million thereafter. Rental expense was $3.2 million, $3.0 million, and $3.3 million for the fiscal years 2009, 2008, and 2007, respectively. There are renewal options for some of these leases which cover various future periods from six months to two years with no escalation clauses.

Research and Development. For fiscal years 2009, 2008, and 2007, the Company incurred $2.4 million, $2.6 million, and $2.5 million of expense for its research and development activities, respectively.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Other Operating (Income) Expense, Net. The following table reflect the components of the Company s other operating (income) expense, net:

	Fiscal Years Ended June 28, 2009	June 29, 2008	June 24, 2007
	(Amounts in thousands)		
Net gains on sales of fixed assets	$ (5,856)	$ (4,003)	$ (1,225)
Gain from sale of nitrogen credits		(1,614)	
Currency losses (gains)	354	522	(393)
Rental income			(106)
Technology fees from China joint venture		(1,398)	(1,226)
Other, net	11	66	349
	$ (5,491)	$ (6,427)	$ (2,601)

Losses Per Share. The following table details the computation of basic and diluted losses per share:

	Fiscal Years Ended June 28, 2009	June 29, 2008	June 24, 2007
	(Amounts in thousands)		
Numerator:			
Loss from continuing operations before discontinued operations	$ (49,061)	$ (19,377)	$ (117,257)
Income from discontinued operations, net of tax	65	3,226	1,465
Net loss	$ (48,996)	$ (16,151)	$ (115,792)
Denominator:			
Denominator for basic losses per share weighted average shares	61,820	60,577	56,184
Effect of dilutive securities:			
Stock options			
Restricted stock awards			
Diluted potential common shares denominator for diluted losses per Share adjusted weighted average shares and assumed conversions	61,820	60,577	56,184

In fiscal years 2009, 2008, and 2007, options and unvested restricted stock awards had the potential effect of diluting basic earnings per share, and if the Company had net earnings in these years, diluted weighted average shares would have been higher than basic weighted average shares by 190,519 shares, 11,408 shares, and 9,935 shares, respectively.

Stock-Based Compensation. The Company accounts for its stock-based compensation in accordance with SFAS No. 123(R) Shared-Based Payments whereby compensation cost is recognized for share-based payments based on the grant date fair value from the beginning of the fiscal period in which the recognition provisions are first applied. See Footnote 6-Common Stock, Stock Option Plans and Restricted Stock Plan.

Comprehensive Income (Loss). Comprehensive income (loss) includes net loss and other changes in net assets of a business during a period from non-owner sources, which are not included in net loss. Such non-owner changes may include, for example, available-for-sale securities and foreign currency translation adjustments. Other than net loss, foreign currency translation adjustments presently represent the only component of comprehensive income (loss) for the Company. The Company does not provide income taxes on the impact of currency translations as earnings from foreign subsidiaries are deemed to be permanently invested.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Subsequent Events. The Company evaluated events occurring between the end of its most recent fiscal year and the time on September 11, 2009 at which the Form 10-K was filed with the Securities Exchange Commission (SEC).

Recent Accounting Pronouncements. In June 2009, Financial Accounting Standards Board (FASB) issued SFAS No. 168 The FASB Accounting Standards Codification™ and the Hierarchy of Generally Accepted Accounting Principles a replacement for SFAS No. 162, The Hierarchy of Generally Accepted Accounting Principles . This statement establishes a single source of generally accepted accounting principles (GAAP) called the codification and is to be applied by nongovernmental entities. All guidance contained in the codification carries an equal level of authority; however there are standards that will remain authoritative until such time that each is integrated into the codification. The SEC also issues rules and interpretive releases that are also sources of authoritative GAAP for publicly traded registrants. This statement shall be effective for financial statements issued for interim and annual periods ending after September 15, 2009.

In May 2009, the FASB issued SFAS No. 165, Subsequent Events , which establishes general standards of accounting for and disclosure of events that occur between the balance sheet and the financial statements issue date. This statement is effective for all interim and annual periods ending after June 15, 2009. The adoption of SFAS No. 165 did not have an impact on the Company s consolidated financial position or results of operations.

On December 29, 2008, the Company adopted SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities an amendment of FASB Statement No. 133 , requiring enhancements to the disclosure requirements for derivative and hedging activities. The objective of the enhanced disclosure requirement is to provide the user of financial statements with a clearer understanding of how the entity uses derivative instruments, how derivatives are accounted for, and how derivatives affect an entity s financial position, cash flows and performance. The statement applies to all derivative and hedging instruments. SFAS No. 161 is effective for all fiscal years and interim periods beginning after November 15, 2008. The adoption of SFAS No. 161 did not materially change the Company s disclosures of derivative and hedging instruments.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements . SFAS No. 157 addresses how companies should measure fair value when companies are required to use a fair value measure for recognition or disclosure purposes under GAAP. As a result of SFAS No. 157, there is now a common definition of fair value to be used throughout GAAP. The FASB believes that the new standard will make the measurement of fair value more consistent and comparable and improve disclosures about those measures. The provisions of SFAS No. 157 were to be effective for fiscal years beginning after November 15, 2007. On February 12, 2008, the FASB issued FASB Staff Position (FSP) FAS 157-2 which delayed the effective date of SFAS No. 157 for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). This FSP partially deferred the effective date of SFAS No. 157 to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years for items within the scope of this FSP. Effective for fiscal year 2009, the Company adopted SFAS No. 157 except as it applies to those nonfinancial assets and nonfinancial liabilities as noted in FSP FAS 157-2 and the adoption of this standard did not have a material effect on its consolidated financial statements.

In December 2007, the FASB issued SFAS No. 141R, Business Combinations-Revised . This new standard replaces SFAS No. 141 Business Combinations . SFAS No. 141R requires that the acquisition method of accounting, instead of the purchase method, be applied to all business combinations and that an acquirer is identified in the process. The statement requires that fair market value be used to recognize assets and assumed liabilities instead of the cost allocation method where the costs of an acquisition are allocated to individual assets based on their estimated fair

values. Goodwill would be calculated as the excess purchase price over the fair value of the assets acquired; however, negative goodwill will be recognized immediately as a gain instead of being allocated to individual assets acquired. Costs of the acquisition will be recognized separately from the business combination. The end result is that the statement improves the comparability, relevance and completeness of assets acquired and liabilities assumed in a business combination. SFAS No. 141R is effective for business combinations which occur in fiscal years beginning on or after December 15, 2008.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Use of Estimates. The preparation of financial statements in conformity with United States (U.S.) GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

2. Investments in Unconsolidated Affiliates

On September 13, 2000, the Company and SANS Fibres of South Africa formed a 50/50 joint venture to produce low-shrinkage high tenacity nylon 6.6 light denier industrial (LDI) yarns in North Carolina. The business was operated in a plant in Stoneville, North Carolina which was owned by the Company. The Company received annual rental income of $0.3 million from UNIFI-SANS Technical Fibers, LLC or (USTF) for the use of the facility. The Company also received from USTF during fiscal year 2007 payments totaling $1.5 million which consisted of reimbursements for rendering general and administrative services and purchasing various manufacturing related items for the operations. On November 30, 2007, the Company completed the sale of its interest in USTF to SANS Fibers and received net proceeds of $11.9 million. The purchase price included $3.0 million for the Stoneville, North Carolina manufacturing facility that the Company leased to the joint venture which had a net book value of $2.1 million. Of the remaining $8.9 million, $8.8 million was allocated to the Company s equity investment in the joint venture and $0.1 million was attributed to interest income.

On September 27, 2000, the Company and Nilit Ltd., located in Israel, formed a 50/50 joint venture named U.N.F. Industries Ltd. (UNF). The joint venture produces nylon partially oriented yarn (POY) at Nilit s manufacturing facility in Migdal Ha Emek, Israel. The nylon POY is utilized in the Company s nylon texturing and covering operations. The nylon segment had a supply agreement with UNF which expired in April 2008; however, the Company continues to purchase POY from the joint venture at agreed upon price points. The Company is in negotiations with Nilit to finalize a new supply agreement and expects the negotiations to be completed in the first half of fiscal year 2010.

The Company and Parkdale Mills, Inc. entered into a contribution agreement on June 30, 1997 whereby both companies contributed all of the assets of their spun cotton yarn operations utilizing open-end and air jet spinning technologies to create Parkdale America, LLC (PAL). In exchange for its contributions, the Company received a 34% ownership interest in the joint venture. PAL is a producer of cotton and synthetic yarns for sale to the textile and apparel industries primarily within North America. PAL has 10 manufacturing facilities primarily located in central and western North Carolina. The Company s investment in PAL at June 28, 2009 was $57.1 million and the underlying equity in the net assets of PAL at June 28, 2009 was $75.6 million. The difference between the carrying value of the Company s investment in PAL and the underlying equity in PAL is attributable to an impairment charge recorded by the Company during fiscal year 2007.

The Food, Conservation, and Energy Act of 2008, (2008 U.S. Farm Bill), extended the existing upland cotton and extra long staple cotton programs, which includes economic adjustment assistance provisions for ten years. Eligible cotton is baled upland cotton regardless of origin which must be one of the following: Baled lint, loose; semi-processed motes or re-ginned motes as defined by the Upland Cotton Domestic User Agreement Section A-2. Eligible and Ineligible Cotton . Beginning August 1, 2008, the revised program will provide textile mills a subsidy of four cents per pound on eligible upland cotton consumed during the first four years and three cents per pound for the last six years. The economic assistance received under this program must be used to acquire, construct, install, modernize, develop, convert or expand land, plant, buildings, equipment, or machinery. Capital expenditures must be directly attributable to the purpose of manufacturing upland cotton into eligible cotton products in the U.S. The recipients have the marketing year which goes from August 1 to July 31, plus eighteen months to make the capital investments. PAL received benefits under this program in the amount of $14.0 million representing eleven months of

cotton consumption, of which $9.7 million was recognized as a reduction to PAL s cost of sales during the Company s fiscal year 2009. The remaining $4.3 million of deferred revenue will be recognized by PAL based on qualifying capital expenditures.

In August 2005, the Company formed Yihua Unifi Fibre Company Limited (YUFI), a 50/50 joint venture with Sinopec Yizheng Chemical Fiber Co., Ltd, (YCFC), to manufacture, process and market polyester filament

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

yarn in YCFC s facilities in Yizheng, Jiangsu Province, People s Republic of China (China). During fiscal year 2008, the Company s management explored strategic options with its joint venture partner in China with the ultimate goal of determining if there was a viable path to profitability for YUFI. Management concluded that although YUFI had successfully grown its position in high value and premier value-added (PVA) products, commodity sales would continue to be a large and unprofitable portion of the joint venture s business. In addition, the Company believed YUFI had focused too much attention and energy on non-value added issues, detracting management from its primary PVA objectives. Based on these conclusions, the Company decided to exit the joint venture and on July 30, 2008, the Company announced that it had reached a proposed agreement to sell its 50% interest in YUFI to its partner for $10.0 million.

As a result of the agreement with YCFC, the Company initiated a review of the carrying value of its investment in YUFI in accordance with APB 18 and determined that the carrying value of its investment in YUFI exceeded its fair value. Accordingly, the Company recorded a non-cash impairment charge of $6.4 million in the fourth quarter of fiscal year 2008.

The Company expected to close the transaction in the second quarter of fiscal year 2009 pending negotiation and execution of definitive agreements and Chinese regulatory approvals. The agreement provided for YCFC to immediately take over operating control of YUFI, regardless of the timing of the final approvals and closure of the equity sale transaction. During the first quarter of fiscal year 2009, the Company gave up one of its senior staff appointees and YCFC appointed its own designee as General Manager of YUFI, who assumed full responsibility for the operating activities of YUFI at that time. As a result, the Company lost its ability to influence the operations of YUFI and therefore the Company ceased recording its share of losses commencing in the same quarter in accordance with APB 18.

In December 2008, the Company renegotiated the proposed agreement to sell its interest in YUFI to YCFC for $9.0 million and recorded an additional impairment charge of $1.5 million, which included approximately $0.5 million related to certain disputed accounts receivable and $1.0 million related to the fair value of its investment, as determined by the re-negotiated equity interest sales price, was lower than carrying value.

On March 30, 2009, the Company closed on the sale and received $9 million in proceeds related to its investment in YUFI. The Company continues to service customers in Asia through Unifi Textiles Suzhou Co., Ltd. (UTSC), a wholly-owned subsidiary based in Suzhou, China, that is dedicated to the development, sales and service of PVA yarns. UTSC is located in the Gold River Center (room 1101), No. 88 Shishan Road, Suzhou New District, Suzhou, which is in Jiangsu Province.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Condensed balance sheet information and income statement information as of June 28, 2009, June 29, 2008, and June 24, 2007 of combined unconsolidated equity affiliates were as follows (amounts in thousands):

	June 28, 2009				
	PAL	YUFI(1)	UNF	USTF	Total
Current assets	$ 149,959	$	$ 2,329	$	$ 152,288
Noncurrent assets	98,460		3,433		101,893
Current liabilities	21,754		1,080		22,834
Noncurrent liabilities	4,294				4,294
Shareholder s equity and capital accounts	222,371		4,682		227,053

	June 29, 2008				
	PAL	YUFI	UNF	USTF(2)	Total
Current assets	$ 132,526	$ 30,678	$ 7,528	$	$ 170,732
Noncurrent assets	112,974	59,552	5,329		177,855
Current liabilities	25,799	57,524	4,837		88,160
Noncurrent liabilities					
Shareholder s equity and capital accounts	219,701	32,706	8,020		260,427

	Fiscal Year Ended June 28, 2009				
	PAL	YUFI	UNF	USTF	Total
Net sales	$ 408,841	$	$ 18,159	$	$ 427,000
Gross profit (loss)	26,232		(2,349)		23,883
Depreciation and amortization	18,805		1,896		20,701
Income (loss) from operations	17,618		(3,649)		13,969
Net income (loss)	13,895		(3,338)		10,557

	Fiscal Year Ended June 29, 2008				
	PAL	YUFI	UNF	USTF	Total
Net sales	$ 460,497	$ 140,125	$ 25,528	$ 6,455	$ 632,605
Gross profit (loss)	21,504	(7,545)	175	571	14,705
Depreciation and amortization	17,777	6,170	1,738	578	26,263
Income (loss) from operations	10,437	(14,192)	(1,649)	189	(5,215)
Net income (loss)	24,269	(14,922)	(1,484)	148	8,011

	Fiscal Year Ended June 24, 2007				
	PAL	YUFI	UNF	USTF	Total

Net sales	$ 440,366	$ 123,912	$ 20,852	$ 24,883	$ 610,013
Gross profit (loss)	19,785	(7,488)	(2,006)	2,507	12,798
Depreciation and amortization	24,798	5,276	1,897	2,125	34,096
Income (loss) from operations	5,043	(12,722)	(2,533)	929	(9,283)
Net income (loss)	7,376	(13,570)	(2,210)	671	(7,733)

(1) The Company completed the sale of its investment in YUFI during the fourth quarter of fiscal year.

(2) The Company sold USTF in the second quarter of fiscal year 2008.

USTF and PAL were organized as partnerships for U.S. tax purposes. Taxable income and losses are passed through USTF and PAL to the members in accordance with the Operating Agreements of USTF and PAL. For the

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

fiscal years ended June 28, 2009, June 29, 2008, and June 24, 2007, distributions received by the Company from PAL were $3.7 million, $4.5 million, and $6.4 million, respectively. The total undistributed earnings of unconsolidated equity affiliates were $3.3 million as of June 28, 2009. Included in the above net sales amounts for the 2009, 2008, and 2007 fiscal years are sales to Unifi of approximately $17.5 million, $26.7 million, and $22.0 million, respectively. These amounts represent sales of nylon POY from UNF for use in the production of textured nylon yarn in the ordinary course of business. The Company eliminated intercompany profits in accordance with its policy as discussed in Footnote 1-Significant Accounting Policies and Financial Statement Information .

3. Long-Term Debt and Other Liabilities

A summary of long-term debt and other liabilities is as follows:

	June 28, 2009	June 29, 2008
	(Amounts in thousands)	
Senior secured notes due 2014	$ 179,222	$ 190,000
Amended revolving credit facility		3,000
Brazilian government loans	6,931	17,117
Other obligations	3,399	5,543
Total debt and other obligations	189,552	215,660
Current maturities	(6,845)	(9,805)
Total long-term debt and other liabilities	$ 182,707	$ 205,855

Long-Term Debt

On May 26, 2006, the Company issued $190 million of 11.5% senior secured notes (2014 notes) due May 15, 2014. In connection with the issuance, the Company incurred $7.3 million in professional fees and other expenses which are being amortized to expense over the life of the 2014 notes. Interest is payable on the 2014 notes on May 15 and November 15 of each year. The 2014 notes are unconditionally guaranteed on a senior, secured basis by each of the Company s existing and future restricted domestic subsidiaries. The 2014 notes and guarantees are secured by first-priority liens, subject to permitted liens, on substantially all of the Company s and the Company s subsidiary guarantors assets other than the assets securing the Company s obligations under its amended revolving credit facility (Amended Credit Agreement) as discussed below. The assets include but are not limited to, property, plant and equipment, domestic capital stock and some foreign capital stock. Domestic capital stock includes the capital stock of the Company s domestic subsidiaries and certain of its joint ventures. Foreign capital stock includes up to 65% of the voting stock of the Company s first-tier foreign subsidiaries, whether now owned or hereafter acquired, except for certain excluded assets. The 2014 notes and guarantees are secured by second-priority liens, subject to permitted liens, on the Company and its subsidiary guarantors assets that will secure the 2014 notes and guarantees on a first-priority basis. The estimated fair value of the 2014 notes, based on quoted market prices, at June 28, 2009 was approximately $112.9 million.

Through fiscal year 2009, the Company sold property, plant and equipment secured by first-priority liens in aggregate amount of $25.0 million. In accordance with the 2014 note collateral documents and the indenture, the proceeds from the sale of the property, plant and equipment (First Priority Collateral) were deposited into the First Priority Collateral Account whereby the Company may use the restricted funds to purchase additional qualifying assets. Through fiscal year 2009, the Company had utilized $16.2 million to repurchase qualifying assets. On April 3, 2009, the Company used the remaining $8.8 million of First Priority Collateral restricted funds to repurchase $8.8 million of the 2014 notes at par. As of June 28, 2009, the Company had no funds remaining in the First Priority Collateral Account.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Prior to May 15, 2009, the Company could elect to redeem up to 35% of the principal amount of the 2014 notes with the proceeds of certain equity offerings at a redemption price equal to 111.5% of par value otherwise the Company cannot redeem the 2014 notes prior to May 15, 2010. After May 15, 2010, the Company can elect to redeem some or all of the 2014 notes at redemption prices equal to or in excess of par depending on the year the optional redemption occurs. As of June 28, 2009, no such optional redemptions had occurred. The Company may purchase its 2014 notes, in open market purchases or in privately negotiated transactions and then retire them. Such purchases of the 2014 notes will depend on prevailing market conditions, liquidity requirements, contractual restrictions and other factors. In addition, the Company repurchased and retired notes having a face value of $2.0 million in open market purchases. The net effect of the gain on this repurchase and the write-off of the respective unamortized issuance cost related to the $8.8 million and $2.0 million of 2014 notes resulted in a net gain of $0.3 million.

Concurrently with the issuance of the 2014 notes, the Company amended its senior secured asset-based revolving credit facility to provide for a $100 million revolving borrowing base, to extend its maturity to 2011, and revise some of its other terms and covenants. The Amended Credit Agreement is secured by first-priority liens on the Company s and its subsidiary guarantors inventory, accounts receivable, general intangibles (other than uncertificated capital stock of subsidiaries and other persons), investment property (other than capital stock of subsidiaries and other persons), chattel paper, documents, instruments, supporting obligations, letter of credit rights, deposit accounts and other related personal property and all proceeds relating to any of the above, and by second-priority liens, subject to permitted liens, on the Company s and its subsidiary guarantors assets securing the 2014 notes and guarantees on a first-priority basis, in each case other than certain excluded assets. The Company s ability to borrow under the Company s Amended Credit Agreement is limited to a borrowing base equal to specified percentages of eligible accounts receivable and inventory and is subject to other conditions and limitations.

Borrowings under the Amended Credit Agreement bear interest at rates of LIBOR plus 1.50% to 2.25% and/or prime plus 0.00% to 0.50%. The interest rate matrix is based on the Company s excess availability under the Amended Credit Agreement. The Amended Credit Agreement also includes a 0.25% LIBOR margin pricing reduction if the Company s fixed charge coverage ratio is greater than 1.5 to 1.0. The unused line fee under the Amended Credit Agreement is 0.25% to 0.35% of the borrowing base. In connection with the refinancing, the Company incurred fees and expenses aggregating $1.2 million, which are being amortized over the term of the Amended Credit Agreement.

As of June 28, 2009, under the terms of the Amended Credit Agreement, the Company had no outstanding borrowings and borrowing availability of $62.7 million. As of June 29, 2008, under the terms of the Amended Credit Agreement, the Company had $3.0 million of outstanding borrowings at a rate of 5% and borrowing availability of $89.2 million.

The Amended Credit Agreement contains affirmative and negative customary covenants for asset-based loans that restrict future borrowings and capital spending. The covenants under the Amended Credit Agreement are more restrictive than those in the indenture. Such covenants include, without limitation, restrictions and limitations on (i) sales of assets, consolidation, merger, dissolution and the issuance of the Company s capital stock, each subsidiary guarantor and any domestic subsidiary thereof, (ii) permitted encumbrances on the Company s property, each subsidiary guarantor and any domestic subsidiary thereof, (iii) the incurrence of indebtedness by the Company, any subsidiary guarantor or any domestic subsidiary thereof, (iv) the making of loans or investments by the Company, any subsidiary guarantor or any domestic subsidiary thereof, (v) the declaration of dividends and redemptions by the Company or any subsidiary guarantor and (vi) transactions with affiliates by the Company or any subsidiary guarantor.

The Amended Credit Agreement contains customary covenants for asset based loans which restrict future borrowings and capital spending. It includes a trailing twelve month fixed charge coverage ratio that restricts the guarantor s ability to invest in certain assets if the ratio becomes less than 1.0 to 1.0, after giving effect to such investment on a pro forma basis. As of June 28, 2009 the company had a fixed charge coverage ratio of less than 1.0

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

to 1.0 and was therefore subjected to these restrictions. These restrictions will likely apply in future quarters until such time as the Company s financial performance improves.

Under the Amended Credit Agreement, the maximum capital expenditures are limited to $30 million per fiscal year with a 75% one-year unused carry forward. The Amended Credit Agreement permits the Company to make distributions, subject to standard criteria, as long as pro forma excess availability is greater than $25 million both before and after giving effect to such distributions, subject to certain exceptions. Under the Amended Credit Agreement, acquisitions by the Company are subject to pro forma covenant compliance. If borrowing capacity is less than $25 million at any time, covenants will include a required minimum fixed charge coverage ratio of 1.1 to 1.0, receivables are subject to cash dominion, and annual capital expenditures are limited to $5.0 million per year of maintenance capital expenditures.

Unifi do Brazil, receives loans from the government of the State of Minas Gerais to finance 70% of the value added taxes due by Unifi do Brazil to the State of Minas Gerais. These twenty-four month loans were granted as part of a tax incentive program for producers in the State of Minas Gerais. The loans have a 2.5% origination fee and bear an effective interest rate equal to 50% of the Brazilian inflation rate, which was 1.5% on June 28, 2009. The loans are collateralized by a performance bond letter issued by a Brazilian bank, which secures the performance by Unifi do Brazil of its obligations under the loans. In return for this performance bond letter, Unifi do Brazil makes certain restricted cash deposits with the Brazilian bank in amounts equal to 100% of the loan amounts. The deposits made by Unifi do Brazil earn interest at a rate equal to approximately 100% of the Brazilian prime interest rate which was 9.3% as of June 28, 2009. The ability to make new borrowings under the tax incentive program ended in May 2008.

The following table summarizes the maturities of the Company s long-term debt and other noncurrent liabilities on a fiscal year basis:

	Aggregate Maturities (Amounts in thousands)					
Balance at June 28, 2009	**2010**	**2011**	**2012**	**2013**	**2014**	**Thereafter**
$ 189,552	$ 6,845	$ 1,275	$ 511	$ 148	$ 179,331	$ 1,442

Other Obligations

On May 20, 1997, the Company entered into a sale leaseback agreement with a financial institution whereby land, buildings and associated real and personal property improvements of certain manufacturing facilities were sold to the financial institution and will be leased by the Company over a sixteen-year period. This transaction has been recorded as a direct financing arrangement. During fiscal year 2008, management determined that it was not likely that the Company would purchase back the property at the end of the lease term even though the Company retains the right to purchase the property under the agreement on any semi-annual payment date in the amount pursuant to a prescribed formula as defined in the agreement. As of June 28, 2009 and June 29, 2008, the balance of the note was $1.0 million and $1.3 million and the net book value of the related assets was $2.2 million and $2.8 million, respectively. Payments for the remaining balance of the sale leaseback agreement are due semi-annually and are in varying amounts, in accordance with the agreement. Average annual principal payments over the next three years are approximately $0.3 million. The interest rate implicit in the agreement is 7.84%.

As of June 28, 2009 and June 29, 2008, other obligations include $0.9 million and $0.9 million for a deferred compensation plan created in fiscal year 2007 for certain key management employees, $1.1 million and $1.4 million for retiree reserves and $0.3 million and $1.7 million in long-term severance obligations, respectively.

4. Intangible Assets, Net

Other intangible assets subject to amortization consisted of customer relationships of $22.0 million and non-compete agreements of $4.0 million which were entered in connection with an asset acquisition consummated in fiscal year 2007. The customer list is being amortized in a manner which reflects the expected economic benefit that will be received over its thirteen year life and the non-compete agreement is being amortized using the straight-line

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

method over seven years. There are no residual values related to these intangible assets. Accumulated amortization at June 28, 2009 and June 29, 2008 for these intangible assets was $8.7 million and $5.6 million, respectively. These intangible assets relate to the polyester segment.

In addition, the Company allocated $0.5 million to customer relationships arising from a transaction that closed in the second quarter of fiscal year 2009. This customer list is being amortized using the straight-line method over a period of one and one-half years. Accumulated amortization at June 28, 2009 was $0.2 million. These intangible assets relate to the polyester segment.

The following table represents the expected intangible asset amortization for the next five fiscal years:

	Aggregate Amortization Expenses				
	2010	2011	2012	2013	2014
	(Amounts in thousands)				
Customer list	$ 2,992	$ 2,173	$ 2,022	$ 1,837	$ 1,481
Non-compete contract	571	571	571	571	286
	$ 3,563	$ 2,744	$ 2,593	$ 2,408	$ 1,767

5. Income Taxes

Income (loss) from continuing operations before income taxes is as follows:

	Fiscal Years Ended		
	June 28, 2009	June 29, 2008	June 24, 2007
	(Amounts in thousands)		
Income (loss) from continuing operations before income taxes:			
United States	$ (54,310)	$ (25,096)	$ (135,036)
Foreign	9,550	(5,230)	(3,990)
	$ (44,760)	$ (30,326)	$ (139,026)

The provision for (benefit from) income taxes applicable to continuing operations for fiscal years 2009, 2008, and 2007 consists of the following:

	Fiscal Years Ended		
	June 28, 2009	June 29, 2008	June 24, 2007

	(Amounts in thousands)		
Current:			
Federal	$	$ (5)	$ (218)
State		(45)	(16)
Foreign	3,927	5,296	2,452
	3,927	5,246	2,218
Deferred:			
Federal	$	(14,504)	(24,106)
Repatriation of foreign earnings		1,866	3,206
State		(1,635)	(2,278)
Foreign	374	(1,922)	(809)
	374	(16,195)	(23,987)
Income tax provision (benefit)	$ 4,301	$ (10,949)	$ (21,769)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Income tax expense (benefit) was 9.6%, (36.1)%, and (15.7)% of pre-tax losses in fiscal 2009, 2008, and 2007, respectively. A reconciliation of the provision for income tax benefits with the amounts obtained by applying the federal statutory tax rate is as follows:

	Fiscal Years Ended		
	June 28, 2009	June 29, 2008	June 24, 2007
Federal statutory tax rate	(35.0)%	(35.0)%	(35.0)%
State income taxes, net of federal tax benefit	(3.9)	(3.1)	(3.3)
Foreign income taxed at lower rates	2.1	17.2	2.2
Repatriation of foreign earnings	(3.9)	6.2	2.3
North Carolina investment tax credits expiration	2.2	8.0	
Change in valuation allowance	45.2	(26.0)	18.0
Nondeductible expenses and other	2.9	(3.4)	0.1
Effective tax rate	9.6%	(36.1)%	(15.7)%

In fiscal year 2008, the Company accrued federal income tax on approximately $5.0 million of dividends expected to be distributed from a foreign subsidiary in future fiscal periods and approximately $0.3 million of dividends distributed from a foreign subsidiary during fiscal year 2008. During the third quarter of fiscal year 2009, management revised its assertion with respect to the repatriation of $5.0 million of dividends and now intends to permanently reinvest this amount outside of the U.S. In fiscal year 2007, the Company accrued federal income tax on approximately $9.2 million of dividends distributed from a foreign subsidiary in fiscal year 2008. Federal income tax on dividends was accrued in a fiscal year prior to distribution when previously unremitted foreign earnings were no longer deemed to be indefinitely reinvested outside the U.S.

Undistributed earnings reinvested indefinitely in foreign subsidiaries aggregated approximately $47.3 million at June 28, 2009.

The deferred income taxes reflect the net tax effects of temporary differences between the basis of assets and liabilities for financial reporting purposes and their basis for income tax purposes. Significant components of the Company s deferred tax liabilities and assets as of June 28, 2009 and June 29, 2008 were as follows:

	June 28, 2009	June 29, 2008
	(Amounts in thousands)	
Deferred tax assets:		
Investments in unconsolidated affiliates	$ 18,882	$ 20,267
State tax credits	2,347	3,310
Accrued liabilities and valuation reserves	11,080	12,767
Net operating loss carryforwards	17,663	5,869

Intangible assets	8,809	2,133
Charitable contributions	253	643
Other items	2,392	2,426
Total gross deferred tax assets	61,426	47,415
Valuation allowance	(40,118)	(19,825)
Net deferred tax assets	21,308	27,590

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	June 28, 2009	June 29, 2008
	(Amounts in thousands)	
Deferred tax liabilities:		
Property, plant and equipment	20,114	24,296
Unremitted foreign earnings		1,750
Other	387	113
Total deferred tax liabilities	20,501	26,159
Net deferred tax asset	$ 807	$ 1,431

As of June 28, 2009, the Company has approximately $46.7 million in federal net operating loss carryforwards and approximately $41.3 million in state net operating loss carryforwards that may be used to offset future taxable income. The Company also has approximately $5.2 million in North Carolina investment tax credits and approximately $0.6 million charitable contribution carryforwards, the deferred income tax effects of which are fully offset by valuation allowances. These carryforwards, if unused, will expire as follows:

Federal net operating loss carryforwards	2024 through 2029
State net operating loss carryforwards	2011 through 2030
North Carolina investment tax credit carryforwards	2010 through 2015
Charitable contribution carryforwards	2010 through 2014

For the year ended June 28, 2009, the valuation allowance increased approximately $20.3 million primarily as a result of the increase in federal net operating loss carryforwards and the impairment of goodwill. For the year ended June 29, 2008, the valuation allowance decreased approximately $12.0 million primarily as a result of the reduction in federal net operating loss carryforwards and the expiration of state income tax credit carryforwards. In assessing the realization of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, available taxes in the carryback periods, projected future taxable income and tax planning strategies in making this assessment.

On June 25, 2007, the Company adopted Financial Interpretation No. 48, Accounting for Uncertainty in Income Taxes, an interpretation of SFAS No. 109, Accounting for Income Taxes (FIN 48). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise s financial statements in accordance with FASB Statement No. 109, Accounting for Income Taxes . FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosures and transition. There was a $0.2 million cumulative adjustment to retained earnings on adoption of FIN 48.

A reconciliation of beginning and ending gross amounts of unrecognized tax benefits is as follows (amounts in thousands):

	June 28, 2009	June 29, 2008
	(Amounts in thousands)	
Beginning balance	$ 4,666	$ 6,813
Increases resulting from tax positions taken during prior periods		319
Decreases resulting from tax positions taken during prior periods	(2,499)	(2,466)
Ending balance	$ 2,167	$ 4,666

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

None of the unrecognized tax benefits would, if recognized, affect the effective tax rate. The Company believes it is reasonably possible unrecognized tax benefits will decrease approximately $1.2 million in the next twelve months as a result of expiring tax credit carryforwards.

The Company has elected upon adoption of FIN 48 to classify interest and penalties recognized in accordance with FIN 48 as income tax expense. The Company had $0.1 million of accrued interest and no penalties related to uncertain tax positions as of June 25, 2007. The Company did not accrue interest or penalties related to uncertain tax positions during fiscal years 2008 or 2009.

The Company is subject to income tax examinations for U.S. federal income taxes for fiscal years 2004 through 2009, for non-U.S. income taxes for tax years 2000 through 2009, and for state and local income taxes for fiscal years 2001 through 2009. During the current fiscal year, the Internal Revenue Service completed their examination of the Company s return for fiscal year 2006. The examination resulted in a $0.3 million reduction in the net operating loss carryforward, but did not affect the amount of tax the Company reported on its return.

6. Common Stock, Stock Option Plans and Restricted Stock Plan

Common shares authorized were 500 million in fiscal years 2009 and 2008. Common shares outstanding at June 28, 2009 and June 29, 2008 were 62,057,300 and 60,689,300, respectively.

Stock options were granted during fiscal years 2009, 2008, and 2007. The fair value and related compensation expense of options were calculated as of the issuance date using a Monte Carlo model for the awards granted in fiscal years 2009 and 2008, which contain vesting provisions subject to market price conditions, and the Black-Scholes model for the awards that were granted during fiscal year 2007, which contain graded vesting provisions based on a continuous service condition. The stock option valuation models use the following assumptions:

	Fiscal Years Ended		
Options Granted	**June 28, 2009**	**June 29, 2008**	**June 24, 2007**
Expected term (years)	7.9	6.6	6.2
Interest rate	3.7%	4.4%	5.0%
Volatility	63.6%	62.3%	56.2%
Dividend yield			

On October 21, 1999, the shareholders of the Company approved the 1999 Unifi, Inc. Long-Term Incentive Plan (1999 Long-Term Incentive Plan). The plan authorized the issuance of up to 6,000,000 shares of Common Stock pursuant to the grant or exercise of stock options, including Incentive Stock Options (ISO), Non-Qualified Stock Options (NQSO) and restricted stock, but not more than 3,000,000 shares may be issued as restricted stock. Option awards are granted with an exercise price equal to the market price of the Company s stock at the date of grant.

During the first quarter of fiscal year 2007, the Compensation Committee (Committee) of the Board of Directors (Board) authorized the issuance of 1,065,000 options from the 1999 Long-Term Incentive Plan to certain key employees. With the exception of the immediate vesting of 300,000 options granted to the former Chief Executive Officer (CEO), the remaining options vest in three equal installments: the first one-third at the time of grant, the next

one-third on the first anniversary of the grant and the final one-third on the second anniversary of the grant.

During the second quarter of fiscal year 2008, the Committee of the Board authorized the issuance of 1,570,000 options from the 1999 Long-Term Incentive Plan of which 120,000 were issued to certain Board members and the remaining options were issued to certain key employees. The options issued to key employees are subject to a market condition which vests the options on the date that the closing price of the Company s common stock shall have been at least $6.00 per share for thirty consecutive trading days. The options issued to certain Board members are subject to a similar market condition in that one half of each member s options vest on the date that the

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

closing price of the Company s common stock shall have been at least $8.00 per share for thirty consecutive trading days and the remaining one half vest on the date that the closing price of the Company s common stock shall have been at least $10.00 per share for thirty consecutive trading days. The Company used a Monte Carlo stock option model to estimate the fair value which ranges from $1.72 per share to $1.79 per share and the derived vesting periods which range from 2.4 to 3.9 years.

On October 29, 2008, the shareholders of the Company approved the 2008 Unifi, Inc. Long-Term Incentive Plan (2008 Long-Term Incentive Plan). The 2008 Long-Term Incentive Plan authorized the issuance of up to 6,000,000 shares of Common Stock pursuant to the grant or exercise of stock options, including Incentive Stock Options (ISO), Non-Qualified Stock Options (NQSO) and restricted stock, but not more than 3,000,000 shares may be issued as restricted stock. Option awards are granted with an exercise price not less than the market price of the Company s stock at the date of grant.

During the second quarter of fiscal year 2009, the Committee of the Board authorized the issuance of 280,000 stock options from the 2008 Long-Term Incentive Plan to certain key employees. The stock options are subject to a market condition which vests the options on the date that the closing price of the Company s common stock shall have been at least $6.00 per share for thirty consecutive trading days. The exercise price is $4.16 per share which is equal to the market price of the Company s stock on the grant date. The Company used a Monte Carlo stock option model to estimate the fair value of $2.49 per share and the derived vesting period of 1.2 years.

The compensation cost that was charged against income for the fiscal years ended June 28, 2009, June 29, 2008, and June 24, 2007 related to these plans was $1.4 million, $1.0 million, and $1.7 million, respectively. These costs were recorded as selling, general and administrative expense with the offset to additional paid-in-capital. The total income tax benefit recognized for share-based compensation in the Consolidated Statements of Operations was not material for all periods presented.

The fair value of each option award is estimated on the date of grant using either the Black-Scholes model for awards containing a service condition or a Monte Carlo model for awards containing a market price condition. The Company uses historical data to estimate the expected life, volatility, and estimated forfeitures of an option. The risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of grant. The Monte Carlo model simulates future stock movements in order to determine the fair value of the option grant and derived service period.

The stock options granted in fiscal years 2009 and 2008 contain vesting provisions subject to a market condition as discussed above. The remaining stock options granted under the 1999 Long-Term Incentive Plan have vesting periods of two to five years of continuous service by the employee. All stock options have a 10 year contractual term. At June 28, 2009, the Company has 250,000 and 3,713,428 shares reserved for the options that remain outstanding under grants from the 2008 Long-Term Incentive Plan and the 1999 Long-Term Incentive Plan, respectively. There were no remaining outstanding options issued under the previous ISO and NQSO plans at

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

June 28, 2009. No additional options will be issued under the 1999 Long-Term Incentive Plan or any previous ISO or NQSO plan. The stock option activity for fiscal years 2009, 2008, and 2007 of all four plans is as follows:

	ISO		NQSO	
	Options Outstanding	Weighted Avg. $/Share	Options Outstanding	Weighted Avg. $/Share
Fiscal year 2007:				
Shares under option beginning of year	3,729,674	5.94	216,667	22.41
Granted	1,065,000	2.89		
Expired	(456,488)	6.22	(81,667)	31.00
Shares under option end of year	4,338,186	5.16	135,000	17.22
Fiscal year 2008:				
Granted	1,570,000	2.72		
Exercised	(147,500)	2.79		
Expired	(432,174)	7.37	(15,000)	16.31
Forfeited	(64,996)	2.84		
Shares under option end of year	5,263,516	4.35	120,000	17.33
Fiscal year 2009:				
Granted	280,000	4.16		
Exercised	(1,368,300)	2.80		
Expired	(131,788)	7.42	(120,000)	17.33
Forfeited	(80,000)	3.26		
Shares under option end of year	3,963,428	4.79		

The weighted average grant-date fair value of options granted in fiscal 2009, 2008, and 2007 was $2.49, $1.79, and $1.70, respectively. The total intrinsic value of options exercised was $1.6 million and $24 thousand in fiscal years 2009 and 2008, respectively. There were no options exercised in 2007. The total fair value of options vested was $0.3 million, $0.5 million and $2.0 million during fiscal years 2009, 2008 and 2007, respectively. The amount of cash received from the exercise of options was $3.8 million and $0.4 million in fiscal years 2009 and 2008, respectively.

The following table sets forth the exercise prices, the number of options outstanding and exercisable and the remaining contractual lives of the Company s stock options as of June 28, 2009:

	Options Outstanding			Options Exercisable	
	Number of	Weighted	Weighted Average Contractual Life	Number of	Weighted

Exercise Price	Options Outstanding	Average Exercise Price	Remaining (Years)	Options Exercisable	Average Exercise Price
$ 2.67 - $ 3.10	2,395,000	$ 2.76	7.5	895,000	$ 2.83
3.11 - 6.20	410,000	3.87	8.4	160,000	3.42
6.21 - 9.30	637,805	7.41	2.6	637,805	7.41
9.31 - 12.40	365,279	11.28	0.6	365,279	11.28
12.41 - 12.53	155,344	12.53	0.3	155,344	12.53

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table sets forth certain required stock option information for awards granted under the 1999 Long-Term Incentive Plan and the 2008 Long-Term Incentive Plan as of and for the year ended June 28, 2009:

		ISO
Number of options expected to vest		3,954,928
Weighted-average price of options expected to vest	$	4.80
Intrinsic value of options expected to vest	$	
Weighted-average remaining contractual term of options expected to vest		5.86
Number of options exercisable as of June 28, 2009		2,213,428
Option price range	$	2.76 - $12.53
Weighted-average exercise price for options currently exercisable	$	6.27
Intrinsic value of options currently exercisable	$	
Weighted-average remaining contractual term of options currently exercisable		3.81

The Company has a policy of issuing new shares to satisfy share option exercises. The Company has elected an accounting policy of accelerated attribution for graded vesting.

As of June 28, 2009, unrecognized compensation costs related to unvested share based compensation arrangements was $1.2 million. The weighted average period over which these costs are expected to be recognized is 0.8 years.

The restricted stock activity for fiscal years 2009, 2008, and 2007 is as follows:

	Shares	Weighted Average Grant-Date Fair Value
Fiscal year 2007:		
Unvested shares beginning of year	10,400	6.63
Vested	(5,800)	6.92
Unvested shares end of year	4,600	6.27
Fiscal year 2008:		
Vested	(4,300)	6.36
Unvested shares end of year	300	4.97
Fiscal year 2009:		
Forfeited	(300)	4.97
Unvested shares end of year		

7. Assets Held for Sale

As of June 29, 2008, the Company had assets held for sale related to the consolidation of its polyester manufacturing capacity which included the remaining assets and structures located in Kinston, North Carolina (Kinston) which had a carrying value of $1.7 million and certain real property and related assets located in Yadkinville, North Carolina which had a carrying value of $2.4 million.

On September 29, 2008, the Company entered into an agreement to sell certain idle real property and related assets located in Yadkinville, North Carolina, for $7.0 million. On December 19, 2008, the Company completed the sale and recorded a net pre-tax gain of $5.2 million in the second quarter of fiscal year 2009. The gain is included in the other operating (income) expense, net line on the Consolidated Statements of Operations.

During the fourth quarter of fiscal year 2009, the Company completed its SFAS No. 144 review of the remaining Kinston assets and determined that the carrying value exceeded its fair value. As a result, the Company recorded $0.4 million in non-cash impairment charges related to these assets.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table summarizes by category assets held for sale:

	June 28, 2009	June 29, 2008
	(Amounts in thousands)	
Land and Building	$	$ 1,378
Machinery and equipment	1,350	2,746
	$ 1,350	$ 4,124

Effective for fiscal year 2009, the Company adopted SFAS No. 157 except as it applies to those nonfinancial assets and nonfinancial liabilities as noted in FSP FAS 157-2. As a result the Company s assets held for sale are included in the deferral provided for by FSP FAS 157-2.

8. Impairment Charges

Write down of long-lived assets

During fiscal year 2007, the Company reviewed its operating facilities located in Madison, North Carolina which were comprised of three manufacturing plants and one warehouse (the Madison facilities) since it had been for sale for a one year period and had not sold. The Company completed its SFAS No. 144 review relating to the Madison facilities and based on new appraisals recorded an additional non-cash impairment charge of $3.0 million. In addition, the Madison facilities stored idle equipment relating to its operations that had no market value. The Company determined to abandon the equipment and as a result recorded a non-cash impairment charge of $5.6 million.

On October 26, 2006, the Company announced its intent to sell a warehouse that the Company had leased to a tenant since 1999. The lease expired in October 2006 and the Company decided to sell the property upon expiration of the lease. Pursuant to this determination, the Company received appraisals relating to the property and performed an impairment review in accordance with SFAS No. 144. Accordingly, the Company recorded a non-cash impairment charge of $1.2 million during the first quarter of fiscal year 2007.

In November 2006, the Company s Brazilian polyester operation committed to a plan to modernize its facilities by abandoning ten of its older machines and replacing the machines with newer machines that it purchased from the domestic polyester division. These machine purchases allowed the Brazilian facility to produce tailor-made products at higher speeds resulting in lower costs and increased competitiveness. The Company recorded a $2.0 million impairment charge on the older machines in the second quarter of fiscal year 2007.

The Company operated two polyester dye facilities which are located in Mayodan, North Carolina (the Mayodan facility) and Reidsville, North Carolina (the Reidsville facility). On March 22, 2007, the Company committed to a plan to idle the Mayodan facility and consolidate all of its dyed operations into the Reidsville facility. To create space in the Reidsville facility, several idle machines were abandoned which resulted in a non-cash impairment charge of $0.5 million. The consolidation process was completed as of June 24, 2007. The Company performed an impairment

review of the Mayodan facility in accordance with SFAS No. 144 and received an appraisal which indicated that the carrying amount of the facility exceeded its fair value. Accordingly, in the third quarter of fiscal year 2007, the Company recorded a non-cash impairment charge of $4.4 million.

During the first quarter of fiscal year 2008, the Company s Brazilian polyester operation continued its modernization plan for its facilities by abandoning four of its older machines and replacing these machines with newer machines that it purchased from the Company s domestic polyester division. As a result, the Company recognized a $0.5 million non-cash impairment charge on the older machines.

During the second quarter of fiscal year 2008, the Company evaluated the carrying value of the remaining machinery and equipment at Dillon Yarn Corporation (Dillon). The Company sold several machines to a foreign subsidiary and in addition transferred several other machines to its Yadkinville, North Carolina facility. Six of the remaining machines were leased under an operating lease to a manufacturer in Mexico at a fair market value

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

substantially less than their carrying value. The last five remaining machines were scrapped for spare parts inventory. These eleven machines were written down to fair market value determined by the lease; and as a result, the Company recorded a non-cash impairment charge of $1.6 million in the second quarter of fiscal year 2008. The adjusted net book value will be depreciated over a two-year period which is consistent with the life of the lease.

In addition, during the second quarter of fiscal year 2008, the Company negotiated with a third party to sell its Kinston, North Carolina polyester facility. Based on appraisals, management concluded that the carrying value of the real estate exceeded its fair value. Accordingly, the Company recorded $0.7 million in non-cash impairment charges. On March 20, 2008, the Company completed the sale of assets located in Kinston. The Company retained the right to sell certain idle polyester assets for a period of two years.

During the fourth quarter of fiscal year 2009, the Company determined that a SFAS No. 144 review of the remaining assets held for sale located in Kinston, North Carolina was necessary as a result of sales negotiations. The cash flow projections related to these assets were based on the expected sales proceeds, which were estimated based on the current status of negotiations with a potential buyer. As a result of this review, the Company determined that the carrying value of the assets exceeded the fair value and recorded $0.4 million in non-cash impairment charges related to these assets held for sale as discussed above in Footnote 7-Assets Held For Sale .

Write down of investment in unconsolidated affiliates

As a part of its fiscal year 2007 financial statement closing process, the Company initiated a review of the carrying value of its investment in PAL, in accordance with APB 18. As a result, the Company determined that the carrying value of the Company s investment in PAL exceeded its fair value and the impairment was other then temporary. The Company recorded a non-cash impairment charge of $84.7 million in the fourth quarter of the Company s fiscal year 2007 based on an appraised fair value of PAL, less 25% for lack of marketability and its minority ownership percentage.

During the first quarter of fiscal year 2008, the Company determined that a review of the carrying value of its investment in USTF was necessary as a result of sales negotiations. As a result of this review, the Company determined that the carrying value exceeded its fair value. Accordingly, a non-cash impairment charge of $4.5 million was recorded in the first quarter of fiscal year 2008.

In July 2008, the Company announced a proposed agreement to sell its 50% ownership interest in YUFI to its partner, YCFC, for $10.0 million, pending final negotiation and execution of definitive agreements and the receipt of Chinese regulatory approvals. In connection with a review of the YUFI value during negotiations related to the sale, the Company initiated a review of the carrying value of its investment in YUFI in accordance with APB 18. As a result of this review, the Company determined that the carrying value of its investment in YUFI exceeded its fair value. Accordingly, the Company recorded a non-cash impairment charge of $6.4 million in the fourth quarter of fiscal year 2008.

During the second quarter of fiscal year 2009, the Company and YCFC renegotiated the proposed agreement to sell the Company s interest in YUFI to YCFC from $10.0 million to $9.0 million. As a result, the Company recorded an additional impairment charge of $1.5 million, which included approximately $0.5 million related to certain disputed accounts receivable and $1.0 million related to the fair value of its investment, as determined by the re-negotiated equity interest sales price, was lower than carrying value. During the fourth quarter of fiscal year 2009, the Company completed the sale of YUFI to YCFC. See Footnote 2-Investments in Unconsolidated Affiliates for further discussion.

Goodwill Impairment

The Company accounts for its goodwill and other intangibles under the provisions of SFAS No. 142, Goodwill and Other Intangible Assets . SFAS No. 142 requires that these assets be reviewed for impairment annually, unless specific circumstances indicate that a more timely review is warranted. This impairment test involves estimates and judgments that are critical in determining whether any impairment charge should be recorded and the amount of such charge if an impairment loss is deemed to be necessary. In accordance with the

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

provisions of SFAS No. 142, the Company determined that its reportable segments were comprised of three reporting units; domestic polyester, non-domestic polyester, and nylon.

The Company s balance sheet at December 28, 2008 reflected $18.6 million of goodwill, all of which related to the acquisition of Dillon in January 2007. The Company previously determined that all of this goodwill should be allocated to the domestic polyester reporting unit. Based on a decline in its market capitalization during the third quarter of fiscal year 2009 and difficult market conditions, the Company determined that it was appropriate to re-evaluate the carrying value of its goodwill during the quarter ended March 29, 2009. In connection with this third quarter interim impairment analysis, the Company updated its cash flow forecasts based upon the latest market intelligence, its discount rate and its market capitalization values. The projected cash flows are based on the Company s forecasts of volume, with consideration of relevant industry and macroeconomic trends. The fair value of the domestic polyester reporting unit was determined based upon a combination of a discounted cash flow analysis and a market approach utilizing market multiples of guideline publicly traded companies. As a result of the findings, the Company determined that the goodwill was impaired and recorded an impairment charge of $18.6 million in the third quarter of fiscal year 2009.

9. Severance and Restructuring Charges

Severance

On April 20, 2006, the Company re-organized its domestic business operations. Approximately 45 management level salaried employees were affected by this plan of reorganization. During fiscal year 2007, the Company recorded an additional $0.3 million for severance related to this reorganization. The severance expense is included in the restructuring charges (recoveries) line item in the Consolidated Statements of Operations.

On April 26, 2007, the Company announced its plan to consolidate its domestic capacity and close its recently acquired Dillon polyester facility. In accordance with the provisions of Statements of Financial Accounting Standards No. 141, Business Combinations , the Company recorded a balance sheet adjustment to book a $0.7 million assumed liability for severance in fiscal year 2007 with the offset to goodwill. Approximately 291 wage employees and 25 salaried employees were affected by this consolidation plan.

On August 2, 2007, the Company announced the closure of its Kinston, North Carolina polyester facility. The Kinston facility produced POY for internal consumption and third party sales. In the future, the Company will purchase its commodity POY needs from external suppliers for conversion in its texturing operations. The Company will continue to produce POY in the Yadkinville, North Carolina facility for its specialty and premium value yarns and certain commodity yarns. During fiscal year 2008, the Company recorded $1.3 million for severance related to its Kinston consolidation. Approximately 231 employees which included 31 salaried positions and 200 wage positions were affected as a result of this reorganization. The severance expense is included in the cost of sales line item in the Consolidated Statements of Operations.

On August 22, 2007, the Company announced its plan to re-organize certain corporate staff and manufacturing support functions to further reduce costs. The Company recorded $1.1 million for severance related to this reorganization. Approximately 54 salaried employees were affected by this reorganization. The severance expense is included in the restructuring charges (recoveries) line item in the Consolidated Statements of Operations. In addition, the Company recorded severance of $2.4 million for its former CEO and $1.7 million for severance related to its former Chief Financial Officer (CFO) during fiscal year 2008. These additional severance expenses are included in the

selling, general and administrative expense line item in the Consolidated Statements of Operations.

On May 14, 2008, the Company announced the closure of its polyester facility located in Staunton, Virginia and the transfer of certain production to its facility in Yadkinville, North Carolina which was completed in November 2008. During the first quarter of fiscal year 2009, the Company recorded $0.1 million for severance related to its Staunton consolidation. Approximately 40 salaried and wage employees were affected by this reorganization. The severance expenses are included in the cost of sales line item in the Consolidated Statements of Operations.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

In the third quarter of fiscal year 2009, the Company re-organized and reduced its workforce due to the economic downturn. Approximately 200 salaried and wage employees were affected by this reorganization related to the Company s efforts to reduce costs. As a result, the Company recorded $0.3 million in severance charges related to certain salaried corporate and manufacturing support staff. The severance expenses are included in the restructuring charges (recoveries) line item in the Consolidated Statements of Operations.

Restructuring

On October 25, 2006, the Company s Board of Directors approved the purchase of the assets of the Dillon Yarn Division (Dillon) of Dillon Yarn Corporation. This approval was based on a business plan which assumed certain significant synergies that were expected to be realized from the elimination of redundant overhead, the rationalization of under-utilized assets and certain other product optimization. The preliminary asset rationalization plan included exiting two of the three production activities currently operating at the Dillon facility and moving them to other Unifi manufacturing facilities. The plan was to be finalized once operations personnel from the Company would have full access to the Dillon facility, in order to determine the optimal asset plan for the Company s anticipated product mix. This plan was consistent with the Company s domestic market consolidation strategy. On January 1, 2007, the Company completed the Dillon asset acquisition.

Concurrent with the acquisition the Company entered into a Sales and Services Agreement (the Agreement). The Agreement covered the services of certain Dillon personnel who were responsible for product sales and certain other personnel that were primarily focused on the planning and operations at the Dillon facility. The services would be provided over a period of two years at a fixed cost of $6.0 million. In the fourth quarter of fiscal year 2007, the Company finalized its plan and announced its decision to exit its recently acquired Dillon polyester facility.

The closure of the Dillon facility triggered an evaluation of the Company s obligations arising under the Agreement. The Company evaluated the guidance contained in SFAS No. 141 Business Combinations , as well as the guidance contained in EITF Abstract Issue No. 95-3 (EITF 95-3) Recognition of Liabilities in Connection with a Purchase Business Combination in determining the appropriate accounting for the costs associated with the Agreement. The Company determined from this evaluation that the fair value of the services to be received under the Agreement were significantly lower than the obligation to Dillon. As a result, the Company determined that a portion of the obligation should be considered an unfavorable contract as defined by SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities . The Company concluded that costs totaling approximately $3.1 million relating to services provided under the Agreement were for the ongoing benefit of the combined business and therefore should be reflected as an expense in the Company s Consolidated Statements of Operations, as incurred. The remaining Agreement costs totaling approximately $2.9 million were for the personnel involved in the planning and operations of the Dillon facility and related to the time period after shutdown in June 2007. Therefore, these costs were reflected as an assumed purchase liability in accordance with SFAS No. 141, since these costs no longer related to the generation of revenue and had no future economic benefit to the combined business.

In fiscal year 2008, the Company recorded $3.4 million for restructuring charges related to contract termination costs and other noncancellable contracts for continued services after the closing of the Kinston facility. See the Severance discussion above for further details related to Kinston. These charges were recorded in the restructuring charges (recoveries) line item in the Consolidated Statements of Operations for fiscal year 2008.

The Company recorded restructuring charges in lease related costs associated with the closure of its polyester facility in Altamahaw, North Carolina during fiscal year 2004. In the second quarter of fiscal year 2008, the Company

negotiated the remaining obligation on the lease and recorded a $0.3 million net favorable adjustment related to the cancellation of the lease obligation. This recovery was recorded in the restructuring charges (recoveries) line item in the Consolidated Statements of Operations for fiscal year 2008.

During the fourth quarter of fiscal year 2009, the Company recorded $0.2 million of restructuring recoveries related to retiree reserves. This recovery was recorded in the restructuring charges (recoveries) line item in the Consolidated Statements of Operations for fiscal year 2009.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The table below summarizes changes to the accrued severance and accrued restructuring accounts for the fiscal years ended June 28, 2009 and June 29, 2008 (amounts in thousands):

	Balance at June 29, 2008	Additional Charges	Adjustments	Amount Used	Balance at June 28, 2009
Accrued severance	$ 3,668	$ 371	$ 5	$ (2,357)	$ 1,687(1)
Accrued restructuring	1,414		224	(1,638)	

	Balance at June 24, 2007	Additional Charges	Adjustments	Amount Used	Balance at June 29, 2008
Accrued severance	$ 877	$ 6,533	$ 207	$ (3,949)	$ 3,668(2)
Accrued restructuring	5,685	3,125	(176)	(7,220)	1,414

(1) As of June 28, 2009, the Company classified $0.3 million of the executive severance as long-term.

(2) As of June 29, 2008, the Company classified $1.7 million of the executive severance as long term.

10. Discontinued Operations

On July 28, 2004, the Company announced its decision to close its European manufacturing operations including the polyester manufacturing facilities in Ireland. During the first quarter of fiscal year 2006, the Company received the final proceeds from the sale of capital assets with only worker s compensation claims and other regulatory commitments to be completed. In accordance with SFAS No. 144, the Company included the operating results from this facility as discontinued operations for fiscal years 2007, 2008, and 2009. In addition, during fiscal year 2007, the Company recorded a $1.1 million previously unrecognized foreign income tax benefit with respect to the sale of certain capital assets. In accordance with SFAS No. 5, Accounting for Contingencies , management determined that it was no longer probable that additional taxes accrued on the sale had been incurred. On March 31, 2009, the Company completed the final accounting for the closure of the subsidiary and filed the appropriate dissolution papers with the Irish government.

The Company s polyester dyed facility in Manchester, England closed in June 2004 and the physical assets were abandoned in June 2005. At that time, the remaining assets and liabilities, which consisted of cash, receivables, office furniture and equipment, and intercompany payables were turned over to local liquidators for settlement. The subsidiary also had reserves recorded for claims by third party creditors for preferential transfers related to its historical intercompany activity. In June 2008, in accordance with SFAS No. 5 Accounting for Contingencies , the Company determined that the likelihood of such claims were remote and therefore recorded $3.2 million of recoveries related to the reversal of the reserves. In accordance with SFAS No. 144, the Company included the results from

discontinued operations in its net loss for fiscal years 2007, 2008, and 2009. The subsidiary was dissolved on May 11, 2009.

Results of all discontinued operations which include the European Division and the dyed facility in England are as follows:

	Fiscal Years Ended		
	June 28, 2009	**June 29, 2008**	**June 24, 2007**
	(Amounts in thousands)		
Net sales	$	$	$
Income (loss) from discontinued operations before income taxes	$ 65	$ 3,205	$ 385
Income tax benefit		(21)	(1,080)
Net income from discontinued operations, net of taxes	$ 65	$ 3,226	$ 1,465

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

11. Derivative Financial Instruments and Fair Value Measurements

The Company accounts for derivative contracts and hedging activities under Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities which requires all derivatives to be recorded on the balance sheet at fair value. If the derivative is a hedge, depending on the nature of the hedge, changes in the fair value of derivatives are either offset against the change in fair value of the hedged assets, liabilities, or firm commitments through earnings or are recorded in other comprehensive income until the hedged item is recognized in earnings. The ineffective portion of a derivative s change in fair value is immediately recognized in earnings. The Company does not enter into derivative financial instruments for trading purposes nor is it a party to any leveraged financial instruments.

The Company conducts its business in various foreign currencies. As a result, it is subject to the transaction exposure that arises from foreign exchange rate movements between the dates that foreign currency transactions are recorded and the dates they are consummated. The Company utilizes some natural hedging to mitigate these transaction exposures. The Company primarily enters into foreign currency forward contracts for the purchase and sale of European, North American and Brazilian currencies to use as economic hedges against balance sheet balance sheet and income statement currency exposures. These contracts are principally entered into for the purchase of inventory and equipment and the sale of Company products into export markets. Counter-parties for these instruments are major financial institutions.

Currency forward contracts are used to hedge exposure for sales in foreign currencies based on specific sales made to customers. Generally, 60-75% of the sales value of these orders is covered by forward contracts. Maturity dates of the forward contracts are intended to match anticipated receivable collections. The Company marks the outstanding accounts receivable and forward contracts to market at month end and any realized and unrealized gains or losses are recorded as other operating (income) expense. The Company also enters currency forward contracts for committed inventory purchases made by its Brazilian subsidiary. Generally 5% of these inventory purchases are covered by forward contracts although 100% of the cost may be covered by individual contracts in certain instances. The latest maturity for all outstanding purchase and sales foreign currency forward contracts are August 2009 and October 2009, respectively.

In September 2006, the FASB issued SFAS No. 157 Fair Value Measurements . SFAS No. 157 addresses how companies should measure fair value when companies are required to use a fair value measure for recognition or disclosure purposes under GAAP. As a result of SFAS No. 157, there is now a common definition of fair value to be used throughout GAAP. SFAS No. 157 establishes a hierarchy for fair value measurements based on the type of inputs that are used to value the assets or liabilities at fair value.

The levels of the fair value hierarchy are:

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date,

Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly, or

Level 3 inputs are unobservable inputs for the asset or liability. Unobservable inputs shall be used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The dollar equivalent of these forward currency contracts and their related fair values are detailed below:

	June 28, 2009	June 29, 2008	June 24, 2007
	(Amounts in thousands)		
Foreign currency purchase contracts:	Level 2	Level 2	Level 2
Notional amount	$ 110	$ 492	$ 1,778
Fair value	130	499	1,783
Net gain	$ (20)	$ (7)	$ (5)
Foreign currency sales contracts:			
Notional amount	$ 1,121	$ 620	$ 397
Fair value	1,167	642	400
Net loss	$ (46)	$ (22)	$ (3)

The fair values of the foreign exchange forward contracts at the respective year-end dates are based on discounted year-end forward currency rates. The total impact of foreign currency related items that are reported on the line item other operating (income) expense, net in the Consolidated Statements of Operations, including transactions that were hedged and those that were not hedged, was a pre-tax loss of $0.4 million and $0.5 million for fiscal years ended June 28, 2009 and June 29, 2008 and a pre-tax gain of $0.4 million for fiscal year ended June 24, 2007.

12. Contingencies

On September 30, 2004, the Company completed its acquisition of the polyester filament manufacturing assets located at Kinston from Invista S.a.r.l. (INVISTA). The land for the Kinston site was leased pursuant to a 99 year ground lease (Ground Lease) with E.I. DuPont de Nemours (DuPont). Since 1993, DuPont has been investigating and cleaning up the Kinston site under the supervision of the EPA and DENR pursuant to the Resource Conservation and Recovery Act Corrective Action program. The Corrective Action program requires DuPont to identify all potential areas of environmental concern (AOCs), assess the extent of containment at the identified AOCs and clean it up to comply with applicable regulatory standards. Effective March 20, 2008, the Company entered into a Lease Termination Agreement associated with conveyance of certain assets at Kinston to DuPont. This agreement terminated the Ground Lease and relieved the Company of any future responsibility for environmental remediation, other than participation with DuPont, if so called upon, with regard to the Company s period of operation of the Kinston site. However, the Company continues to own a satellite service facility acquired in the INVISTA transaction that has contamination from DuPont s operations and is monitored by DENR. This site has been remediated by DuPont and DuPont has received authority from DENR to discontinue remediation, other than natural attenuation. DuPont s duty to monitor and report to DENR with respect to this site will be transferred to the Company in the future, at which time DuPont must pay the Company for seven years of monitoring and reporting costs and the Company will assume responsibility for any future remediation and monitoring of the site. At this time, the Company has no basis to

determine if and when it will have any responsibility or obligation with respect to the AOCs or the extent of any potential liability for the same.

13. Related Party Transactions

In fiscal 2007, the Company purchased the polyester and nylon texturing operations of Dillon (the Transaction). In connection with the Transaction the Company and Dillon entered into a Sales and Services Agreement for a term of two years from January 1, 2007, pursuant to which the Company agreed to pay Dillon an aggregate amount of $6.0 million in exchange for certain sales and transitional services to be provided by Dillon s sales staff and executive management, of which $0.5 million, $1.1 million and $1.5 million was expensed in fiscal 2009, 2008 and 2007, respectively. The remaining $2.9 million contract costs were reflected as an assumed purchase liability in accordance with SFAS No. 141, since after the closure of the Dillon facility these costs no longer related to the generation of revenue and had no future economic benefit to the combined business. In addition during fiscal years

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2009, 2008, and 2007, the Company recorded sales to and commission income from Dillon in the aggregate amount of $51 thousand, $62 thousand and $18.9 million, has purchased products from Dillon in an aggregate amount of $2.8 million, $2.3 million and $1.9 million and paid to Dillon, for certain employee and other expense reimbursements, an aggregate amount of $0.2 million, $0.5 million and $4.5 million, respectively. Further in connection with the Transaction, Dillon guaranteed up to $1.0 million of the Company s receivable from New River Industries, Inc. (New River). During fiscal year 2008, New River declared bankruptcy. Pursuant to this guarantee, during fiscal year 2008, the Company received $1.0 million from Dillon to settle the receivable.

On December 1, 2008, the Company entered into an agreement to extend the polyester services portion of the Sales and Service Agreement for a term of one year effective January 1, 2009 pursuant to which the Company will pay Dillon an aggregate amount of $1.7 million. The Company recorded $0.9 million in expenses related to this contract for the fiscal year 2009. Mr. Stephen Wener is the President and Chief Executive Officer of Dillon. Mr. Wener has been a member of the Company s Board since May 24, 2007. The terms of the Company s Sales and Service Agreement with Dillon are, in management s opinion, no less favorable than the Company would have been able to negotiate with an independent third party for similar services.

As of June 28, 2009 and June 29, 2008, the Company had outstanding payables to Dillon in the amounts of $0.3 million, and $0.2 million, respectively.

In fiscal year 2008, Unifi Manufacturing, Inc. (UMI), a wholly owned subsidiary of the Company, sold certain real and personal property held by UMI located in Dillon, South Carolina, to 1019 Realty LLC (the Buyer) at the sales price of $4.0 million. The real and personal property being sold by UMI was acquired by the Company pursuant to the Transaction. Mr. Wener is a manager of the Buyer and has a 13.5% ownership interest in and is the sole manager of an entity which owns 50% of the Buyer.

Mr. Wener is an Executive Vice President of American Drawtech Company, Inc. (ADC) and beneficially owns a 12.5% equity interest in ADC. During fiscal years 2009, 2008, and 2007, the Company recorded sales to and commission income from ADC in the aggregate amount of $2.2 million, $2.4 million, and $3.5 million and paid expenses to ADC of $15 thousand, $17 thousand, and $1 thousand, respectively. The sales terms, in management s opinion, are comparable to terms that the Company would have been able to negotiate with an independent third party. As of June 28, 2009 and June 29, 2008, the Company had $0.2 million and $0.3 million, respectively, of outstanding ADC customer receivables.

During fiscal year 2009, Mr. Wener was a director of Titan Textile Canada, Inc. (Titan) and beneficially owned a 12.5% equity interest in Titan. During fiscal years 2009, 2008, and 2007, the Company recorded sales to Titan in the amount of $0.7 million, $2.3 million, and $1.4 million, respectively. As of June 28, 2009 and June 29, 2008, the Company had nil and $0.6 million of outstanding Titan customer receivables, respectively. As of February 24, 2009, Mr. Wener resigned as director and sold his equity interest in Titan.

Mr. Kenneth Langone is a director, stockholder, and Chairman of the Board of Salem Holding Company. In fiscal years 2009, 2008, and 2007, the Company paid Salem Leasing Corporation, a wholly owned subsidiary of Salem Holding Company, $3.3 million, $3.4 million, and $3.3 million, respectively, in connection with leases of tractors and trailers, and for related services. The terms of the Company s leases with Salem Leasing Corporation are, in management s opinion, no less favorable than the Company would have been able to negotiate with an independent third party for similar equipment and services.

As of June 28, 2009 and June 29, 2008, the Company had outstanding payables to Salem Leasing Corporation in the amounts of $0.2 million and $0.3 million, respectively.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

14. Quarterly Results (Unaudited)

Quarterly financial data for the fiscal years ended June 28, 2009 and June 29, 2008 is presented below:

	First Quarter (13 Weeks)	Second Quarter (13 Weeks)	Third Quarter (13 Weeks)	Fourth Quarter (13 Weeks)
	(Amounts in thousands, except per share data)			
2009:				
Net sales	$ 169,009	$ 125,727	$ 119,094	$ 139,833
Gross profit	13,425	2,312	372	12,397
Income (loss) from discontinued operations, net of tax	(104)	216	(45)	(2)
Net loss	(676)	(9,068)	(32,996)	(6,256)
Per Share of Common Stock (basic and diluted):				
Net loss	$ (.01)	$ (.15)	$ (.53)	$ (.10)

	First Quarter (13 Weeks)	Second Quarter (13 Weeks)	Third Quarter (13 Weeks)	Fourth Quarter (14 Weeks)
2008:				
Net sales	$ 170,536	$ 183,369	$ 169,836	$ 189,605
Gross profit	10,993	8,320	13,432	17,837
Income (loss) from discontinued operations, net of tax	(32)	109	(55)	3,204
Net income (loss)	(9,188)	(7,746)	12	771
Per Share of Common Stock (basic and diluted):				
Net income (loss)	$ (.15)	$ (.13)	$ .00	$ .01

During the second quarter of fiscal year 2009, the Company recorded $1.5 million of impairment charges related to the sale of its interest in YUFI to YCFC. In addition, in the third quarter of fiscal year 2009, the Company recorded $18.6 million in goodwill impairment charges which related to its Dillon acquisition. During the first quarter and fourth quarter of fiscal year 2008, the Company recorded $4.5 million and $6.4 million of impairment charges related to its investment in USTF and YUFI, respectively, as discussed in Footnote 8-Impairment Charges .

During the fourth quarter of fiscal year 2009, the Company recorded a $3.3 million adjustment related to PAL as discussed in Footnote 2-Investment in Unconsolidated Affiliates .

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

15. Business Segments, Foreign Operations and Concentrations of Credit Risk

The Company and its subsidiaries are engaged predominantly in the processing of yarns by texturing of synthetic filament polyester and nylon fiber with sales domestically and internationally, mostly to knitters and weavers for the apparel, industrial, hosiery, home furnishing, automotive upholstery and other end-use markets. The Company also maintains investments in several minority-owned and jointly owned affiliates.

In accordance with SFAS No. 131, Disclosures about Segments of an Enterprise and Related Information, segmented financial information of the polyester and nylon operating segments, as regularly reported to management for the purpose of assessing performance and allocating resources, is detailed below.

	Polyester	Nylon	Total
	(Amounts in thousands)		
Fiscal year 2009:			
Net sales to external customers	$ 403,124	$ 150,539	$ 553,663
Inter-segment net sales		81	81
Depreciation and amortization	24,324	6,859	31,183
Restructuring charges	199	73	272
Write down of long-lived assets	350		350
Goodwill impairment	18,580		18,580
Segment operating profit (loss)	(33,178)	3,360	(29,818)
Total assets	314,551	75,023	389,574
Fiscal year 2008:			
Net sales to external customers	$ 530,567	$ 182,779	$ 713,346
Inter-segment net sales	7,103	2,911	10,014
Depreciation and amortization	27,223	13,089	40,312
Restructuring charges	3,818	209	4,027
Write down of long-lived assets	2,780		2,780
Segment operating profit (loss)	(10,846)	7,049	(3,797)
Total assets	387,272	92,455	479,727
Fiscal year 2007:			
Net sales to external customers	$ 530,092	$ 160,216	$ 690,308
Inter-segment net sales	4,611	2,955	7,566
Depreciation and amortization	29,390	14,159	43,549
Restructuring recoveries	(103)	(54)	(157)
Write down of long-lived assets	6,930	8,601	15,531
Segment operating loss	(11,729)	(10,134)	(21,863)
Total assets	419,390	110,702	530,092

For purposes of internal management reporting, segment operating profit (loss) represents segment net sales less cost of sales, segment restructuring charges, segment impairments of long-lived assets, goodwill impairment, and allocated selling, general and administrative expenses. Certain non-segment manufacturing and unallocated selling, general and administrative costs are allocated to the operating segments based on activity drivers relevant to the respective costs.

This allocation methodology is updated as part of the annual budgeting process. In the prior year, consolidated intersegment sales were recorded at market. Beginning in fiscal year 2009, the Company changed its domestic intersegment transfer pricing of inventory from a market value approach to a cost approach. Using the new methodology, no intersegment sales are recorded for domestic transfers of inventory. The remaining intersegment sales relate to sales to the Company s foreign subsidiaries which are still recorded at market.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Domestic operating divisions fiber costs are valued on a standard cost basis, which approximates first-in, first-out accounting. Segment operating income (loss) excludes the provision for bad debts of $2.4 million, $0.2 million, and $7.2 million for fiscal years 2009, 2008, and 2007, respectively. For significant capital projects, capitalization is delayed for management segment reporting until the facility is substantially complete. However, for consolidated financial reporting, assets are capitalized into construction in progress as costs are incurred or carried as unallocated corporate fixed assets if they have been placed in service but have not as yet been moved for management segment reporting.

The net decrease of $72.7 million in the polyester segment total assets between fiscal year end 2008 and 2009 primarily reflects decreases in inventory of $26.1 million, goodwill of $18.6 million, accounts receivable of $17.1 million, fixed assets of $11.0 million, long-term restricted cash of $7.3 million, short-term restricted cash of $2.8 million, other current assets of $2.2 million, other assets of $1.7 million, and deferred taxes of $1.1 million offset by an increase in cash of $15.2 million. The net decrease of $17.4 million in the nylon segment total assets between fiscal year end 2008 and 2009 is primarily a result of a decrease in inventory of $7.0 million, accounts receivable of $6.1 million, fixed assets of $5.7 million, and other current assets of $0.1 million offset by an increase in other assets of $0.9 million and cash of $0.6 million.

The net decrease of $32.1 million in the polyester segment total assets between fiscal year end 2007 and 2008 primarily reflects decreases in fixed assets of $19.3 million, inventory of $8.6 million, cash of $4.1 million, deferred taxes of $3.7 million, assets held for sale of $3.7 million, and other assets of $2.2 million offset by an increase in other current assets of $6.6 million and accounts receivable of $2.9 million. The net decrease of $18.2 million in the nylon segment total assets between fiscal year end 2007 and 2008 is primarily a result of a decrease in fixed assets of $13.2 million, assets held for sale of $3.4 million, deferred taxes of $2.6 million, inventory of $0.8 million, and cash of $0.2 million offset by an increase in accounts receivable of $2.0 million.

The following tables present reconciliations from segment data to consolidated reporting data:

	Fiscal Years Ended		
	June 28, 2009	June 29, 2008	June 24, 2007
	(Amounts in thousands)		
Depreciation and amortization:			
Depreciation and amortization of specific reportable segment assets	$ 31,183	$ 40,378	$ 43,549
Depreciation included in other operating (income) expense	143	38	174
Amortization included in interest expense, net	1,147	1,158	1,135
Consolidated depreciation and amortization	$ 32,473	$ 41,574	$ 44,858
Operating loss:			
Reportable segments loss	$ (29,818)	$ (3,797)	$ (21,863)
Restructuring charges	(181)		
Write down of long-lived assets			1,200
Provision for bad debts	2,414	214	7,174
Other operating (income) expense, net	(5,491)	(6,427)	(2,601)

Interest income	(2,933)	(2,910)	(3,187)
Interest expense	23,152	26,056	25,518
(Gain) loss on extinguishment of debt	(251)		25
Equity in (earnings) losses of unconsolidated affiliates	(3,251)	(1,402)	4,292
Write down of investment in unconsolidated affiliates	1,483	10,998	84,742
Loss from continuing operations before income taxes and extraordinary item	$ (44,760)	$ (30,326)	$ (139,026)

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	Fiscal Years Ended		
	June 28, 2009	June 29, 2008	June 24, 2007
	(Amounts in thousands)		
Total assets:			
Reportable segments total assets	$ 389,574	$ 479,727	$ 530,092
Corporate current assets	10,096	22,717	23,075
Unallocated corporate fixed assets	11,388	11,796	12,507
Other non-current corporate assets	8,147	9,342	10,293
Investments in unconsolidated affiliates	60,051	70,562	93,170
Intersegment eliminations	(2,324)	(2,613)	(3,184)
Consolidated assets	$ 476,932	$ 591,531	$ 665,953

Capital expenditures for long-lived assets for fiscal year 2009 totaled $15.3 million of which $13.4 million related to the polyester segment and $0.7 million related to the nylon segment and for fiscal year 2008 totaled $12.8 million of which $11.7 million related to the polyester segment and $0.6 million related to the nylon segment.

The Company s domestic operations serve customers principally located in the U.S. as well as international customers located primarily in Canada, Mexico and Israel and various countries in Europe, Central America, South America and South Africa. Export sales from its U.S. operations aggregated $81.0 million in fiscal year 2009, $112.2 million in fiscal year 2008, and $90.4 million in fiscal year 2007. In fiscal year 2009, 2008, and 2007, the Company had net sales of $58.2 million, $77.3 million, and $71.6 million, respectively, to one customer which was approximately 11% of consolidated net sales. Most of the Company s sales to this customer were related to its nylon segment. The concentration of credit risk for the Company with respect to trade receivables is mitigated due to the large number of customers and dispersion across different end-uses and geographic regions.

The Company s foreign operations primarily consist of manufacturing operations in Brazil and Colombia. Net sales and total long-lived assets of the Company s continuing foreign and domestic operations are as follows:

	Fiscal Years Ended		
	June 28, 2009	June 29, 2008	June 24, 2007
	(Amounts in thousands)		
Domestic operations:			
Net sales	$ 434,015	$ 581,400	$ 574,857
Total long-lived assets	209,117	240,547	272,868
Brazil operations:			
Net sales	$ 113,458	$ 128,531	$ 110,191
Total long-lived assets	24,319	38,624	33,081
Other foreign operations:			

Net sales	$ 6,190	$ 3,415	$ 5,260
Total long-lived assets	1,245	7,497	21,636

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

16. Condensed Consolidating Financial Statements

The guarantor subsidiaries presented below represent the Company s subsidiaries that are subject to the terms and conditions outlined in the indenture governing the Company s issuance of senior secured notes and guarantee the notes, jointly and severally, on a senior unsecured basis. The non-guarantor subsidiaries presented below represent the foreign subsidiaries which do not guarantee the notes. Each subsidiary guarantor is 100% owned by Unifi, Inc. and all guarantees are full and unconditional.

Supplemental financial information for the Company and its guarantor subsidiaries and non-guarantor subsidiaries for the notes is presented below.

Balance Sheet Information as of June 28, 2009 (Amounts in thousands):

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
		ASSETS			
Current assets:					
Cash and cash equivalents	$ 11,509	$ (813)	$ 31,963	$	$ 42,659
Receivables, net	100	56,031	21,679		77,810
Inventories		63,919	25,746		89,665
Deferred income taxes			1,223		1,223
Assets held for sale		1,350			1,350
Restricted cash			6,477		6,477
Other current assets	46	2,199	3,219		5,464
Total current assets	11,655	122,686	90,307		224,648
Property, plant and equipment	11,336	665,724	67,193		744,253
Less accumulated depreciation	(1,899)	(534,297)	(47,414)		(583,610)
	9,437	131,427	19,779		160,643
Investments in unconsolidated affiliates		57,107	2,944		60,051
Restricted cash			453		453
Investments in consolidated subsidiaries	360,897			(360,897)	
Goodwill and intangible assets, net		17,603			17,603
Other noncurrent assets	45,041	(29,214)	(2,293)		13,534
	$ 427,030	$ 299,609	$ 111,190	$ (360,897)	$ 476,932

LIABILITIES AND SHAREHOLDERS EQUITY

Current liabilities:										
Accounts payable and other	$	37	$	19,888	$	6,125	$		$	26,050
Accrued expenses		1,690		11,033		2,546				15,269
Income taxes payable						676				676
Current maturities of long-term debt and other current liabilities				368		6,477				6,845
Total current liabilities		1,727		31,289		15,824				48,840
Long-term debt and other liabilities		180,334		1,920		453				182,707
Deferred income taxes						416				416
Shareholders / invested equity		244,969		266,400		94,497		(360,897)		244,969
	$	427,030	$	299,609	$	111,190	$	(360,897)	$	476,932

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Balance Sheet Information as of June 29, 2008 (Amounts in thousands):

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
ASSETS					
Current assets:					
Cash and cash equivalents	$ 689	$ 3,377	$ 16,182	$	$ 20,248
Receivables, net	66	82,040	21,166		103,272
Inventories		92,581	30,309		122,890
Deferred income taxes			2,357		2,357
Assets held for sale		4,124			4,124
Restricted cash			9,314		9,314
Other current assets	26	733	2,934		3,693
Total current assets	781	182,855	82,262		265,898
Property, plant and equipment	11,273	765,710	78,341		855,324
Less accumulated depreciation	(1,616)	(623,262)	(53,147)		(678,025)
	9,657	142,448	25,194		177,299
Investments in unconsolidated affiliates		60,853	9,709		70,562
Restricted cash		18,246	7,802		26,048
Investments in consolidated subsidiaries	417,503			(417,503)	
Goodwill and intangible assets, net		38,965			38,965
Other noncurrent assets	74,271	(60,879)	(633)		12,759
	$ 502,212	$ 382,488	$ 124,334	$ (417,503)	$ 591,531
LIABILITIES AND SHAREHOLDERS EQUITY					
Current liabilities:					
Accounts payable and other	$ 172	$ 39,328	$ 5,053	$	$ 44,553
Accrued expenses	1,882	18,011	4,149		24,042
Income taxes payable			681		681
Current maturities of long-term debt and other current liabilities		491	9,314		9,805
Total current liabilities	2,054	57,830	19,197		79,081
Long-term debt and other liabilities	194,489	3,563	7,803		205,855

Deferred income taxes			926		926
Shareholders / invested equity	305,669	321,095	96,408	(417,503)	305,669
	$ 502,212	$ 382,488	$ 124,334	$ (417,503)	$ 591,531

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Statement of Operations Information for the Fiscal Year Ended June 28, 2009 (Amounts in thousands):

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Summary of Operations:					
Net sales	$	$ 434,014	$ 120,218	$ (569)	$ 553,663
Cost of sales		421,122	104,478	(443)	525,157
Restructuring charges, net		91			91
Write down of long-lived assets		350			350
Equity in subsidiaries	49,379			(49,379)	
Goodwill impairment		18,580			18,580
Selling, general and administrative expenses	216	32,048	7,014	(156)	39,122
Provision (benefit) for bad debts		2,599	(185)		2,414
Other operating (income) expense, net	(23,286)	18,097	(127)	(175)	(5,491)
Non-operating (income) expenses:					
Interest income	(161)	(48)	(2,724)		(2,933)
Interest expense	23,099	110	(57)		23,152
Gain on extinguishment of debt	(251)				(251)
Equity in (earnings) losses of unconsolidated affiliates		(4,725)	1,668	(194)	(3,251)
Write down of investment in unconsolidated affiliates		483	1,000		1,483
Income (loss) from continuing operations before income taxes	(48,996)	(54,693)	9,151	49,778	(44,760)
Provision for income taxes		3	4,298		4,301
Income (loss) from continuing operations	(48,996)	(54,696)	4,853	49,778	(49,061)
Income from discontinued operations, net of tax			65		65
Net income (loss)	$ (48,996)	$ (54,696)	$ 4,918	$ 49,778	$ (48,996)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Statement of Operations Information for the Fiscal Year Ended June 29, 2008 (Amounts in thousands):

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Summary of Operations:					
Net sales	$	$ 581,400	$ 133,919	$ (1,973)	$ 713,346
Cost of sales		546,412	118,232	(1,880)	662,764
Restructuring charges, net		4,027			4,027
Equity in subsidiaries	7,450			(7,450)	
Write down of long-lived assets		2,247	533		2,780
Selling, general and administrative expenses		40,443	7,597	(468)	47,572
Provision (benefit) for bad debts		327	(113)		214
Other operating (income) expense, net	(26,398)	19,560	636	(225)	(6,427)
Non-operating (income) expenses:					
Interest income	(740)	(160)	(2,010)		(2,910)
Interest expense	25,362	571	123		26,056
Equity in (earnings) losses of unconsolidated affiliates		(9,660)	8,203	55	(1,402)
Write down of investment in unconsolidated affiliates		4,505	6,493		10,998
Income (loss) from continuing operations before income taxes	(5,674)	(26,872)	(5,775)	7,995	(30,326)
Provision (benefit) for income taxes	10,477	(24,577)	3,151		(10,949)
Income (loss) from continuing operations	(16,151)	(2,295)	(8,926)	7,995	(19,377)
Income from discontinued operations, net of tax			3,226		3,226
Net income (loss)	$ (16,151)	$ (2,295)	$ (5,700)	$ 7,995	$ (16,151)

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Statement of Operations Information for the Fiscal Year Ended June 24, 2007 (Amounts in thousands):

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Summary of Operations:					
Net sales	$	$ 574,857	$ 117,452	$ (2,001)	$ 690,308
Cost of sales		548,233	105,748	(2,070)	651,911
Restructuring recovery		(157)			(157)
Equity in subsidiaries	112,723			(112,723)	
Write down of long-lived assets		14,729	2,002		16,731
Selling, general and administrative expenses		38,704	6,234	(52)	44,886
Provision for bad debts		6,763	411		7,174
Other operating (income) expense, net	(24,726)	20,081	(75)	2,119	(2,601)
Non-operating (income) expenses:					
Interest income	(454)		(2,733)		(3,187)
Interest expense	24,927	587	4		25,518
Equity in (earnings) losses of unconsolidated affiliates		(3,561)	8,083	(230)	4,292
Write down of investment in unconsolidated affiliates		84,742			